



Franchise Oversight Board

MINUTES

Board Meeting
May 3, 2016

State Capitol Building, Room 131
Albany, New York

I. Call to Order/Quorum Establishment

The meeting was called to order at 11:33 a.m. by the Chair, Mr. Williams. Establishment of a quorum was noted.

Members Present:

Robert Williams, Chair
Elizabeth Garvey, Member
Steven Newman, Member (participated via bilateral videoconference)
Joseph Rabito, Member
James Towne, Jr., Member

Board staff in attendance:

Steven Lowenstein, Secretary and Administrative Officer
Kendra Rubin, Counsel
Bridget Conover
Lee Park

NYRA staff in attendance (participated via bilateral videoconference):

Christopher Kay, President and Chief Operating Officer
Joseph Lambert, Senior Vice President and General Counsel
Jelena Alonso, Controller
David O'Rourke, Vice President, Chief Revenue Officer
Daniel Ruzow, Outside Counsel from Whiteman, Osterman & Hanna

Public in attendance:

Alexandria Cassidy
Christopher Greenidge
Aubree Heydrick
Rick Karlin

II. Consideration of Board Minutes, Meeting of December 3, 2015

ACCEPTED AS AMENDED: 5-0

III. Resolution Consideration

A. Resolution No. 16-01 – Approving a Capital Contribution by NYRA of up to \$2 Million to Fund an Advanced Deposit Wagering Platform

Mr. Williams provided an overview of the Franchise Oversight Board's responsibilities for all significant transactions and operations. Mr. Williams explained that this request seeking approval is to allocate \$2 million that would be used for marketing, certain salaries, and shared services of an advanced deposit wagering platform. Mr. Williams indicated that NYRA is 91% owner of the entity; will be the managing partner; and will have operational and fiscal control.

Mr. Newman asked who owns the other 9%. Mr. Kay stated it's GBE and stated that the terms sheet provides that information. Mr. Newman questioned whether it should be in the resolution. Mr. Williams suggested that we incorporate the terms sheet as an addendum to the resolution.

Mr. Newman requested that the Franchise Oversight Board receives a report on what occurs. Mr. Kay agreed to provide a report on a periodic basis.

*BOARD RESOLUTION 16-01
ON A MOTION BY: Mr. Rabito
SECONDED BY: Ms. Garvey
APPROVED: 5-0*

B. Resolution No. 16-02 – Approving the Final Letter of Resolution between the Board, NYRA, the NYS Office of Parks, Recreation and Historic Preservation for Review of Capital Projects at the Saratoga Race Course

Mr. Williams outlined the proposed Letter of Resolution between the Franchise Oversight Board, the Office of General Services, the New York Racing Association Inc., and the Office of Parks, Recreation, and Historic Preservation regarding the Saratoga Race Course Redevelopment Project. Mr. Williams stated that the letter will be part of the document that will comprise the final GEIS and serve as its Appendix K.

Mr. Ruzow gave a detailed explanation of the Letter of Resolution itself and the process that led it to its development. Mr. Williams asked where

any interested members of the public could locate the document. Mr. Ruzow explained that the final draft is not posted until incorporated into the final GEIS and agreed with Mr. Williams that they should wait until the document is finalized.

Mr. Williams mentioned that the public expresses a lot of interest whenever trees are removed at Saratoga and asked if the tree removal plan was part of the redevelopment plan. Mr. Ruzow replied that they were.

*BOARD RESOLUTION 16-02
ON A MOTION BY: Mr. Towne
SECONDED BY: Mr. Rabito
APPROVED: 5-0*

IV. Financial Reviews

A. 2015 Audited Financial Statements

Ms. Alonso provided an overview of NYRA's Audited Financial Report for calendar year 2015. NYRA's operating income from racing operations was \$3.6 million, compared to \$1.7 million in 2014 and was \$1.4 million better than called for by NYRA's 2015 budget.

Unbudgeted items that impacted NYRA's 2015 financial performance were the Triple Crown Belmont Stakes Day and the bad debt reserve for Nassau OTB's inability to pay on amounts owed since December of 2014. Ms. Garvey asked if a payment plan has been implemented. Ms. Alonso explained that there has been a proposed payment plan, but nothing has been agreed upon. Mr. Williams explained that a repayment plan was required by recently enacted legislation but has not been approved yet submitted and therefore cannot be effectuated.

Mr. Towne asked if there is any difference in the handle benefit to NYRA as the machines are transitioned from Nassau to Genting and if there is any negative impact to the horsemen. Mr. Kay responded that those are answers NYRA is currently trying to get clarification on.

Mr. Williams asked for clarification on the ability to increase revenues due to increases in host fee rates. Mr. O'Rourke answered that although there is an upside, but stated that they are reaching an equilibrium point in the market.

Mr. Williams asked how the reduction of the race days affected the overall handle. Mr. Kay answered that NYRA went to a four-day a week meet for January, February, and March and operated on a very regular basis which had been positive. Mr. Towne asked if part of that positive result

was the fact that winter was mild this year. Mr. Kay stated that going to the four-day a week meet and having less cancellations helped.

