

COMMONWEALTH OF PENNSYLVANIA

GAMING CONTROL BOARD

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IN RE: CHESTER DOWNS AND MARINA, LLC

PETITION FOR APPROVAL TO MODIFY GAMING FLOOR

* * * * *

HEARING

* * * * *

BEFORE: MEMBERS OF THE BOARD:

DAVID M. BARASCH, CHAIRMAN

Richard G. Jewell

Sean Logan

Kathy M. Manderino

Merritt C. Reitzel

Dante Santoni, Jr.

Obra S. Kernodle, IV (via phone)

Reporter: Cynthia Piro Simpson

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1 EX-OFFICIO MEMBERS/DESIGNEES IN ATTENDANCE:

2 Jennifer Langan, Designee, Department of
3 Treasury

4 Christin Heidingsfelder, Designee,
5 Department of Revenue

6 Fred Strathmeyer, Designee,
7 Department of Agriculture

8 HEARING: Wednesday, December 19, 2018

9 LOCATION: Pennsylvania Gaming Control Board
10 Strawberry Square
11 2nd Floor
12 Harrisburg, PA 17101

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OFFICE OF ENFORCEMENT COUNSEL

CYRUS PITRE, Esquire

Chief Enforcement Counsel

MICHAEL ROLAND, Esquire

Senior Enforcement Officer

PA Gaming Control Board

P.O. Box 69060

Harrisburg, PA 17106-9060

Counsel for the Pennsylvania Gaming Control Board

WILLIAM J. DOWNEY, III, ESQUIRE

Fox Rothschild, LLP

1301 Atlantic Avenue

Midtown Building, Suite 400

Atlantic City, NJ 08401-7212

Counsel for Chester Downs & Marina, LLC

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A P P E A R A N C E S (cont.)

ALSO PRESENT:

Christopher Albrecht, Senior Vice President and
General Manager, Harrah's Philadelphia
N. Lynne Hughes, Esquire, Vice President, Harrah's
Philadelphia
Marisa Stagg, Regulatory Compliance Officer, Harrah's
Philadelphia
Joe Tyrrell, Vice President of Government Relations,
Harrah's Philadelphia

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CHAIRMAN: Next order of business, we have Harrah's Petition to - for Approval to Modify their Gaming Floor.

And again, I would ask that everyone that's going to speak, please spell and state your name for the court reporter prior to your presentation. And I would ask that all non-attorney witnesses please stand to be sworn.

CHRIS ALBRECHT,
CALLED AS A WITNESS IN THE FOLLOWING PROCEEDING, AND
HAVING FIRST BEEN DULY SWORN, TESTIFIED AND SAID AS
FOLLOWS:

ATTORNEY DOWNEY: Good morning, Mr. Chairman and members of the Board. My name is Bill Downey, D-O-W-N-E-Y. I'm with Fox Rothschild on behalf of Chester Downs and Marina, LLC, doing business as Harrah's Philadelphia Racetrack - Casino and Racetrack.

Mr. Chairman, members of the Board, we're before you this morning on a Petition to Modify the Gaming Floor, which includes a slot reduction

1 beyond -.

2 CHAIRMAN: Mr. Downey, could you do me
3 a favor and introduce the individuals who are with you
4 today?

5 ATTORNEY DOWNEY: Sure.

6 CHAIRMAN: Thank you.

7 ATTORNEY DOWNEY: To my left Chris
8 Albrecht, General Manager, Senior Vice President of
9 Harrah's Philadelphia.

10 CHAIRMAN: Thank you.

11 ATTORNEY DOWNEY: Albrecht,
12 A-L-B-R-E-C-H-T. And to his left is N. Lynne Hughes,
13 H-U-G-H-E-S, Vice President and Counsel. Also with
14 us, in the back, we have our Regulatory Compliance
15 Officer, Marisa Stagg, and Joe Tyrrell, who's our Vice
16 President of Government Relations.

