

*CALIFORNIA AUTHORITY OF RACING FAIRS*

# HORSE RACING AND CALIFORNIA FAIRS

*BACKGROUND • PLANNING • UPDATES*

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**PREPARED BY CALIFORNIA AUTHORITY OF RACING FAIRS  
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# HORSE RACING AND FAIRS HISTORY AND FINANCIAL IMPACT

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- The oldest racetrack in America, located at the Alameda County Fair in Pleasanton, was built in 1858.
- Pari-mutuel wagering on horse races was officially legalized in 1933 with the intended purpose of “encouragement of agriculture and breeding of horses.”
- In California, 82,200 horses are involved in racing in some context and more than 48,000 Californians are employed as a result of horse racing. Racing generates a \$2.46 billion dollar effect on California’s gross domestic product.
- License fees paid by California’s horse racing industry allow the Fairs in this state to be self-supporting without local and state taxpayers subsidies.

# FAIRS, HORSE RACING AND AGRICULTURE

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There is a long history of political alliances between Fairs and Horse Racing:

- Fairs and horse racing share common roots in agriculture.
- Breeding, training and care of horses are agricultural activities, representing a significant component of California's agricultural economy.
- Fairs, breeders and horse owners, coming together in the context of their shared connection to agriculture, can work for their interest as part of California's powerful agricultural sector.
- CARF has begun working with the State Board of Food and Agriculture to elevate the awareness of equine husbandry as an agricultural activity.

