

COMMONWEALTH OF PENNSYLVANIA

GAMING CONTROL BOARD

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IN RE: WASHINGTON TROTTING ASSOCIATION

(MEADOWS RACETRACK AND CASINO)

CATEGORY 1 SLOT MACHINE LICENSE RENEWAL

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PUBLIC HEARING

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BEFORE: GREGORY C. FAJT, CHAIRMAN

Raymond S. Angeli, James B. Ginty,

Keith R. McCall, Anthony C. Moscato,

Gary A. Sojka, Kenneth I. Trujillo

(via telephone); Members

Jennifer Lang, Representing Robert M.

McCord, State Treasurer

Robert Coyne, Representing Daniel P.

Meuser, Secretary of Revenue

Matthew Meals, Deputy Secretary of

Agriculture, Representing George Greig,

Secretary of Agriculture

HEARING: August 18, 2011, 10:41 a.m.

Reporter: Tyler S. Rhoads

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LOCATION: North Office Building
401 North Street
Harrisburg, PA 17120

WITNESSES: Bill Paulos, Guy Hillyer, Sean Sullivan,
Mike Jeannot, Mike Keelon

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CHAIRMAN:

Next up is Washington Trotting Association, The Meadows Racetrack and Casino, Category 1 Slot Machine License Renewal. Can I please have all the parties interested in the proceedings to come forward and identify yourselves? And once we get seated, we'll get you to state your name and spell your name for the court reporter. Ms. Jones, you may begin.

ATTORNEY JONES:

Good morning, Mr. Chairman, Board members. Marie Jones from Fox Rothschild here on behalf of Washington Trotting Association. We are pleased to be here this morning for our license renewal hearing. And I'd first like to introduce who's here with us, and then we can have them sworn in. There's Bill Paulos, principal of Cannery Casino Resorts; Guy Hillyer, executive vice president of Cannery Casino Resorts; Sean Sullivan, vice president and general manager of the property; Mike Jeannot, president of Meadows Racing; and Mike Keelon, Director of Compliance. And I'd ask that these individuals be sworn in.

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CHAIRMAN:

Thank you. All the non-lawyers please stand and be sworn in.

WITNESSES SWORN EN MASSE

CHAIRMAN:

Thank you. You may begin.

ATTORNEY JONES:

Before we begin our presentation, I'd ask the Board's indulgence to allow us to cover one matter that we have recently discovered when dealing with the Bureau of Licensing report. We discovered that we had underreported our charitable contributions by approximately \$300,000 since 2007. I have some PowerPoint slides that shows our actual contributions compared to what was reported. And through 2011 they're over \$1 million. We discovered this. We have taken corrective action to make sure that the numbers reported come from finance, and we want to apologize to the Board and the Board Staff for this error. And I would like to now hand it over to Mr. Sullivan to begin the regular presentation.

CHAIRMAN:

Thank you, and welcome.

1 MR. SULLIVAN:

2 I just want to thank you, Mr. Chairman,
3 members of the Commission and staff also in
4 attendance. Our presentation is relatively quick, and
5 if there's any title I would give to it is that we're
6 very proud of The Meadows and what's been accomplished
7 recently and from the days back. But first and
8 foremost, one of the first language you see, you see
9 The Meadows in its entirety, the Racetrack. Even in
10 the lower right-hand corner you see the new barns we
11 talked about. You see that it is, indeed, a large
12 property, \$535 million invested thus far and growing.
13 On the next page we'll talk just briefly about these
14 items. What we've done is we've presented you with
15 some pictures and some factoids, if you will, on
16 entertainment, dining, of which we have over a
17 thousand seats, and some of the casino action and
18 activities, those in red being the recent addition of
19 Ops-15, which we added on not too long ago. Indeed,
20 Ops-15 is now complete. And most importantly, not on
21 here, what you don't see is that we have nearly 1,500
22 employees that are probably the glue, probably the
23 foundation for our success and for what we've been
24 able to accomplish.

25 Our next page starts out with a little

1 bit of the entertainment as it pertains to racing.
2 First of all, we have 208 days of racing. We just
3 finished on the 30th of July our \$650,000 Adios Pace
4 for the Orchids. And of course, the rich heritage of
5 the track goes back to 1963, and we're proud of where
6 it stands today, and continue to improve the operation
7 of the track as well.

8 Next we have a couple of pictures
9 exhibiting the entertainment aspect of The Meadows.
10 The Meadows is much more than just a casino. It's,
11 indeed, an entertainment destination. We continue to
12 strive to enhance that. Mr. Paulos continues to
13 invest in different things and opportunities. You'll
14 see pictures shortly that expand our reach and our
15 ability to entertain our guests.

16 Since last year, we have live
17 entertainment on the weekends, VIP parties, our
18 bowling center, which features 24 lanes, four private
19 lanes which we use for different little events and
20 activities. On the next page you see Pacers Lounge,
21 again live entertainment in the center of the casino
22 on the weekends. We've added Gibsons Cigar Bar not
23 too long ago for the racetrack viewers, which is a
24 great opportunity for people to get away from the bar
25 and smoke a cigar. Here we see The Beach Boys in

1 concert. We're finishing up this year's concert
2 series. We had The Beach Boys that sold out over
3 3,000 seats, The Guess Who that sold out, Joan Rivers
4 last weekend, which sold out. We've got a couple more
5 online, Lone Star Country Western act came this month,
6 Larry, the Cable Guy, coming in September, and the Ben
7 E. King '50s Car Show in the 1st of October. As you
8 can see here, we do this on the track. It's a great
9 opportunity to show our visitors the track, let them
10 feel the racing environment, see how wonderful it is.
11 And it's really been a great experience for us.