17 CHAIRMAN: Thank you. Please proceed.

18 ATTORNEY DOWNEY: Mr. Chairman, we are
19 before you today because we're outside of the
20 Executive Director's threshold for approval of the
21 slot reduction. This morning Mr. Albrecht is going to
22 make a presentation describing the changes, a
23 determination to aid in reduction. And then we'll
24 come back, I have a couple of additional matters to
25 discuss with the Board.

1 CHAIRMAN: Okay.

2 Please proceed.

3 MR. ALBRECHT: Mr. Chairman, members
4 of the Board, very excited to be able to speak to you
5 today about this opportunity for us to make a
6 modification to our gaming floor that we believe is
7 going to help enhance our customer experience.

8 This is going to allow us to really
9 complete the third of what our three projects we are
10 doing in the back of our casino, which is a very
11 underutilized space in our facility. And towards the
12 end of the presentation, you'll see what those changes
13 are and what we're looking to do back there.

14 So, as it relates to our slot business
15 in Harrah's Philadelphia, you can see over time as
16 increased supply, competitive pressures continue to
17 come in, the amount of gross terminal revenue, we're
18 able - the drive of the facility has continued to go
19 down.

20 Over time, we have received some
21 relief for the amount of slot use we have, but as you
22 can see, as it continues today, we continue to have,
23 really more - more supply than we need for the demand
24 that we have, and that we believe that space could be
25 better used to enhance the revenue overall in the

1 facility.

2 Despite these challenges we face, we
3 do continue to put significant investment into our
4 slot business at Harrah's Philadelphia.

5 Almost two years ago, we redid the
6 entire carpeting and reconfiguration for the facility
7 the last time we did do a slot reduction. Just
8 recently we invested in brand new slot chairs, which
9 now have been changed out, the entire history of the
10 property, and those are actually going in as we speak.

11 We continue to add new machines to the
12 floor on an annual basis. We are one of the
13 properties in all of our organization that receives
14 the most new slot machines on an annual basis. So, we
15 do continue to invest in the product at the facility.

16 We also put a lot behind making sure
17 we have the latest leased product, as those remain to
18 be some of the best units out there available to us.
19 And we invest significantly in that. And we also
20 continue to market very heavily to our slot customers,
21 to encourage them to come visit us at Harrah's
22 Philadelphia.

23 So, continuing to put a lot behind
24 this business, again, despite some competitive
25 challenges.

1 You can see here our occupancy has
2 continued to go down really over the last four or five
3 years. Even after our previous reduction, we still
4 sit just under a 17 percent average occupancy for a
5 casino floor. So, a significant amount of our units
6 on a regular basis continue to be underutilized or
7 unused.

8 Even on our sort of peak days and peak
9 hours that we see in our business, there are still a
10 significant amount of units that go unused. On our
11 busiest day in the past year on March 3rd, on our
12 highest hour, we still had over 870 machines available
13 for customers to use. So, even when we are at our
14 busiest, we still have, again, a lot more supply than
15 we need. And we believe, again, that that space can
16 be better used to draw folks into the facility.

17 So, we're asking you today here to
18 consider a reduction of another 187 units to our
19 floor, which is currently at 2,450. The games we're
20 looking at, again, we'll show you a map here on the
21 next slide, are towards the back of our facility.

22 A very, again, underutilized smoking
23 section of our floor that we believe, again, we can do
24 better - better use with that space. And these games
25 are fully owned by us. And again, have been with us

1 for a long time.

2 Out of these 187 games, 164 are going
3 to be coming out of smoking. So, as an output of
4 this, we are going to be reducing the amount of units
5 on our casino floor that are dedicated to smoking.
6 So, we'll become more of a nonsmoking experience for
7 our slot customer.

8 We also don't believe there's going to
9 be a lot of impact to our staffing model or really a
10 lot of work to get this done. And still at 2,263
11 machines, after this reduction, we'll still be the -
12 have the sixth most amount of units in the
13 Commonwealth of Pennsylvania.

14 I apologize for how this map may look,
15 but if you can notice to the right, that's the front
16 of our casino, sort of laid out there. And the area
17 we're referencing is essentially in the exact opposite
18 corner of the exact back there to the left, where that
19 red box is that we're looking to do.