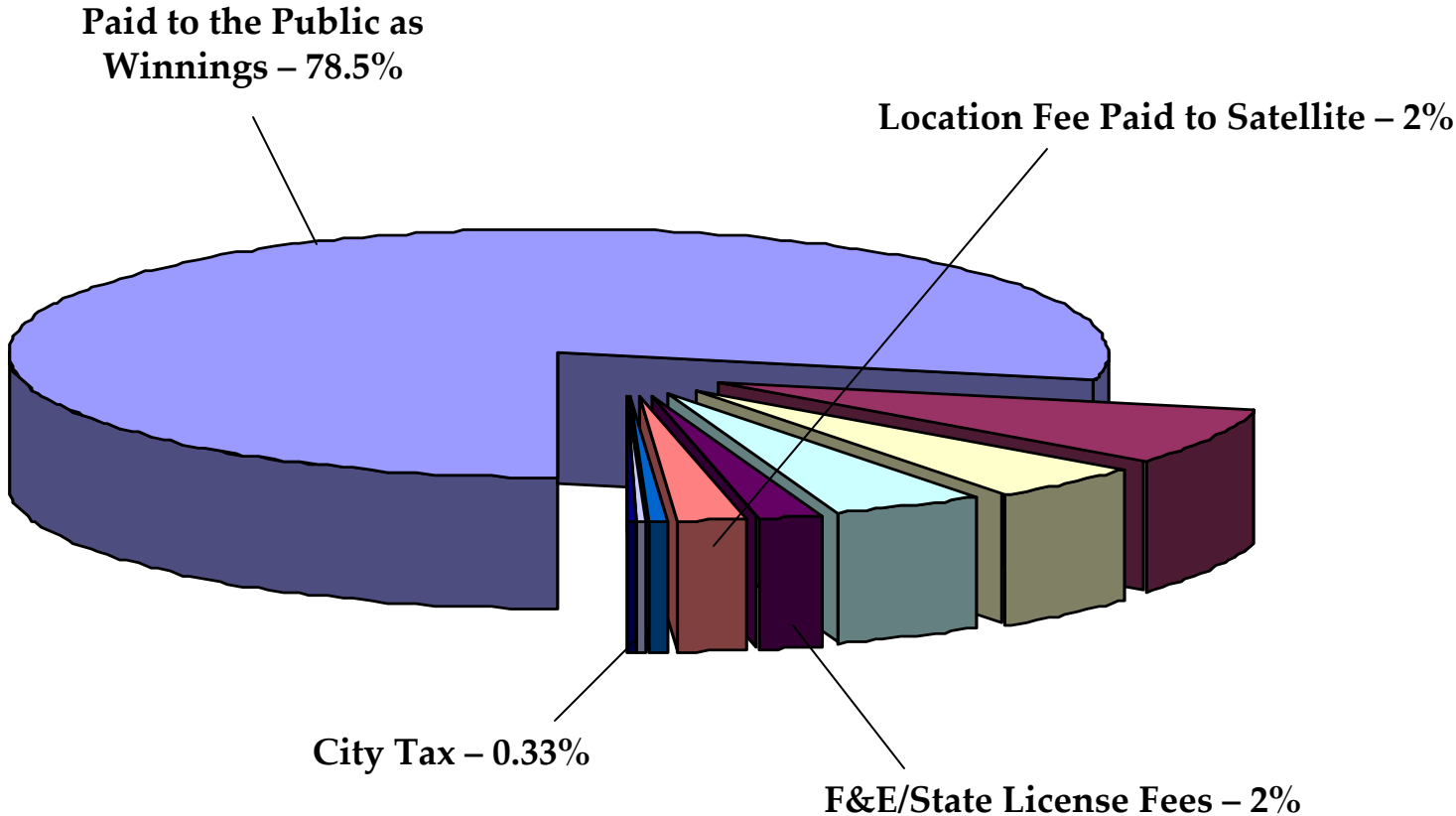
# HORSE RACING AND FAIR REVENUES

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- Horse racing is the biggest single business in the California Fair industry.
- Pari-mutuel wagering from the Fair Satellite Network generates approximately \$100 million annually to a spectrum of beneficiaries.
- Pari-mutuel wagering on horse racing is the sole source of revenue for Fairs & Expositions Funds.
- In 2008, the eight Fairs in Northern California with horse racing meets had 85 days of racing attended by 322,000 patrons with total handle of \$189 million.
- The 24 Fair Satellite Wagering Facilities in California had a combined 1.7 million patrons who wagered more than \$530 million on simulcast races.

# DISTRIBUTION OF THE WAGERING DOLLAR

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# RACING SOLE STATE SOURCE OF FAIR FUNDING

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## HORSE RACING IS THE SOLE STATE-LEVEL REVENUE SOURCE FOR FAIRS

- F&E is entirely dependent on horse racing revenues for funding the Fairs & Expositions (F&E) Fund and Satellite Wagering Account.
- California's pari-mutuel wagering system was made possible by a constitutional amendment in 1933. The statutory intent of the Horse Racing Law allows pari-mutuel wagering at horse tracks to encourage agriculture and the breeding of horses to support the network of California Fairs.
- A portion of those public revenues are distributed to the F&E Fund and Satellite Wagering Account to benefit the network of California Fairs. F&E administers the funds to ensure these financial resources are used for the purposes intended.

# HORSE RACING AND FAIRS

## HISTORY OF POLITICAL ALLIANCES

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- Organized Horse Racing in California begins at Fairs in 1850's.
- In 1930's, early efforts to legalize pari-mutuel wagering fail; Fairs agree to support legalization in return for revenue from wagering.
- Political support of Fairs finally helps carry constitutional amendment.
- First racing of modern pari-mutuel era begins at Fairs.
- Fairs have instrumental in every recent major Legislative development in racing, beginning with simulcasting in 1985.

# LEGISLATION – HISTORICAL & PENDING

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- 1987 – SB 14 creates California Satellite Wagering Network.
- 1994 – North/South exchange of racing signals.
- 1999 – Legislation allows out-of-state races to be imported into California for wagering purposes.
- 2008 – Fair may operate a Satellite Facility off their Fairgrounds.
- 2009 – Pending
  - Increase Satellite commissions from 2% to 3%.
  - Create new revenue stream to improve racing facilities at Fairs.



# GOALS AND OBJECTIVES FOR 2009 & BEYOND

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# EXPANDED RACING AT FAIRS

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- Will Fairs work together to take advantage of the opportunities ahead?
- How will Fairs work together to take advantage of the opportunities ahead?
- CARF model of cooperation: great strides made; still evolving.
- Combined Fair racing meets in Northern California.
- Consensus amongst Fairs for Northern California racing calendar 2009 and beyond.
- Consensus amongst Fairs, Magna and TOC in support of racing calendar for 2009 and beyond.
- Support additional Fair satellite wagering facilities (SF; LA; mini's) to grow the overall business.
- Role of CDFA and F&E: Develop policy regarding horse racing, Fairs and agriculture; provide support for financing of necessary racing venue improvements, as was done for the \$85 million Del Mar Grandstand project in the early 1990's and for the Fair satellite network in the mid-1990's.