12 Next, you'll see --- on the dining
13 options page you'll see Bistecca, our featured
14 steakhouse, upstairs. It is the best operation,
15 recently voted one of Pittsburgh's best steakhouses by
16 KDKA or CBS TV, also voted as the Best Steak
17 Opportunity in World Magazine. We're very proud what
18 Bistecca brings to the equation. To the right you see
19 the Terrace Café. Again, great food, but equally
20 important, great viewing of the racetrack. Every
21 restaurant we have shows the racetrack. The
22 orientation is, indeed, to let people see the
23 racetrack, see the races, from warming up at 5:30 in
24 the morning to races that kick off at 1:00 in the
25 afternoon, or in some cases, Wednesday, Friday and

1 Saturday during summer in the evenings, at
2 approximately six o'clock. 474 seats in the Terrace
3 Café.

4 Next page you'll see our food court.
5 Again, great viewing, large windows that show the
6 racetrack at any given moment, five great eatery
7 outlets in there, from Frank's to The Flame, again,
8 278 feet, a wonderful experience, very value
9 conscious. Delvin's Trackside Snack Bar is
10 downstairs, at the racetrack level, again, right next
11 to the entrance that you can see in that picture,
12 slightly the orientation and lets people watch racing
13 while it's occurring live, and during practice
14 sessions.

15 Next we went to --- we show a picture of
16 the Adios Lounge. The Adios Lounge has been an
17 interesting perspective. At one time it was our
18 high-limit slot area, then we added high-limit table
19 games to that area. We realized, and it came to you
20 with Ops-15, that we would break up slots and tables
21 and offer our customers a way to break from the
22 action, a way to get away, sit, relax, read a book,
23 watch TV, whatever they want to do. The Adios Lounge,
24 which you can see here, is a testament to that
25 opportunity. It does have a bar, and it has restrooms

1 in it, buffet, a counter for TV viewing. And our
2 hosts in here have an office area. But this is an
3 area for our better bettors, platinum and above
4 player. They can go over there, relax and be off the
5 floor.

6 Next is just a quick inventory of our
7 slots. We're down to 3,317 slot machines. Since we
8 met last time, our revenues have actually increased
9 from when we were at 3,500. So as we promised and as
10 we felt that the number of machines wasn't the most
11 important issue on revenues, it varied --- it's a
12 plethora of variables that Mr. Paulos spoke to
13 eloquently last time we were together.

14 We do have the latest games. We do have
15 millions of dollars every year invested in keeping
16 that product fresh, keeping that product in the latest
17 game things and what our customers demand. Next you
18 see our list of 48 tables. We have virtually every
19 table you'll find in the Las Vegas market, New Jersey
20 market. And then we also have 20-table poker room.

21 The next page shows some of our most
22 recent additions. One is our new Clubhouse. As we
23 mentioned on August 15, which you supported, we
24 relocated our Clubhouse from the far south side of the
25 casino to be what we refer to as then a trifecta

1 environment on the lower side of the casino. So we
2 have the Clubhouse, the Adios, which we looked at and
3 which you'll see more --- or actually what you won't
4 see, but it's on there is the slots. So all the slot
5 activities are on the lower side of the property. It
6 takes care of our better bettors and is very much
7 appreciated by our guests. Also on the right, we
8 spoke of on August 15th about bringing racing even
9 closer to the casino. So here we have a race window
10 adjacent to the casino. We can let people see into
11 --- to the left, which you don't see in this picture,
12 viewing races, viewing opportunities on our concourse.
13 They don't have to go downstairs. They can view the
14 raceway right here on the casino floor, next to the
15 food court. It's a great experience for the racing
16 crowd.

17 Next you'll see our high-limit table
18 games. This is, indeed, one of those things that we
19 felt would be instrumental, and it's proven to be
20 true. We expanded our high-limit table game business
21 partly because of this room. But this room is where
22 we used to have the Clubhouse. As you can see, we
23 closed that room. We built a wonderful gaming
24 experience here for our high-limit table game players.
25 There's a bar in there, a cage in there, restrooms in

1 there, TVs for sports viewing. And in the far back,
2 where you might be able to see the glass there, that's
3 even an inner sanctum in the area where some of our
4 VIP celebrities can play. Great room for a million-
5 dollar investment and part of that \$25 million
6 investment that we talked to you about the last time
7 we were here.

8 Next you see a bit of the facts on
9 racing, just Act 71, Meadows racing, harness racing.
10 Total on-track gambling is up. We think that's partly
11 due to night racing, 5.4 percent over the last year.
12 Again, one of the main reasons we're here, one of our
13 biggest partners is, indeed, the horseracing side,
14 2,247 jobs. 1,500 horsemen rely on racing. The purse
15 has interestingly gone up from \$47,000 a day in 2003
16 to \$144,000.

17 Next we have just a snapshot showing the
18 Kentucky Derby. Even when there isn't racing, we do
19 everything we can to bring attention to the racetrack,
20 whether it's concerts, whether it's outdoor activities
21 like car shows on the track. One of those big events
22 that we have out there is the Kentucky Derby. You can
23 see this last Kentucky Derby was well attended. We
24 put up big screens and people really enjoyed it. They
25 came out and we have a hat competition, and they

1 really are excited about that day.