20 And when I mentioned at the start that
21 this was the third of three projects, above that is
22 where our new Sportsbook is going. That is under
23 construction now. And then we're also relocating our
24 poker room from the level below this floor up to the
25 floor up there.

1 So, with the new Sportsbook, the
2 relocated poker room and then moving out these slot
3 machines in the space, we are going to put another
4 amenity there that we believe will enhance that whole
5 experience in the back. And all these experiences are
6 going to be nonsmoking in the back of the facility.

7 So, dialing in a little closer to that
8 space, again, the relocated poker room going up top
9 left -.

10 CHAIRMAN: Excuse me. May I - I may
11 have misunderstood. You said all of that area in the
12 back -

13 MR. ALBRECHT: Yes.

14 CHAIRMAN: - is going to be
15 nonsmoking.

16 You're only referring to the place
17 where you're pulling out the 167 machines.

18 Correct?

19 MR. ALBRECHT: I'm also referring to
20 the fact that the Sportsbook and the poker room
21 themselves are also non -.

22 CHAIRMAN: The poker room, too?

23 MR. ALBRECHT: Yes. So, all of those
24 spaces are nonsmoking, as well as the space we're
25 pulling out.

1 CHAIRMAN: Thank you.

2 MR. ALBRECHT: So, here you can see,
3 again, the poker room there on the top left, the
4 Sportsbook in the top right. And then this new space
5 we're looking to carve out is going to be an
6 entertainment space. I apologize that the drawing is
7 a bit rudimentary here, but the concept is a
8 partnership with Topgolf. And we are going to be
9 putting three different what are called entertainment
10 or gaming days, where folks can do some stimulated
11 playing of different games.

12 The area will be amenable to us
13 serving food and beverage and other things in the
14 space as well. And so we're very excited to offer
15 this as an amenity to our customers who are also going
16 to want to enjoy the Sportsbook in the poker room and
17 any other folks within the facility.

18 So, this really allows us to bring
19 three new amenities that will bring people through our
20 casino, which is a challenge right now to get people
21 to come all the way through. We believe the
22 combination of these three new assets will really
23 allow for, again, some increased play in the overall
24 facility as well, on slots and tables as well.

25 That concludes my formal presentation,

1 but happy to answer any questions you may have.

2 CHAIRMAN: Questions or comments from
3 Enforcement Counsel?

4 ATTORNEY ROLAND: Good morning, Mr.
5 Chairman and members of the Board. Michael Roland,
6 R-O-L-A-N-D, with the Office of Enforcement Counsel
7 (OEC).

8 We do have a couple questions for
9 Harrah's staff. Draw your attention to slide number
10 two to begin with. And at the end of the graph it
11 appears that the gross terminal revenue here has
12 really begun to level out over the last year. So, the
13 question is, why is now the right time for a slot
14 reduction?

15 MR. ALBRECHT: Sure. So, we have been
16 able to hold on and level out this year. We've had
17 some increased competitive pressures in the last
18 really couple years. And then there are some also
19 continuing to come here into the future into the
20 Philadelphia market, both within the Pennsylvania side
21 and Philadelphia, as well as the New Jersey side.

22 So, we believe that not only are these
23 pressures happening to us right now, but they're going
24 to continue in the future. And so we're setting
25 ourselves up for what we believe will be revenue-

1 stabilizing and revenue-saving opportunity for us,
2 given the fact that our slot supply is still so heavy
3 we're trying to add new amenities to keep that number
4 stable.

5 ATTORNEY ROLAND: On slide number
6 three, and specifically bullet point number three, you
7 state that over 300 new games have been added since
8 2017. Did those 300 games replace outdated games, or
9 did those 300 added games increase the complement
10 available to odds?

11 MR. ALBRECHT: Those 300 - I obviously
12 don't have the full detail in front of me. Those 300
13 games, more than likely replaced underperforming units
14 across the floor and were put into various locations
15 around the facility.

16 ATTORNEY ROLAND: Okay.

17 And then on slide five, and
18 specifically in the section you labeled the impact
19 box, bullet point number two, you state that there
20 will be minimal staffing impact.