# CURRENT ISSUES IN RACING

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- Rising real estate valuations are changing the economics of race track ownership.
- For track owners, racing may no longer be the highest and best use of real estate assets.
- Bay Meadows, a pillar of racing for 75 years in Northern California, will close as a race track.
- Departure of Bay Meadows will create opportunity for Northern California Fairs.
- Fairs are ideally suited to step into vacuum left by departure of Bay Meadows.
- Re-structured NorCal racing calendar can benefit Fairs.
- Developments in Northern California will be “dress rehearsal” for Southern California.
- Hollywood Park, owned by Bay Meadows Land Company, will probably soon follow Bay Meadows out of the racing business.

# OPPORTUNITIES FOR FAIRS

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- California racing is at a tipping point, on the verge of a generational re-structuring.
- Fairs have an opportunity to expand their role in an industry with which they have been closely associated for years and which provides critical revenues for the Fair industry.
- Fairs have an opportunity to participate from the inside in a re-structuring of the economic model on which racing is based, helping re-shape it to their benefit.
- Not-for-profit racing associations operating at publicly owned venues will assure the long term economic vitality of horse racing.
- Racing is a proven and predictable generator of revenue; moving now to consolidate an expanded role will ensure a proven revenue source for years to come.
- We must grasp this opportunity now!

# FAIR STRENGTHS

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- California Fairs are already a major stakeholder in California horse racing.
- Fairs have a major investment in real property and capital improvements dedicated to horse racing.
- California Fairs own and operate NINE California horse racing venues: Pleasanton; Vallejo; Santa Rosa; Humboldt; Sacramento; Stockton; Fresno; Pomona; Del Mar.
- Cumulative value of real property (hundreds of acres in urban settings) and capital investments dedicated to horse racing at Fairs venues exceeds \$1 billion. (Note: we need a valuation)
- Fairs are far and away the biggest operator of Satellite Wagering Facilities in California with 23 sites.
- Fairs have a strong, grass-roots connection to virtually every member of the California Legislature.

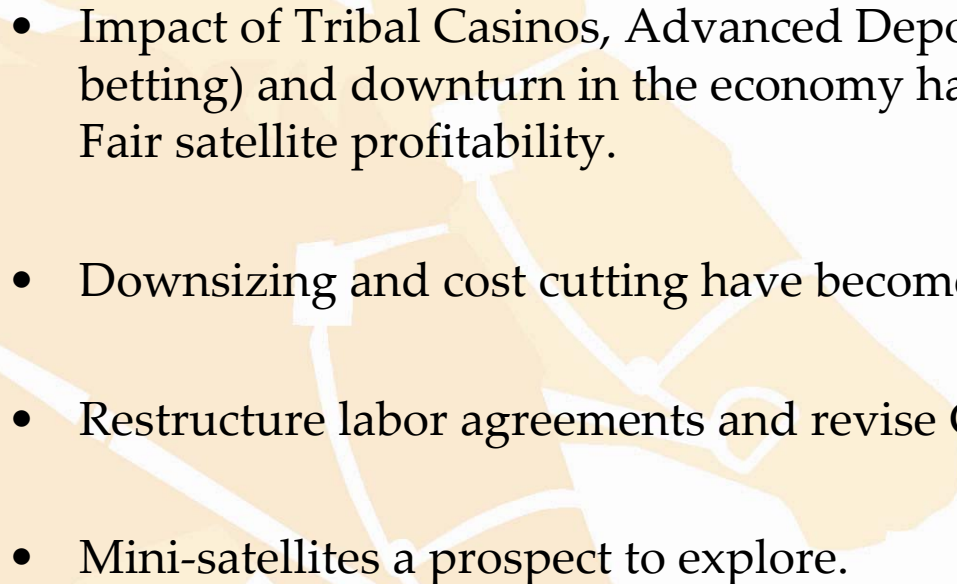
# UNIFYING VISION

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- Privately-owned race tracks in California are going out of business as real estate values no longer justify racing as the highest and best use of their real estate assets.
- California horse racing is at an historical tipping point, sitting on the verge of fundamental re-structuring.
- The long-term economic health and vitality of California racing is being challenged by competition from tribal gaming, rising costs and competition from out-of-state racing subsidized by slot machine revenues.
- Racing sustains tens of thousands of acres of agricultural green space and provides over 30,000 jobs in California.
- California racing and Fairs share a long history of alliance and deep roots in agriculture.
- Racing is an important source of revenue for all Fairs.
- Fairs are poised to lead the way in creating a new economic model for horse racing that will ensure its vitality and protect its revenue generation into the future.