2 The next page shows the Adios Pace for
3 the Orchids. The Number Three Horse here, driven by
4 Ron Pierce, breaks away from the pack and it was a
5 fun, exciting and wonderful event for The Meadows and
6 very well attended.

7 Next you'll see the commitment that was
8 made to produce five --- to invest \$5 million in
9 backside improvements. Here's a testament to that,
10 the two new barns that were just recently opened. Two
11 more are now under construction. And continued
12 investment from the paddock that we put in sometime
13 ago makes the racetrack and the backside even more of
14 a safe and comfortable environment. Here, the inside
15 one of those barns. We currently house 700 horses.
16 It's a year-round training facility and it really is a
17 wonderful experience for our guests and for the
18 horseracing industry. Interestingly, each year when
19 we have the Adios, we have the Hanover Shoe Farms'
20 Horse Auction. A little factoid here is we sold 31
21 yearlings for \$329,000, again, under that ---. Things
22 have gotten better and better. In 2006 you can
23 compare that to 28 yearlings sold for \$176,000. So,
24 things are looking good for the race industry at The
25 Meadows.

1 Just quickly, some of those economic
2 impact numbers that we see, \$650 million contributed.
3 As of June 30th, The Meadows' gross total revenues was
4 \$1 billion. Sixty-four (64) percent of the \$1 billion
5 was revenues that had been distributed to the
6 Commonwealth for tax relief and the Pennsylvania
7 Racehorse Development Fund. Since 2000 --- June 2011,
8 The Meadows has contributed over \$527 million in taxes
9 and fees. And part of that \$650 million is another
10 \$122 million approximately for the Horseracing Fund.
11 And then you can see here how that money is
12 distributed, Commonwealth, local share, economic
13 development, administrative fee, North Strabane, local
14 share assessment, gaming license and fees, and then
15 last, Pennsylvania Gaming Fund --- Racing Horse
16 Development Fund, sorry, totaled \$650 million, great
17 economic education for southwestern Pennsylvania.

18 Meadows' table games impact, that
19 previous slide that was slots, the next one is table
20 games. Table games, \$22 million. Our first year of
21 table games just finished. You can see the same
22 contributions here, \$4.5 million Commonwealth, local
23 share, North Strabane and so on. We're pleased with
24 our table games. It's getting better every day,
25 continuing to offer guests a fantastic experience, as

1 exhibited with that group.

2 Here's a couple of slides that we
3 plagiarized from the Pennsylvania Gaming Control
4 Board's presentation, the casino racetrack benchmark.
5 We thought these were good to remind ourselves of the
6 structure of the monies, if you will, and, in a sense,
7 see where these monies go. First and foremost, the
8 Licensee, as indicated here, will take 45 percent.
9 You can see that 34 percent goes towards the General
10 Fund --- our Gaming Fund tax relief. You see the
11 Horseracing Development Fund is 12 percent broken out
12 in these subcategories, local share, four percent, and
13 economic development and tourism, five percent. This
14 is a great graph that we share with our management and
15 our team members to understand, truly, that this is,
16 indeed, one big partnership. Everybody benefits.
17 Again, more dollars, everybody improves. Everybody
18 has a bigger piece of the pie, if you will, or a
19 bigger number in the pie.

20 Next you see another plagiarized slide
21 here. And we think this is also extremely important
22 for people to understand. Starting back in 2006 you
23 see the graph. I won't go over this in too much
24 detail because you guys produced it, about the slot
25 tax revenue, and then you see the correlating

1 Racehorse Development Fund. Interestingly, that
2 bottom square, \$829 million in total, The Meadows has
3 produced \$121 million of that Horseracing Development
4 Fund, or approximately 15 percent. So we do a pretty
5 good job there of helping that fund.

6 Next you see another interesting graph.
7 These are kind of the graphs that we show our
8 employees, but it shows you how many people are
9 benefiting from this. You see that the purses have
10 grown substantially; starting with \$3 million, up to
11 \$157 million, for a total of 603 and so on, Breeding
12 Fund, Health and Pension Fund, Standard Breeders.
13 It's nice to be able to explain this to people and use
14 clear, simple terms.

15 Next page you see what we take great
16 pride in and that is we continue to support the
17 community. As Marie pointed out, we are, indeed, up
18 over a million dollars and climbing. Here's just a
19 small list of some of those recipients, but we're very
20 proud to be able to give back to the community, give
21 back to some very worthwhile charities. On the next
22 page you'll see a couple of recent activities. One,
23 we worked with the Mel Blount Youth Foundation. Mel
24 and Mr. Paulos and Camille there, \$42,000. On the
25 right we worked with West Virginia Coach Bob Huggins,

1 for his fund, \$58,000. So we go out of our way to
2 find out --- find worthwhile recipients and give back.
3 Another one --- it's been a little bit, but I want to
4 remind everybody because it's just now under
5 construction. We donated 2.4 acres to local North
6 Strabane to create an emergency service center near
7 the property. The front end of our property is in the
8 top right hand there, the porte-cochere area, the
9 parking. And right to the other side of John Thoreau
10 (phonetic) there, you can see we've built an emergency
11 service center.

12 Next you see neighborhood parking. We
13 love this program. This one is where we invested, if
14 you will, over \$3 million, all within approximately
15 ten miles of The Meadows, where we buy gift cards from
16 these worthwhile retail vendors, and when the
17 customers played our slot machine we reward them with
18 these gift cards. They're anywhere from \$10 to \$20
19 each, so you can see it's a lot of gift cards, and
20 it's \$3 million given back for community retail. So
21 it's really a fantastic program that, you know, we
22 offer and provide.

