



THE NEW YORK RACING ASSOCIATION, INC.

Board of Directors Meeting

April 12, 2016



The New York Racing Association, Inc.

Meeting of the Board of Directors
April 12, 2016

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The New York Racing Association, Inc.

Meeting of the Board of Directors

Tuesday, April 12, 2016

2PM

AGENDA

1. Approval of March 10, 2016 Minutes (*Resolution*)
2. Report of the Vice-Chairman
3. Report of the CEO and President
4. Report of the General Counsel - Review and Adoption of Reprivatization Plan (*Resolution*)
5. New Business

Adjournment

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DRAFT UNAPPROVED MINUTES OF THE MEETING
of
THE BOARD OF DIRECTORS
of
THE NEW YORK RACING ASSOCIATION, INC.

March 10, 2016 at 11:00 a.m.

A regular meeting of the Board of Directors (the “Board”) of The New York Racing Association, Inc. (“NYRA”) was conducted on March 10, 2016, at 11:00 a.m. in the 36th Floor Conference Room of the Office of the NYS Empire State Development Corporation, located in New York, New York pursuant to notice duly given.

The following Directors and Special Advisors were present (either in person or via videoconference):

Michael J. Del Giudice, *Vice Chair*
Michael Dubb
C. Steven Duncker
Marc Holliday
Georgeanna Nugent Lussier
Earle Mack
Chris Mara
Robert Megna
Leonard Riggio
Joseph Spinelli
Vincent Tese
Jeffrey Cannizzo, *ex officio*

The following Directors and Special Advisors were present via teleconference:

Robert Flay
Stuart S. Janney, III
Richard A. Violette, Jr., *ex officio*
John Hendrickson, *Special Advisor on Saratoga*

The following were not present:

Andrew Rosen
Stuart Subotnick

Also present were Christopher Kay, CEO and President; Joseph J. Lambert, SVP, Chief Administrative Officer, General Counsel and Corporate Secretary; and Jelena Alonso, Controller.

The meeting was called to order. Mr. Lambert recorded the minutes. A roll call of the Directors and Special Advisors was conducted.

Approval of December 9, 2015 Minutes

The Board reviewed the minutes of the December 9, 2015 meeting of the NYRA Board of Directors. Upon motion, duly made and seconded, the Board unanimously approved the minutes of the December 9, 2015 meeting, without dissent or abstentions, and directed that the minutes be added to the permanent records of the corporation. A copy of the resolution is attached hereto as *Exhibit 1*.

Report of the Vice Chairman

Mr. Del Giudice welcomed new *ex officio* member Jeffrey Cannizzo to the Board. Mr. Cannizzo is the Executive Director of the New York Thoroughbred Breeders, Inc.

Mr. Lambert then presented to the Board information relating to the proposed Tonko-Barr bill, which would establish The Thoroughbred Horseracing Anti-Doping Authority (THADA), an independent, private not-for-profit agency that would oversee national regulation of medication and penalties in horseracing. The bill is supported by several industry organizations, including The Jockey Club, the Breeders' Cup, the Keeneland Association, Inc. and The Thoroughbred Owners and Breeders Association.

The Board expressed its support for the provisions articulated in the proposed Thoroughbred Horseracing Integrity Act of 2015, and for the adoption thereof. A copy of the resolution is attached hereto as *Exhibit 2*. Mr. Violette, *ex officio* member from NYTHA, indicated he does not support the measure.

Report of the Chief Executive Officer and President

Mr. Kay then presented to the Board his report on NYRA's progress and success in achieving its three priorities, namely; 1) restoring NYRA to profitability; 2) improving the quality of racing; and 3) enhancing the racing and wagering experience for all fans.

Mr. Kay remarked on NYRA's improved financial performance, noting that NYRA registered its first operating budget surplus in 2014, and became debt-free after satisfying its debt to Genting. Mr. Kay also noted that NYRA registered its second consecutive operating budget surplus in 2015.

Mr. Kay then reported to the Board several financial, legal and legislative processes and reviews to ensure enhanced governance of NYRA, including the change from a local auditor to KPMG, one of the "Big Four" auditing firms. Mr. Kay remarked that NYRA's audits in the past several years have been rated "clean", meaning that NYRA's financial statements are being presented fairly in all material respects.

In discussing racing and equine safety initiatives, Mr. Kay discussed NYRA's industry-leading improvements, such as the appointment of first Safety Stewart to secure the

equine safety program and becoming the only racing organization to provide round the clock horse and fire security coverage. Mr. Kay noted that, due to this and other improvements in racing and equine safety, NYRA's 2015 Catastrophic Injury Rate (CRI) dropped from 1.83 in 2014 to 1.09 in 2015.