# SATELLITE FACILITIES: CHANGING THE MODEL

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- Impact of Tribal Casinos, Advanced Deposit Wagering (on-line betting) and downturn in the economy have negatively impacted Fair satellite profitability.
  - Downsizing and cost cutting have become necessities.
  - Restructure labor agreements and revise CHRB staffing regulations.
  - Mini-satellites a prospect to explore.

# RECENTLY COMPLETED PROJECTS – SAN MATEO

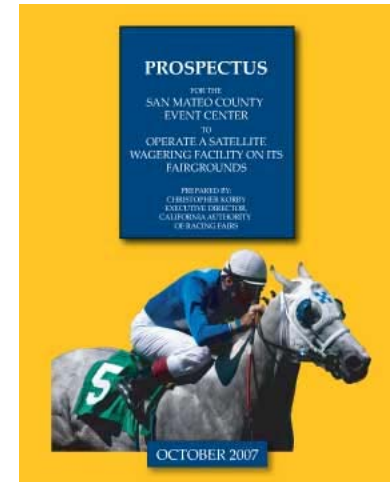
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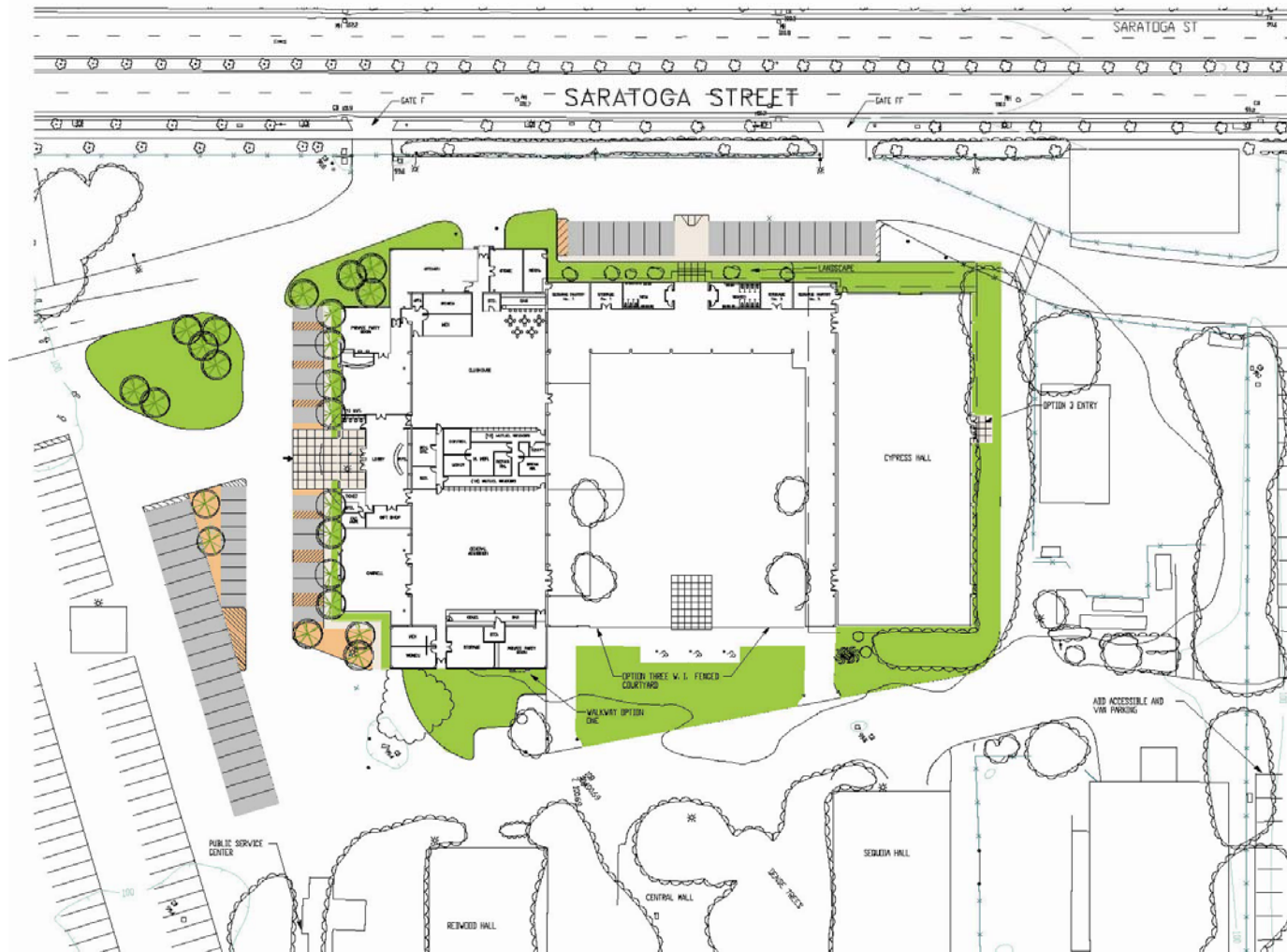