21 If your petition is granted by the
22 Board, would there be any reduction in the number of
23 employees at Harrah's associated with this slot
24 reduction?

25 MR. ALBRECHT: None contemplated at

1 this time. But obviously the normal course of
2 business in volumes always dictate that we will make
3 adjustments to our staffing level.

4 ATTORNEY ROLAND: And draw your
5 attention to slide number six. You framed out in a
6 red box the area of the gaming floor that will be
7 affected by this reduction. And then on slot seven,
8 you indicate that this will be the new entertainment
9 space.

10 Approximately how many square feet is
11 this - this area in question?

12 MR. ALBRECHT: I apologize, I don't
13 have that, but I will get that over to you.

14 ATTORNEY ROLAND: Would Harrah's have
15 the necessary space needed to implement the identified
16 changes to the gaming floor without reducing slot
17 machines?

18 MR. ALBRECHT: We would not.

19 ATTORNEY ROLAND: And if the Board
20 should grant Harrah's Petition today, when do you
21 anticipate the slot machines would be removed and the
22 floor modifications complete?

23 MR. ALBRECHT: The slot removal would
24 happen fairly quickly. The modifications to the space
25 are in concert with the other two projects.

1 So, they're all kind of working
2 concurrently, but all of the projects are expected to
3 be completed by the middle of Q 1.

4 ATTORNEY ROLAND: And to be clear, is
5 the purpose of slots removal to add table games or to
6 implement sports wagering?

7 MR. ALBRECHT: It is not. It is for a
8 nongaming amenity space.

9 ATTORNEY ROLAND: If your sports
10 wagering area was in a different location of the
11 facility, let's say near the racetrack or near the
12 parimutuel area, would you maintain the need to remove
13 slot machines as opposed to replacing them with more
14 popular slot product?

15 MR. ALBRECHT: Can you please repeat
16 that?

17 ATTORNEY ROLAND: I can.

18 If your sports - looking at sports
19 wagering now. If your sports wagering area was in a
20 different location of the facility, and as an example,
21 closer to the racetrack or in the parimutuel area,
22 would you still maintain today that there's a need to
23 remove the slot machines that were part of your
24 petition as opposed to just replacing them with newer
25 product?

1 MR. ALBRECHT: Yes, I would. Again, I
2 still would like to remove these on the main floor and
3 to create a more - a greater experience for our guests
4 on the main casino floor.

5 ATTORNEY ROLAND: I don't believe we
6 have any additional questions.

7 CHAIRMAN: Are you going to have a
8 presentation?

9 ATTORNEY ROLAND: The OEC does not
10 have a public presentation today. However, we
11 respectfully request that should the Board grant
12 Harrah's Petition to Modify its Gaming Floor, that the
13 approval be made subject to the eight conditions set
14 forth in OEC's December 6th, 2018 Answer.

15 And obviously we're available for any
16 questions the Board would have.

17 CHAIRMAN: Do you have a comment?

18 ATTORNEY DOWNEY: Yeah, Mr. Chairman,
19 we do have one point of order we want to make. In the
20 course of reviewing the Petition that we filed, staff
21 determined that there was an error in one of the
22 paragraphs that we offered. I want to clarify that
23 for purposes of the record, because it does relate to
24 a data point that is described in the Petition.

25 CHAIRMAN: Uh-huh (yes).

1 ATTORNEY DOWNEY: In paragraph
2 10(b)(2)(a), we make the statement that - well, as
3 I've done in the past with the format of the Petition,
4 we offer you a bunch of data points that describe our
5 occupancy through a bunch of different lenses.

6 In this one in particular, we're
7 focusing on our occupancy during the highest average
8 day during a trailing 12-month review.

9 In the course of analyzing that, we
10 also provide you the highest hour that occurs during
11 the highest day. That's not the highest hour during
12 the year, just the highest hour during that highest
13 volume day.

14 We then try to turn that into better
15 English, if you will, and describe to you what that
16 means in practice. And what we said in the Petition
17 in that respect was that during the peak hour of the
18 peak day, approximately 68.4 percent, or roughly six
19 out of every ten machines, was available for play.