Mr. Kay then reported on NYRA's efforts to improve the experience for fans and players, including events such as the Wood Memorial Day at Aqueduct and the Belmont Stakes Racing Festival at Belmont, and the success of the Saratoga meet.

Mr. Kay noted the importance of the leadership of NYRA's Executive Committee, led by Mr. Del Giudice, as NYRA proposes a plan for reprivatization.

Report of the Chief Financial Officer

Ms. Alonso provided the financial update, reporting on NYRA's 2015 preliminary unaudited financial results, including net income, net revenue from racing operations, operating and non-operating expenses, capital improvements, and VLT revenue. Ms. Alonso discussed NYRA's operating income from racing operations, which was \$3.5 million, \$1.8 million over the prior year, and \$1.3 million more than budgeted, despite challenges such as fewer race dates and higher operating expenses.

Report of NYTB – 2015 Breeding and Racing Statistics

Mr. Cannizzo presented to the Board trends and statistics relating to the industry, with particular focus on those relating to New York bred horses.

Committee Reports

a. Equine Safety Committee

Mr. Holliday provided the report of the Equine Safety Committee. Mr. Holliday reported that the Committee discussed recent and historical data concerning equine fatalities at NYRA, noting that the number of such fatalities fell by approximately 50 percent in the past four years, and NYRA's CRI has been consistently below the national average for racing fatalities. Mr. Holliday also reported that the Committee discussed improvements at all three racetracks, improvements in enforcement, and rigorous medical standards, which all contributed to this lower CRI and the quality and safety of racing. Mr. Holliday also reported that the Committee discussed the industry need for state-of-the-art drug testing facilities.

b. Finance & Audit Committee

In Mr. Subotnick's absence, Mr. Lambert provided the report of the Finance & Audit Committee. Mr. Lambert reported that the Committee discussed and approved the proposed Finance & Audit Committee charter. Mr. Lambert further reported that the Committee discussed NYRA's fourth quarter 2015 results, including revenue and operating expenses, VLT revenue, capital improvements, and operational trends, noting that recorded operating income from racing operations is estimated to be as

much as \$5.3 million, before establishing reserves of \$1.8mm for unpaid debt from Nassau OTB, and recorded net income was \$30.6 million, up 2.5% from 2014. Also, the Committee reviewed a KPMG presentation of the NYRA audit plan for 2015, which set forth the scope, materiality, deliverables and other considerations for the project. In addition, the Committee reviewed the Purchasing Department's fourth quarter 2015 report on Single, Sole & Emergency Procurement, and the Officer Travel and Expense Report for the fourth quarter of 2015, and found nothing unusual to discuss. Mr. Lambert provided the Committee with an update on legal matters.

c. Long Term Planning Committee

Mr. Dubb provided the report of the Long Term Planning Committee. Mr. Dubb reported that the Committee understands that development opportunities for Belmont are possible, based on the results of a demand analysis conducted by Research Associates, a firm retained by NYRA to assess development opportunities. The Committee also discussed improvements to the Belmont, Aqueduct and Saratoga facilities. Mr. Dubb also provided an update to the Committee on the SEQRA process at Saratoga.

Adjournment

The Chairman called for additional business. There being no further business to come before the Board, the meeting was concluded at 4:10 p.m.

Joseph J. Lambert

DECEMBER 9, 2015 BOARD OF DIRECTORS MEETING MINUTES RESOLUTION

IT IS HEREBY RESOLVED, that the NYRA Board of Directors, having had full opportunity to inquire, consider, and understand, does hereby approve the minutes of the regular December 9, 2015 Board of Directors meeting and the minutes are ordered to be added to the permanent records of the corporation.

BOARD OF DIRECTORS MEETING NATIONAL LEGISLATION RESOLUTION

IT IS HEREBY RESOLVED, that the NYRA Board of Directors, consistent with its steadfast commitment to equine safety and welfare, as well as the integrity of Thoroughbred Horse Racing, does hereby express its full support for the provisions articulated in the proposed Thoroughbred Horseracing Integrity Act of 2015, and for the adoption thereof.

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**EXECUTIVE SUMMARY OF THE NEW YORK RACING ASSOCIATION, INC.
REPRIVATIZATION PLAN**

Introduction

Pursuant to The New York State Racing Franchise Accountability and Transparency Act of 2012, NYRA management has a statutory plan for its prospective not-for-profit governing structure, which is comprised of three parts: 1) summary of NYRA’s reorganization efforts to date; 2) proposals for NYRA’s legal and governance structures; and 3) NYRA’s 2014 and 2015 actual results, approved 2016 budget, and proposed 2017 financial plan.