23 We'll touch on family-sustaining jobs
24 again. Again, we have just under 1,500 employees.
25 You can see here a representative sample of the wages

1 by hour. You'll never see us pay under minimum wage.
2 We don't take credit for the tip credit that you could
3 do. Some businesses do. We don't. Everybody starts
4 out at least a minimum of \$7.50. As you can see here,
5 when you add gratuities to that, then you have
6 substantially more. So a table games dealer, for
7 example, on this sheet might be starting out at \$7.50,
8 but through tips and gratuities they're making \$28.38
9 an hour. The average compensation at The Meadows,
10 take all of our payroll, \$43,000 per person. And then
11 down below you see we offer a rich, very competitive
12 benefits package, including free meals, which not
13 everybody does, comprehensive medical, dental, vision,
14 401(k), paid vacation, and we have covered the license
15 fees for our employees, most recently exhibited with
16 table games.

17 Training, we're committed to training.
18 Absolutely a critical component, making sure that
19 we're providing as best as we possibly can to provide
20 safety, responsibility in both gaming, alcohol and
21 other things. You see a list of the training programs
22 that we have, and we're always working these programs
23 with new employees or recertifying people as we move
24 forward.

25 Next is a touch on diversity. We're

1 right in line with the market, people in the southwest
2 Pennsylvania market. Gender, you can see 51 percent
3 female at The Meadows for Washington County, 72
4 percent. So everything is almost a match here, very
5 representative of what's in our nearby area.

6 This I just threw in there, a wonderful
7 picture of our executive staff. I think in general it
8 is diversely represented, not only at the rank
9 introductory levels, but starting from the very top.

10 Next is our compulsive and problem
11 gambling page. Again, we're committed to this. It's
12 based on; as I'm sure you're aware, public education,
13 creating awareness throughout the property with
14 signage and brochures, commitment to training. We do
15 everything we can every day to try to ensure underage
16 gaming isn't an issue. We work very hard on that. We
17 have a list of procedures down there at the bottom.
18 It's a challenge, but we do everything we can to make
19 sure we mitigate those issues as much as possible.

20 Next, I thought it was an interesting
21 slide. The Meadows has entered into from the
22 beginning, five consent agreements and 26 warning
23 letters from the period of time we've been in
24 operation. We think this is too many but not horribly
25 embarrassing. We're continuing to try to make this

1 zero. We do have issues with underage. We do have
2 occasional licensing issues. We do have notification,
3 some of these things. But I think, all said and done,
4 this is respectable. And indeed, we work with PGCB on
5 every turn when we have a matter to create corrective
6 actions and immediately reply to those issues that we
7 face.

8 Next, the future is not over, of course.
9 We're continuing to build. On the next page I'll show
10 you where we're currently under construction for our
11 new garage and our multipurpose event center. The new
12 garage will feature 1,400 parking spaces. The
13 multipurpose event center will feature the ability to
14 have concerts indoors all 12 months with 1,000 seats.
15 It will also allow us to get into business, weddings,
16 various activities. We can seat as many as 600, I
17 believe, for dinner, you know. So we can have big
18 events in there. It's really going to enhance the
19 property and continue our quest to become a
20 full-service, complete destination resort.

21 Next, and we touched on this the last
22 time we were together, this is a 22-acre parcel we
23 bought down on Racetrack Road. It has 800 feet of
24 frontage on Racetrack Road and it really gives us a
25 great opportunity to create an entrance to The

1 Meadows, an extension of The Meadows. And down here
2 you might see a hotel in the top left corner. You'll
3 see a retail area. You'll see things that --- a day
4 spa. You'll see things that are attractions in
5 themselves and really makes for a great entrance to
6 The Meadows Racetrack & Casino.

7 Last, as I mentioned in the beginning,
8 The Meadows is proud. We take great credence and work
9 every day to follow Mr. Paulos' advice, and that is
10 that we try very hard to say what we do, what we will
11 do, and we are doing what we say. I believe Ops-15 is
12 a continuation of the investment, and The Meadows is a
13 testimony to that. The Meadows' management team and
14 ownership is deeply committed to the partnership of
15 the community, the horsemen, the PGCB, the
16 Commonwealth. As I mentioned, \$650 million in taxes
17 with regard to slots, a great benefit for the
18 Horseracing Development Fund. \$22 million and
19 climbing in table games-related tax, over a million
20 dollars in contributions, \$3 million in neighborhood
21 partners, supporting local retailers, again, 14 ---
22 just under 1,500 family-sustaining jobs. We are,
23 indeed, as we practice every day, committed to our
24 compulsive gaming problem --- compulsive and problem
25 gaming program. And the best is still yet to come.

1 We're under construction for a garage, as I mentioned,
2 a multipurpose event center, a hotel, a retail
3 component, and we will continue to work on the
4 backside improvement. So, thank you for letting me do
5 the presentation.

6 ATTORNEY JONES:

7 Thank you, Sean. Mr. Paulos actually has
8 some concluding remarks to the presentation.

9 MR. PAULOS:

10 Thank you. Good morning, Mr. Chairman
11 and members. Sean, thank you. Eloquence is normally
12 not an adjective used with Bill Paulos. We do get our
13 point across, though. Thank you.

