

Virginia Gaming Study Commission Presentation

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Churchill Downs Incorporated Company Profile and Virginia Presence

Since entering the Virginia market in late 2022, CDI has made significant investments to put Virginia thoroughbred racing back on the map...

- ❑ CDI owns close to 30 racing and gaming facilities across 14 states
- ❑ In Virginia:
 - CDI has invested more than \$500 million over the last year and a half
 - 1,400+ Virginia team members with \$30 million in annual salaries
 - \$54 million in annual state and local tax revenue
 - \$750,000 in annual charitable contributions to community partners
- ❑ At Colonial Downs:
 - When CDI acquired Colonial Downs in late 2022, it ran 23 race days a year
 - 2023 saw record race days, races, tickets sold, horses in competition, and handle
 - Invested in a better racing and fan experience
 - In 2023, Colonial Downs brought three highly prestigious graded stakes races to Virginia
 - In 2025, Colonial Downs will race 48 days
 - In 2025, Colonial Downs will have its first ever Kentucky Derby Qualifier
- ❑ At Rosie's:
 - Seven gaming emporiums
 - Preparing to open The Rose Gaming resort--\$400+million investment in Dumfries which will open with 1,650 HHR terminals

Racing Commissions are specialized regulators

Racing commissions regulate and oversee a uniquely complex equine industry comprised of numerous stakeholders...

- ❑ Proper regulation requires specialized knowledge and experience
- ❑ The racing commission must regulate, oversee and help grow all facets of the equine industry including:
 - Thoroughbred racing, harness racing, steeplechase racing, breeding, and breeding incentive programs
 - These programs all have a substantial economic impact across the Commonwealth, especially the agricultural industry
- ❑ The racing commission also employs numerous experts that are tasked with monitoring the safety, welfare and integrity of the sport
 - Veterinarians, stewards, licensing personnel must all be highly skilled and educated experts in their respective fields

Impact of Federal Regulations on Commissions

Racing commissions must have an understanding and appreciation of the layering of Federal Regulations that pertain to racing and wagering...

- ❑ The Interstate Horse Racing Act of 1978 (IHRA) governs the nationwide distribution of horse racing content, simulcasting and online wagering
 - The IHRA is a complex set of regulations that dictates how tracks, OTBs and horsemen groups exchange racing content through contractual consent
 - To offer racing, Colonial Downs and its horsemen must have a contract in place, which is approved by the Racing Commission
 - Out of state tracks, Off Track Betting facilities, and Advance-deposit Wagering entities must then contract with Colonial / Virginia Horsemen to be able to take wagers in their state on racing from Virginia, all of which is under the racing commission's purview
 - Colonial Downs must contract with other racetracks from around the nation and world for these signals to be brought into Virginia for customers to wager on
- ❑ The Horse Racing Integrity and Safety Act of 2020 (HISA)
 - Federal regulations that provide uniformity across the states through a set of medication rules, anti-doping policies and racetrack safety guidelines
 - Each state racing commission must then contract with HISA to implement HISA's rules in each jurisdiction otherwise a state may not simulcast their signal across state lines

Racing Commissions need to be nimble and available

Racing commissions must have the authority to make necessary decisions in a timely manner...

- ❑ The equine industry is a 24/7/365 industry that is also conducted outdoors
 - Inevitably, issues arise early in the morning, on weekends, holidays or at night that need immediate attention and decision making to potentially protect the safety and welfare of the stakeholders and horses
 - Tropical Storm Debby required Colonial Downs to seek approval from the racing commission to move its regularly scheduled races in the interest of safety
 - On Friday, August 2, 2024, a severe weather system emerged over Colonial at 7pm during race four on the program which prompted Colonial Downs to request the permission of the racing commission to cancel the remaining races
- ❑ Racing commissions must also have a knowledge of the industry to adjudicate important and nuanced situations that threaten the integrity of the industry
 - See *Baffert v. Kentucky Horse Racing Commission*
 - See *Jamgotchian v. Indiana Horse Racing Commission*

Regulating Historical Horse Racing

Because of Historical Horse Racing's unique characteristics and integration with the larger equine industry, effective oversight and regulation requires expertise and specialized knowledge ...