1. NYRA’s Reorganization Efforts – A Board-led Transformation: Progress and Accomplishments

The Reorganization Board has worked for the past three (and in particular, the past two) years with the NYRA management team to effectuate the change, and achieve the results, sought by Governor Cuomo. The Board has succeeded in a way that makes the New York Racing Association stronger, better run, more trustworthy, and much better able to continue to generate the significant economic impact, jobs and tourism that Governor Cuomo and the Legislature envisioned when they made the change in NYRA’s Board structure.

NYRA is under New Management – The management of NYRA has been transformed by new leaders with successful and established careers outside of NYRA. Led by CEO and President Chris Kay, NYRA also has a new General Counsel and Chief Administrative Officer, who formerly served as global General Counsel for one of the “Big Four” accounting firms (Deloitte); a Senior Vice President for Racing Operations from California’s Hollywood Park (pursuant to NYS 2012 Task Force recommendations); a Senior Vice President and Chief Experience Officer (the first in the sports industry) who formerly served as an executive with a sporting goods company and with a major movie company; a new Vice President of Security, who formerly served as the Special Agent in Charge of the U.S. Secret Service’s New York Field Office, as well other new hires at various leadership levels throughout the company.

Financial Performance – NYRA has instituted several initiatives to reduce costs and generate additional revenues. As a result, in 2014 NYRA achieved an operating surplus of approximately \$1.7 million, ***its first operating surplus in recent years, and NYRA’s surplus will be \$3.5 million in 2015.*** NYRA is also debt-free for the first time in years, having paid off a \$25 million note to Genting.

Governance, Integrity and Accountability – NYRA has made extensive operating reforms in areas such as risk management, compliance, corporate governance and attention to legal issues. For example, NYRA has changed from a local auditor to KPMG, one of the “Big Four” auditing firms. Over the last several years, NYRA’s audits have been “clean”, i.e. in the view of KPMG our financial statements accurately present, in all material respects, the financial position of NYRA.

Economic Impact – NYRA is the cornerstone of New York State’s horse racing industry, which generates \$2.1 billion in annual economic impact and over 17,000 statewide jobs. With a commitment to generate more tourism and provide greater financial incentives to NY bred owners, NYRA’s operation of Saratoga Race Course alone is responsible for the creation of an annual economic impact of more than \$237 million in the Capital Region, a significant boost to that local economy which continues to grow.

Safer Horseracing – NYRA has instituted a number of changes to improve equine safety for the equine athletes and jockeys, such as empowering veterinarians to take action when necessary, requiring record keeping on certain drug administrations, establishing a system for jockeys to report violations, creating a Board committee on equine safety, hiring a safety steward, and many others. The number of equine catastrophic injuries on NYRA racetracks is below the average nationwide.

Improving the Quality of Racing – NYRA has made racing much more enjoyable for stakeholders and guests by creating “must see” big events days such as (a) Belmont Stakes Racing Festival, with over \$10 million in purses, and many guest-centric innovations; (b) Stars & Stripes Day with horses competing from around the world; (c) increased grades stakes and purses on Whitney Day; and (d) a robust Travers card of races (“Saratoga’s version of the Breeders’ Cup”). NYRA broke records for wagering on Belmont Stakes Day and for the Saratoga meet. NYRA has also created new events that shine a bright light on New York agriculture, such as our Taste NY weekly Saratoga events, and Saratoga Showcase Day, which features New York bred horses.

Support for New York Breeders – NYRA is dedicated to New York bred horses, and has worked closely with the New York Thoroughbred Breeders to make New York one of the few states to see an increase in the number of foals in recent years. NYRA devoted almost \$40 million in purses to owners of New York bred horses in 2014, and a like amount in 2015.

Support for the Backstretch Workers – Over the last two years, a number of dormitory renovations has taken place at all three racetracks. New construction on the first of three large dormitories at Belmont commenced in 2015, as part of a multi-year, \$28.8 million renovation/new construction program.

Enhancing the Guest Experience – NYRA has taken considerable steps to improve the experience for all fans at all tracks, including:

Belmont Park:

- NYRA installed 378 high-definition televisions and 3 high-definition video boards, as well as provided several high-definition “point of view” cameras for fans to customize the way they watch horse workouts, horses in the paddock, and the races. At the finish line, NYRA has also installed a high-definition slow motion camera.
- At the 2015 Belmont Stakes, fans were able to experience a great package of entertainment, including performances by the United States Military Academy at West Point’s veteran band, the Jersey Boys, and the Goo Goo Dolls, who also performed a concert after the last race.
- NYRA limited the attendance to 90,000 and, working with LIRR, completely renovated the LIRR station, all of which made ingress and egress much more pleasant and manageable for fans.