14 As I stand --- as we sit before you, I'm
15 a very proud guy. As Sean went through his
16 presentation, I could not help but to think about the
17 meeting we had five years ago, where I stood there
18 promising what we would do and tried to convince this
19 Board how successful a casino in Washington,
20 Pennsylvania, Washington County, would be. Well, it
21 has been a success and it has worked out very well.
22 And so has our partnership with the Commonwealth. I'd
23 like to talk about that partnership, if I may.

24 Cannery Casino & Resorts has invested
25 more than a half a billion dollars in western

1 Pennsylvania to be a partner of the Commonwealth of
2 PA, Washington County, North Strabane Township and the
3 Horseracing Association. Out of that partnership this
4 wonderful casino emerged. It emerged as a world-class
5 gaming facility and is continuing to evolve. Along
6 with that came the benefits of revenues for the
7 Commonwealth, higher purses and capital investments
8 for the track, revenues to the county and township,
9 charitable contributions, new investments into local
10 businesses, and last but certainly not least, profit
11 for our company. Now, as I always do, I would like to
12 remind everyone that, although CCR invested \$536
13 million and at least another \$50 million to come, 20
14 of which is underway, we are still the minority
15 partner. I always like to point that out. Also, that
16 we are the only business I can think of that pays
17 taxes on their revenues, not their profits. So many
18 people do not realize this. People that should know
19 don't know. I report this only for clarity, not for
20 complaint. So many think this is an easy business,
21 not realizing that the 40 cents out of every dollar
22 that is retained by the casino, then and only then are
23 bills paid, payrolls made, contribution given and
24 reinvestment to local business, profit. That is why
25 I'm so proud, proud that 1,500 employees work so

1 diligently to make The Meadows the happy and
2 successful place that it is. I'm also proud of the
3 maturation process of our partnership with the
4 Commonwealth, and more directly, with the PGCB and how
5 we must strive to continue to improve that
6 relationship.

7 To further explain the dollars and cents
8 category, the free cash flow, meaning after we pay
9 back our debt to the banks for the Cannery Casinos are
10 more like three to five percent. Not 40 percent,
11 three to five percent. And we have some of the best
12 financial arrangements in our industry. So that it is
13 a very thin margin that these casinos work by. We
14 must make no mistake. Competition is coming from
15 Ohio, New York, changes in New Jersey and West
16 Virginia, all trying to capture our patrons, the
17 partnership's patrons. We, together, must strive to
18 be better to stay on top. We must be clear and
19 professional in our communications at all times. We
20 must strive to minimize administrative delays so that
21 we can react to the changes in the marketplace more
22 rapidly. There must continue to be clear lines of
23 authority and responsibility. There should always be
24 a level of courtesy that promotes mutual respect. We
25 must, we must, we must be proactive in finding

1 solutions to problems and ways to streamline the
2 process. We must understand each other's financial
3 objectives and be sensitive to costs and costs of
4 compliance. If we could occasionally sit down and
5 discuss conditions on a high-level basis, we can
6 maintain our competitive edge, no matter who tries to
7 compete with us. We cannot rest on our laurels. We
8 must get collectively better to stay ahead of the
9 curve. We must maintain our leadership role or those
10 benefits I spoke of will erode, affecting every
11 citizen in the Commonwealth. We have seen what
12 happened to New Jersey because they did not stay ahead
13 of the curve. They did not see what was coming. They
14 did not plan for what was coming. We can and we
15 should. Diligence, flexibility, responsiveness and
16 creativity must be our watchwords as we go forward.
17 Thank you very much.

18 ATTORNEY JONES:

19 Thank you. That concludes our formal
20 presentation.

21 CHAIRMAN:

22 Great. Thank you. OEC, do you have any
23 questions for The Meadows, and then I'll ask you if
24 you have a presentation beyond that?

25 ATTORNEY CREANY:

1 Thank you, Chairman Fajt, Commissioners.
2 My name is Barry Creany, that's C-R-E-A-N-Y, with the
3 Office of Enforcement Counsel. I just have a couple
4 questions for clarity of the testimony provided by Mr.
5 Sullivan. And it would be interesting to note that
6 that was the issue in Ops-15 about what effects the
7 decreasing slots might have on revenue. Could you
8 explain --- you stated that you see that the slot
9 revenue is up. What is your reference to the
10 increase? Is it from last year, in that same month,
11 or a couple months back? Can you clarify that?

12 MR. SULLIVAN:

13 Primarily from previous months. Last
14 year were, honestly, toward July, for example, just
15 about flat. We didn't lose any revenues, but we have
16 seen some nice gains over earlier months this year,
17 June, a substantial gain, as well as even going back
18 to May and so on. So, our wins per unit, indeed, has
19 gone up, as we expected, \$225. We see reasonableness
20 in it. We do not see any negative effects by
21 increasing those games.

22 ATTORNEY CREANY:

23 So the wins per unit did increase?

24 MR. SULLIVAN:

25 Yes.

1 ATTORNEY CREANY:

2 And the other thing that was important in
3 Ops-15 was the incorporation of the race window up on
4 the floor area. And you said that it's there and it's
5 present. What is the activity you've seen at that
6 race window?

7 MR. SULLIVAN:

8 It's off to an interesting start. We
9 talk about it frequently. I believe it's brand new.
10 It's just been introduced, but I think we opened it in
11 --- I want to say mid-June. Yeah, about six weeks
12 ago. So it's early, but we think that the guests that
13 are using it are --- it's a much more convenient
14 experience. We believe it will grow in its
15 opportunity. But right now it's not knockout numbers,
16 but it's out there and people enjoy it.