Mr. Williams asked about the capital improves to Aqueduct and where NYRA is standing at this moment in consideration to Aqueduct. Mr. Kay responded that NYRA is looking into installing a synthetic track and that would be in the 2017 budget. Mr. Williams asked what the expense of installation of a synthetic track is. Mr. Kay responded \$9 to \$12 million. Mr. Towne asked if there has been any input from the horsemen concerning switching from the dirt to the synthetic track. Mr. Kay explained that synthetic tracks have scored very well in terms of catastrophic injuries and a number of trainers have expressed interest and support for that surface.

B. 2016 First Quarter Financial Results

Ms. Alonso stated that 2016 first quarter financials exceeded expectations and prior year results. The first quarter moved to a four-day race week for the winter meet. Compared to last year, net revenue increased \$2.9 million and all-source handle was up \$57.4 million, which was a daily average handle increase of \$393,000.

Mr. Williams questioned if there was any effect of Parx. Mr. Kay answered that they received some but not what they hoped for.

Ms. Alonso explained that NYRA was able to run two more race days than budgeted which resulted in net revenue from racing operations to exceed budget by \$1 million. Operating expenses increased \$1 million as a result of bad debt reserve for Nassau OTB. Compared to budget, operating expenses were \$1.3 million lower than budgeted mainly because of lower labor expense through active management.

Ms. Garvey asked about the net impact of delayed merit increases until April 1st. Ms. Alonso explained that NYRA saved about \$159,000 from moving the start date. Mr. Kay added that it is a onetime savings and reviews will be done in the first quarter and any adjustments will be made effective April 1.

Mr. Williams questioned the 76% rate increase in pension portions for Local 807. Mr. Kay and Ms. Alonso stated they would check on that.

Mr. Newman asked if NYRA could provide additional data on a race day comparison basis. Mr. Kay responded that they had a document that they would share if it could maintain confidential and would work with Mr. Newman to provide the data he is looking for.

Mr. Towne inquired about drainage going directly into the city sewer system in New York and asked how extensive financially the plan with EnCon will be to redirect the wastewater. Mr. Lambert explained there is a plan and it is budgeted and discussions are ongoing to finalize.

Mr. Newman asked about the \$150,000+ of savings and consulting that is being deferred. Mr. Kay stated that it would be used to the extent of needing consulting services as the development of long-term plans move forward.

Mr. Newman asked about the 14% rate increase in health insurance and if NYRA self-insures and if the increase was based on employees using healthcare more. Ms. Alonso confirmed that was correct.

Ms. Alonso stated that for Q1 NYRA received \$16.2 million of VLT revenue for purses. \$15.9 million was allocated to purses and the remaining \$244,000 was allocated to jockey health insurance. \$6.5 million of VLT funding was to support operations. NYRA received \$8.7 million of VLT capital funding and spent \$8.3 million on capital improvements in Q1. \$4 million was spent on the Belmont backstretch area.

Mr. Williams asked about the Belmont Track cushion improvements. Mr. Kay explained that part of it was standard and that NYRA is expanding the track.

IV. Miscellaneous Reviews

A. Executive Compensation

Mr. Williams asked for an overview of the new Chief Information Officer and new Vice President of Security. Mr. Kay responded with the new Chief Information Officer is Bob Hughes and the head of security is Bobby Sica. Mr. Kay provided their work history and how they are a benefit to the organization and the improvements that have already been implemented.

B. Export List

Mr. Williams asked about the 2016/2015 first quarter export loss and if cancellations from the year before were simply a basis for the significant difference. Mr. Kay responded going to a four-day a week meet and not having many days wiped out had to do with the significant difference.

C. Capital Spending

Mr. Williams asked about the amount of expenditures in barn areas at Belmont and Saratoga versus Aqueduct and if was because of the year round training facility utilization. Mr. Kay stated that it was.

Mr. Towne questioned the disproportion in front side improvements. Mr. Kay replied that Belmont is receiving more video boards for the backyard and infield.

D. Single and Sole Source Exceptions

Mr. Williams asked about the Triple Crown trophy. Mr. Kay stated that last June the last Triple Crown trophy was given to the owner of American Pharoah. Mr. Kay believes that a more dramatic trophy should be designed so that all three tracks can be proud of its significance.

Mr. Williams commented that there was inconsistency between reports. Mr. Kay said they would look into the reports.

V. New Business

No new business was discussed.

VI. Old Business

No old business was discussed.

VII. Report of the Chair

A. Genting/Nassau

Mr. Williams provided a brief overview of the recently enacted State Budget that allows Nassau Off Track Betting Corporation to have its allotment of video lottery gaming machines placed at Resorts World at Aqueduct in exchange for specific payments. The State Budget provides Resorts World with a Video Lottery Capital Award and Resorts World is required to build a hotel/resort/convention space of \$300 million value.

Under the law, before it can take effect, the Gaming Commission must approve the agreement. The Franchise Oversight Board is looking at the franchise agreement, the law and the state settlement agreement to determine if the Franchise Oversight Board is required to take any action or have any responsibilities. The findings will be advised as soon possible.

B. Status of GEIS for the Saratoga Redevelopment

Mr. Williams provided a status on the Saratoga Redevelopment Generic Environmental Impact Statement. Staff has been working with various consultants to make any appropriate corrections or revisions to the draft GEIS. Once finalized, the GEIS must be circulated to all involved agencies, the public, local government and interested parties. Once the GEIS is finalized and circulated, a findings statement will be prepared.

VIII. Adjournment

The meeting was adjourned at 12:42 PM.