Saratoga Race Course:

- NYRA installed 1,063 new high-definition televisions, three new high-definition video boards, enhanced Wi-Fi capacity, and a new sound system.
- NYRA expanded the Saratoga Pavilion, which is the home of several *Taste NY* events, one of Governor Andrew Cuomo’s signature initiatives. Each Thursday, Friday and Sunday, NYRA features *Taste NY* wines, beers and food products.

- NYRA created the Walk of Fame, an open-air pavilion honoring the recipients of the prestigious “Red Jacket” award, created in 2013 to honor the best owners, trainers and jockeys in our sport, thus giving fans of all ages a way to “connect” with our stars.
- NYRA opened a state-of-the-art sports bar in what was formerly known as the lower Carousel, enabling fans to reserve tables and watch other sporting events in addition to our great races throughout the day.

Aqueduct Racetrack:

- NYRA constructed a state-of-the-art simulcast center, Longshots, with 270 dedicated carrels, a sports bar, and dozens of new high-definition televisions.
- NYRA installed new flooring, airport-style seating and lighting within the clubhouse, as well as 507 new high-definition televisions.
- NYRA created an urban art program unveiled in 2013 featuring vibrant, horse-themed murals from internationally renowned “street artists” throughout the second floor and on our exterior walls.

OLD NYRA	CURRENT – NEW YORK RACING ASSOCIATION
<ul style="list-style-type: none"> • \$25 Million in debt since 2011. • Inconsistent profitability. . • Improper calculation of exotic wagering take-out (2011-2012). • High rate of equine catastrophic injuries, 38 in total in 2012. • Inadequate investment in facilities, especially those used by customers. 	<ul style="list-style-type: none"> • Debt free as of April 2014. • \$1.7 million operating surplus for 2014 and \$3.5 million in 2015. First back-to-back profitability since the bankruptcy. • Implemented wagering accountability processes in 2013. • Equine injuries below the national average in 2013, 2014, and 2015 with 22, 24 and 19 respectively. • Spent \$20+ million at all three racetracks during 2013-2015 to enhance the guest experience.

2. Proposals for NYRA’s Legal and Governance Structure

Legal Structure – Section 207(1)(d) of the Racing, Pari-Mutuel Wagering and Breeding Law requires the Reorganization Board to “propose, no less than one hundred eighty days prior to its termination, recommendations to the governor and the state legislature representing a statutory plan for the prospective not-for-profit governing structure of The New York Racing Association”, and the statutory notes clarify that the “franchise shall be returned to private control, remaining in the form of a not-for-profit corporation.” Therefore, **going forward, NYRA will continue to be organized as a New York not-for-profit company and will be under private control.**

Governance – Upon consultations with various constituencies, NYRA offers the following options relative to the selection and terms of the new NYRA Board:

Option 1. NYRA Board to have Majority of Private Members and Four Publicly Appointed Members. The NYRA Board will have 15 members, all with equal voting rights. Two members will be selected by the Governor, one of which will be the first Chair. One member will be selected by the Temporary President of the Senate and one member will be selected by the Speaker of the Assembly. Ten members will be selected by the current Executive

Committee of the Board upon the recommendation of the Nominations and Governance Committee.

Option 2. NYRA Board to have All Private Members. The NYRA Board will have 15 members, all with equal voting rights. All members and the Chair will be selected by the current Executive Committee of the Board upon the recommendation of the Nominations and Governance Committee.

With respect to options 1 and 2, prior to its recommendations, the Nominations and Governance Committee will have held soundings with all members of the existing Board. The NYRA CEO will also be a full member of the Board, and the following will be in effect:

- Board Terms: Three years, and eligible for two additional terms. Terms will rotate, starting end of 2017.
- Ex Officio Non-Voting Members: To include representatives from the New York Thoroughbred Horsemen’s Association (NYTHA) and New York Thoroughbred Breeders, Inc. (NY Breeders), with Board empowered to add others.
- Board Committees: Keep current statutory committees: Compensation; Finance; Nominating, and Executive. We would add two non-statutory committees: Equine Safety and Racing Committees, both of which are currently operating.
- To ensure transparency, NYRA will post on its website the reports of the CEO and CFO (and, as applicable, the Chair) from each Board meeting.

Option 3. NYRA Reorganization Board to Remain in Place. The Governor and Legislature may choose to retain the status quo and extend the tenure of the Reorganization Board for one additional year.

3. Financial Plan

In 2014, NYRA recorded its first operating surplus (\$1.7 million) in recent years, as a result of our implementation of several revenue enhancing and cost saving initiatives. NYRA budgeted a surplus of \$2.2 million in 2015 (which is now \$3.5 million), has budgeted a surplus of \$2.3 million in 2016, and projects a \$2.8 million surplus in 2017. These operating surpluses, year over year, reflects our commitment to strong business processes and disciplines, which results in prudent cost cutting, strategic investments, and revenue enhancing initiatives.