17 ATTORNEY CREANY:

18 And with that, you had mentioned the
19 handle was up there. What you're seeing at that race
20 window, is that on top of where --- when you look
21 back, are you staying even with what you were having
22 in the race windows in the lower level?

23 MR. SULLIVAN:

24 No, I don't think we could say --- Mike,
25 I don't know, but this is probably something for you.

1 But I don't think we've said to ourselves that it's an
2 incremental example. I think it's a more convenient
3 example, people being able to benefit ---. Mike?

4 MR. JEANNOT:

5 Yeah, to a great extent, that's what it
6 is. But it has been well received upstairs. When the
7 race is live most people do a couple thousand dollars
8 a day. When they're not racing live it is much less
9 than that.

10 ATTORNEY CREANY:

11 Then what you're doing down below hasn't
12 changed much a little bit --- in addition with what
13 you were seeing?

14 MR. JEANNOT:

15 I'd say 50/50.

16 ATTORNEY CREANY:

17 Okay. The other thing I was going to ask
18 was relative to your average compensation that we have
19 on the slide that appears on page 31. You have a
20 figure of \$43,069 on the 2011 payroll for July. Is
21 that a combination of salary and wage employees?

22 MR. SULLIVAN:

23 Yeah. What I did there is simply took
24 all the payroll dollars and took the FTEs, full-time
25 equivalents for that month, and reached this number.

1 ATTORNEY CREANY:

2 Thank you very much. I have no further
3 questions.

4 CHAIRMAN:

5 Thank you, Mr. Creany. Do you have a
6 presentation yourself?

7 ATTORNEY CREANY:

8 The OEC presented a number of witnesses
9 and evidence at the May 4th public hearing on this
10 matter and it asked that the record remain open at
11 that time because the BIE had not completed its
12 background investigation. Since that May 4th hearing,
13 there have been two additional warning letters and
14 responses that we wanted to submit for the record as
15 additional evidence today. And we have a stipulation
16 that I would like to present to incorporate those into
17 the record. At this time, BIE has completed its
18 investigation and all of the background investigation
19 reports have been submitted on the entity, all its
20 principals, affiliates and its principal entities, but
21 the suitability reports have come back indicating
22 there's no concerns to be raised on behalf of BIE and
23 the OEC has made a recommendation of suitability for
24 Washington Trotting Association at this time.

25 CHAIRMAN:

1 Thank you. Ms. Jones, do you have any
2 objections to his admission into the record ---?

3 ATTORNEY JONES:

4 No.

5 CHAIRMAN:

6 Thank you. They'll be admitted into the
7 record. Do you have any questions of Enforcement
8 Counsel's comments?

9 ATTORNEY JONES:

10 No, sir.

11 CHAIRMAN:

12 Okay. Let's turn to the Board.
13 Questions from Board members? Commissioner Ginty?

14 MR. GINTY:

15 I have a comment. Mr. Paulos, I heard
16 you loud and clear. As the industry has matured in
17 Pennsylvania, you know, we, the Board, have matured as
18 well. And we need to work together to ensure the
19 success of the industry in Pennsylvania, especially,
20 as you point out, competition is coming. Having ---
21 and I thank Mr. O'Toole and Chairman Fajt. We have
22 had better coordination with the industry than in the
23 past and are beginning to work together. But I've
24 raised this before and I'll raise it again. You were
25 very eloquent in your presentation, but you know, so

1 long as there's 14 or whatever the number of casinos
2 that we have now here acting individually, the
3 coordination and cooperation and planning that you
4 suggest should take place is not going to happen. I
5 have suggested to the industry now for a couple of
6 years that you form an association so that, you know,
7 we have an industry position and somebody in the
8 industry that we can work with. You might be aware
9 that Chairman Fajt spends a good deal of his time
10 before various legislative committees. We very seldom
11 see representatives from the industry at those
12 committees, testifying as to what the interests of the
13 industry is. So I think we have some more maturing to
14 do, and I would just --- since you were so eloquent
15 today, I would ask you to take the lead in seeing if
16 you can put an association together.

17 MR. PAULOS:

18 If we were invited to any of those
19 subcommittee meetings, I promise you one of us would
20 be there, from our group.

21 MR. GINTY:

22 You don't have to be invited. You can
23 ask. But I would suggest that it's time for us to
24 have an industry association.

25 MR. PAULOS:

1 I don't disagree with you.

2 CHAIRMAN:

3 Commissioner Sojka?

4 MR. SOJKA:

5 I have just a few somewhat more minor and
6 technical issues. I'm very pleased to see what looks
7 like a major effort at developing synergy between
8 racing and gaming. I think you've put together a true
9 racino, and that's heartening to see.

10 I'd like to follow up a little bit on Mr.
11 Creany's comments about the --- about the wagering
12 windows off the actual racing spot. I notice that you
13 --- you know, you're featuring racing in places like
14 Gibson's Cigar Bar. Is there any wagering opportunity
15 in those places that you have windows in?

16 MR. PAULOS:

17 Yes.

18 MR. SOJKA:

19 Do those do well, also?

20 MR. PAULOS:

21 I was having a cigar the other evening
22 and a gentleman actually walked in and was placing a
23 couple bets. Mike, how'd they do?