- ❑ For new game applications the first threshold question is whether the wager is pari-mutuel or not
 - Traditional casino slots and table games do not involve pari-mutuel wagering math or taxation models
- ❑ Pari-mutuel pool accounting and management must be taken into consideration when implementing new terminals
- ❑ Methods for calculating takeout/breakage and the amounts returned to the pari-mutuel pool
- ❑ HHR locations or potential locations can potentially be in competition with casinos
- ❑ The racing commission needs to approve locations based on permissibility under law and what's best for developing further the racing and breeding industry
- ❑ A separate commission avoids conflicts of interest with casinos who may try to pressure a regulator to make rulings that are in the casinos' interest

Enforcement and Compliance

Given the nuances of pari-mutuel wagering, live horse racing, simulcast wagering and advanced deposit wagering, Churchill Downs believes the oversight of historical and live horse racing should remain at the Virginia Racing Commission...

- ❑ HHR generates daily pari-mutuel reports including takeout and breakage calculations
 - In order to effectively regulate pari-mutuel wagering the commission must have a subject matter expertise in this form of wagering and technology
- ❑ The authorization of HHR machines (Rosie's/OTB's) has led to the resurgence of horse racing and the equine industry in Virginia
 - For every 100 machines that are deployed one race day is added
 - There are currently about 2,700 machines deployed which has led to a 27-day racing season in 2024
 - In 2025, there will be 48 days of racing
- ❑ **The growth and expansion of Rosie's and HHR facilities throughout Virginia is the main catalyst for revitalizing the equine and racing industries in Virginia. It is our view that the Virginia Racing Commission is best positioned to oversee all aspects of racing and pari-mutuel wagering.**

Revenue Distribution from Historical Horse Racing

Revenues from Historical Horse Racing benefit Virginia, localities, race fans, and stakeholders throughout the equine and racing industries

- ❑ § 59.1-392 controls the taxation and distribution of HHR revenues (HB843; 2024)
- ❑ HHR revenues support larger purses that attract higher-quality racing

2023 Distributions:

Entity	Amount Contributed
Virginia Racing Commission	\$24,168,093.70
Virginia Breeders Fund	\$944,066.16
Virginia-Maryland Regional College of Veterinary Medicine	\$944,066.16
Virginia Horse Center Foundation	\$944,066.16
Virginia Horse Industry Board	\$944,066.16
Problem Gaming Support	\$377,626.46
Henry County	\$147,929.33
New Kent County	\$10,803,877.77
City of Emporia	\$97,664.34
City of Richmond	\$3,225,802.44
City of Hampton	\$2,341,037.83
Town of Dumfries	\$1,019,312.50
Town of Vinton	\$1,245,698.99

Michigan Case Study....a cautionary tale

We should learn from other states when deciding the fate of the Virginia Racing Commission

- ❑ The JLARC study mentioned Michigan as a “state that has consolidated gaming regulations under one agency”
 - In 1997, Michigan merged the racing commission with other forms of wagering to create the Michigan Gaming Control Board
- ❑ Michigan’s once vibrant thoroughbred Industry went from running over 1,000 races for \$9M+ in purses (2003) to ceasing thoroughbred racing in 2017
 - In 2003 there were 375 thoroughbreds foaled in Michigan and in 2022 there were 4
- ❑ Michigan’s final racetrack, Northville Downs, was closed in early 2024



Year	Races	Purses	Starters	Starts	Race Days	Avg. Field Size	Avg. Purse per Race
2003	1,054	9,154,094	1,534	8,080	150	7.7	8,685
2004	1,050	9,614,112	1,437	7,750	146	7.4	9,156
2005	964	10,485,982	1,287	7,048	129	7.3	10,878
2006	905	9,351,127	1,279	6,887	126	7.6	10,333
2007	891	9,150,718	1,093	6,587	126	7.4	10,270
2008	563	5,558,495	1,074	3,913	91	7.0	9,873
2009	670	5,521,410	983	4,557	93	6.8	8,241
2010	416	3,903,040	778	3,260	52	7.8	9,382
2011	229	2,654,246	444	1,499	30	6.5	11,591
2012	304	3,329,602	475	1,955	46	6.4	10,953
2013	300	3,077,119	470	1,986	43	6.6	10,257
2014	289	3,059,609	522	2,025	38	7.0	10,587
2015	224	2,129,424	450	1,553	30	6.9	9,506
2016	291	2,490,617	475	1,892	37	6.5	8,559
2017	314	2,457,436	481	2,093	40	6.7	7,826

*The Jockey Club Fact Book