20 That should not have been a reference
21 to the peak hour during the peak day, it should have
22 been a reference simply to the peak day, the average
23 availability.

24 In fact, during the peak hour of the
25 peak day, 38.1 percent, or approximately three

1 machines, were available for play. Importantly, this
2 is the only place in the package that was submitted or
3 reviewed by staff that contained that error.

4 Each of Exhibits B, C, D, E to the
5 Petition contain literally thousands of data points.
6 All of those are clean, all of the material reviewed
7 by FIU and OEC are otherwise clean. We just want to
8 make the record clear on this on this point, otherwise
9 the other thing I'd like to do procedurally is move
10 the Petition into the record.

11 CHAIRMAN: Do you accept that
12 explanation?

13 ATTORNEY ROLAND: We do. OEC concurs.
14 We've discussed it with FIU, and that's accurate.

15 CHAIRMAN: Before we move anything,
16 are there questions or comments from the Board at this
17 time?

18 MR. STRATHMEYER: Yes. So, again,
19 speaking on the Racing Commission's behalf, again, we
20 look at reduction of slot machines as a concern. And
21 I just want to go on the record of that.

22 And as Counsel pointed out, with the
23 leveling of the revenue, this becomes even greater
24 concern for the Racing Commission in how it affects
25 the Racehorse Development Trust Fund. So, I just

1 wanted to make sure, Commissioner, that we put this on
2 the record.

3 Thank you.

4 CHAIRMAN: Commissioner Jewell?

5 MR. JEWELL: Yes. I'm interested in
6 your comment on the change in demographic or customer
7 profile, if any, that will be effectuated with these
8 changes, both as to your sports bet and as to the
9 golfing venue, or however we can describe it, and the
10 implications of that for you.

11 MR. ALBRECHT: Yeah. I mean, ideally
12 for us we're bringing a new customer into the
13 facility. We obviously have an open sports betting
14 yet at our facility, but what we've seen at our
15 properties in New Jersey, stopped over at some of the
16 recent openings here near me in Philadelphia, it seems
17 that we're getting a new customer base into the
18 property through sports betting.

19 And so we hope that that is going to
20 be the same case as us. And that this Topgolf concept
21 would obviously support our current customer and
22 encourage them to come visit us more and continue to
23 play slots and tables. But also a newer customer that
24 might want to do sports betting at the other
25 amenities.

1 All these things that we do do for the
2 back of the facility there are to drive customers to
3 play our traditional slot machines as well. So, while
4 the GTR has flattened for us, we do want that to go
5 up. And so doing this, we believe will help combat
6 and hopefully increase that as well.

7 MR. JEWELL: Sort of have to pass a
8 lot of slot machines on your way to the -.

9 MR. ALBRECHT: That's part of the
10 plan, yes. You're right.

11 CHAIRMAN: You don't have big signs
12 directing them.

13 Any other questions or comments at
14 this time?

15 Mr. Downey, did you want to move some
16 things into evidence here?

17 ATTORNEY DOWNEY: Yes, Mr. Chairman,
18 if we could move in the presentation into the record?

19 CHAIRMAN: So moved.

20 ATTORNEY DOWNEY: Thank you.

21 CHAIRMAN: Any further questions or
22 comments by either?

23 ATTORNEY ROLAND: Nothing additional.
24 Thank you.

25 CHAIRMAN: Okay.

1 This one will also be voted on when it
2 gets to the Office of General Counsel later. Thank
3 you for showing.

4 * * * * *

5 HEARING CONCLUDED

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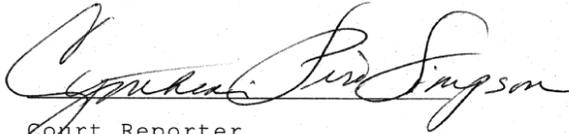
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I hereby certify that the foregoing proceedings, hearing held before David M. Barasch, Chairman, was reported by me on 12-19-18 and that I, Cynthia Piro Simpson, read this transcript, and that I attest that this transcript is a true and accurate record of the proceeding.

Dated the 12th day of January, 2019


Court Reporter
Cynthia Piro Simpson