24 MR. JEANNOT:

25 At every level of the casino, including

1 Gibson's, there's an opportunity to place a wager,
2 either through a cell phone, machine or through a
3 teller.

4 MR. SOJKA:

5 I think it's interesting. Several times,
6 Mr. Sullivan, you used the phrase a rising tide lifts
7 all boats. And to the degree that racing is doing
8 well at The Meadows, you're swimming against the tide
9 nationally, which I think is worth noting, as people
10 continue to raise questions about whether or not this
11 Act is appropriately being used to enhance racing.
12 There are arguments on both sides, and I think The
13 Meadows is one that should be looked at.

14 I have one technical question about
15 purses, and that is I'm sure you told us and I cannot
16 remember why there was a huge uptake in purses in
17 2009. Was there a special race or something?

18 MR. JEANNOT:

19 You mean for the year?

20 MR. SOJKA:

21 Yeah.

22 MR. JEANNOT:

23 No. That's a result of the contribution
24 of the Gaming Fund.

25 MR. SOJKA:

1 Oh, I see.

2 MR. JEANNOT:

3 That's actually gaming and everything.

4 MR. SOJKA:

5 Okay. But now it's fallen down to a
6 lower level again more in keeping with previous years.

7 MR. JEANNOT:

8 We're racing this year about 144,000 a
9 day. Last year it was like 150,000. It was slightly
10 bigger before the reduction. But in the olden days,
11 way back when, the horsemen were racing for about
12 \$42,000 a day. So, that's what the difference is.
13 We've gone from \$42,000 down to --- or up to \$144,000.

14 MR. SOJKA:

15 And that does seem to bring in more
16 patrons and better horses?

17 MR. JEANNOT:

18 Yes. You're correct in that the industry
19 is struggling. There's no doubt about it, it's very
20 fragile. But it's also correct that when you have
21 better horses and better drivers and better
22 competition, which is the thing I look at mostly, the
23 gaming will go up. But it is a tough business.

24 MR. SOJKA:

25 Yeah, it is. Finally, and this is one

1 you may have --- you will have great trouble giving me
2 a precise answer, but it ties in with what
3 Commissioner Ginty commented on. Every time I go to
4 The Meadows, and I've now had an opportunity to do a
5 sort of longitudinal observation and made observations
6 over time, I've seen your plans for improving your
7 entrance, you're buying properties, you're building,
8 but the whole area seems to me to have virtually
9 exploded as a result --- I think as a result of your
10 being there. Do you have any way of tracking what
11 happened since you started? Do you have any way of
12 projecting or estimating how much of that economic
13 activity would be a direct result of what you've done,
14 and can you kind of put your arms around that so that
15 you can give us a sense of what putting this facility
16 in that part of Washington County has meant to the
17 whole region? Because I think that's a very positive
18 story, but I don't know how to tell it.

19 MR. PAULOS:

20 Well, I think the Chamber of Commerce
21 tells it very well. All we can really do --- you
22 know, we've had, you know, the Marcellus Shale find.
23 That has helped western Pennsylvania gradually, along
24 with the economic boom of The Meadows. We keep
25 expanding because we believe and we made a commitment

1 that we would become one day a destination. Are we a
2 resort? Will we ever be a resort? No. But we can be
3 a destination. We can have people stay there. So,
4 we're hoping, we think, by April we're breaking ground
5 on a 200-room hotel. We will have a lifestyle center
6 in the front. So, there would be more retail in the
7 area. The one thing we do know is that five years
8 ago, when we were there, there was only 134 rooms.
9 After we build our hotel, there will be more than a
10 thousand rooms within a half a mile of The Meadows.
11 That, in itself, is an incredible economic engine, not
12 to mention the money spent on the highway that we did
13 along with Tanger, and not to mention how successful
14 Tanger has been across the way. And they weren't
15 going to break ground until we were definitely going
16 to break ground. So, that all brings it actually
17 together.

18 CHAIRMAN:

19 Any other questions? I've got a couple.
20 To Mr. Paulos' comment, again, you and I have always
21 gotten along because you're direct, and I appreciate
22 your direct comments about regulatory oversight, the
23 cost of that. And I continue to look forward, as does
24 Kevin O'Toole and all of our staff, to dealing with
25 your casino, as we do with others. And so having said

1 that, if you're aware of any time where we have been
2 nonresponsive, unresponsive or have taken, you know,
3 too long for reviewing procedures that you've asked us
4 to review or Mr. Sullivan, we want to know about that.

5 MR. PAULOS:

6 Mr. Chairman, my comments were not, okay,
7 at all to be taken as a any-time shot at the staff.
8 They have done an incredible job over time. They have
9 matured in the process, as we all have. So, they do a
10 wonderful, wonderful job, and we get along with all of
11 them. What my comment was addressing is that on a
12 go-forward basis, for us to stay ahead of the game,
13 for us to fight back Ohio, for us to, you know, do the
14 changes, remember, we pay higher taxes than all of
15 these states. As a matter of fact, if you add the
16 three of them together, and we still pay higher.
17 Okay. And that's not the complaint. Again, that's
18 not the complaint. And I'm not complaining at all.
19 What I meant by my comments is that we have to all ---
20 we do, staff does, Board does, legislatively we do
21 have to get better so we can maintain our leadership
22 role in this industry.

23 CHAIRMAN:

24 And I concede on behalf of the Board, I
25 think we have a mutual desire to do that. I've

1 watched what Pennsylvania has done to New Jersey. I
2 don't want to be the next New Jersey. And I agree
3 with you. I think, you know, they didn't anticipate
4 that Pennsylvania would be the gaming giant that it
5 has become, and I hope that we, as an organization,
6 and I can speak on behalf of the Board and our staff,
7 that we will not let that happen. And I challenge
8 you. And I heard your comments loud and clear that
9 you won't let that happen. And just to follow up on
10 that briefly, we have cut our budget this year. Our
11 budget for 2011 for the Gaming Control Board is less
12 than it was for 2010. Director --- Executive Director
13 O'Toole has been out looking at all the real estate
14 leases that we have in Pennsylvania. Conshohocken, we
15 cut our cost going forward. Pittsburgh, we're in the
16 process. We'll hear from Kevin later on today. We're
17 doing an RFT for new space. We'll cut our cost in
18 Pittsburgh. We're moving our Hearings and Appeals
19 Office here in Harrisburg from a facility at the other
20 end of the city into Strawberry Square. We will cut
21 our costs because of that. We have cut down on the
22 number of cars. And again, we agree with you that
23 competition is here. It's going to get more fierce
24 with Ohio and New York and other places. So, you have
25 our commitment that we will also continually cut

1 costs. Having said that, one last question --- two
2 last points. Mr. Sullivan, the \$43,000 average salary
3 that Mr. Creany referred to, I assume that includes
4 the 28 percent markup for benefits. Is that an
5 all-in number?

6 MR. SULLIVAN:

7 You know, I have to double check that. I
8 actually looked at it this morning and wasn't quite
9 sure what I did three weeks ago when I made this
10 presentation. I want to say it's just payroll, but
11 let me confirm that and send you a quick e-mail.

12 CHAIRMAN:

13 And again, I thank you for slide 36.
14 Again, back to my earlier comment. Mr. Paulos, you
15 guys owned up to your mistakes, and I appreciate you
16 putting in there that you had enforcement actions,
17 consent agreements. That's part of the whole process.
18 Every organization, every casino has had those, so
19 thank you for including that in your presentation.
20 And any other comments? Yes, Commissioner McCall?

21 MR. MCCALL:

22 My question will go to Mr. Jeannot. We
23 seem to forget the fact that when the legislature
24 passed the Gaming Act it was for horseracing, to
25 really save that industry. I guess my question is to

1 you. Maybe an overall picture of the health of that
2 industry, understanding that, you know, horseracing
3 really attracts a different kind of bettor. You know,
4 growing up, it was always the older, more mature
5 gentleman with a racing form under his arm. I'm just
6 wondering, what is the health of that industry? How
7 do you attract, you know, younger individuals, to
8 attract to bet on horses as opposed to going into the
9 casino and, you know, playing the table games or
10 putting money into a slot machine?

11 MR. JEANNOT:

12 That has been a question for a long time,
13 20 years back in the industry. The question is how do
14 you attract younger people. When I look at a race
15 book on a Monday afternoon, the guys that used to be
16 50 are now 70. But I also see people coming and going
17 from the bowling alley. On a Tuesday night, the
18 18-year-olds come down with their friends. I also do
19 see people going back and forth into the poker room,
20 and there is some crossover there. So, the things
21 that --- basically we do everything we can think of to
22 attract younger people, the latest being Facebook,
23 which, you know, we're not the only one to do it, but
24 using the social media to attract people. When, in
25 fact, measure where they come from, it's an effort

1 trying to make the events fun. The Kentucky Derby,
2 people care about the horse, they talk about the
3 horse, and so for the Adios we did everything that we
4 could --- the story was about the horse, not about the
5 owners or the drivers. But you had to add some to it.
6 The events that Sean talks about in April in the
7 concerts, that all helps to create an environment of
8 fun. So, we want people to think of racing at The
9 Meadows to say, let's go down there and have a good
10 time.

11 MR. MCCALL:

12 What about attendance at the track?

13 MR. JEANNOT:

14 Well, the attendance is up slightly. The
15 good news about racing is the on-track live handle is
16 up this year mostly because we're racing Wednesdays
17 and Friday evenings. The wagering handle, which is
18 through the telephone and on the internet, is up this
19 year. Our signal sales, The Meadows signal being
20 broadcast around the country, is up this year mostly
21 because of just better competitive racing. The bad
22 news is that this --- for 20 years has yielded the
23 most profit and most personally for the horsemen are
24 the OTBs. And across the state they're all dining and
25 I represent Philadelphia Park and Pocono. The story

1 is the same. They're lingering on until the track
2 loses money and then we'll go from there. So, that's
3 the --- there's some real good things happening and
4 then there's some bad things happening. And after
5 that, the --- I just heard this yesterday, that the
6 decline in the last 12 months in racing, in
7 thoroughbred racing, is 97 percent. So, you know, if
8 we're ahead of that, then we're doing better than the
9 norm.

10 CHAIRMAN:

11 Thank you. Any other questions? Okay.
12 Thank you. This matter is now closed. We'll consider
13 it during our executive session later this morning.
14 And I believe it's scheduled for Board action under
15 the Bureau of Licensing portion of our meeting agenda
16 today.

17 * * * * *

18 HEARING CONCLUDED AT 11:33 A.M.

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CERTIFICATE

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I hereby certify that the foregoing proceedings, hearing held before Chairman Fajt, was reported by me on 08/18/2011 and that I Tyler S. Rhoads read this transcript and that I attest that this transcript is a true and accurate record of the proceeding.