# SATELLITE FACILITY AT SAN MATEO

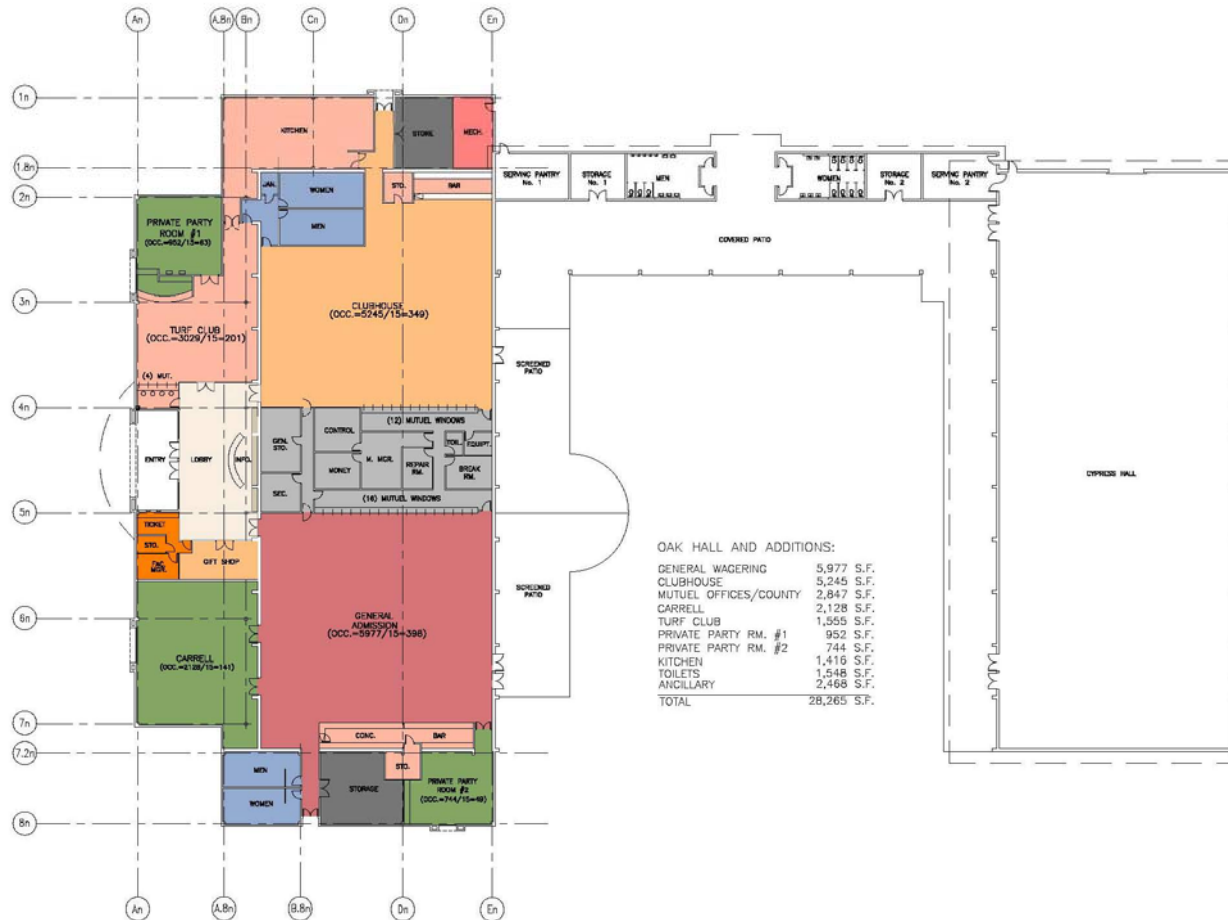
- As a first step, CARF prepared a prospectus describing a plan for the San Mateo County Event Center Fair (SMCEC) to develop and operate a Satellite Wagering Facility on its Fairgrounds.
- This plan envisioned that the Fair, in collaboration with California Authority of Racing Fairs (CARF), California Department of Food and Agriculture Division of Fairs and Expositions (CDFA F&E) and the California Construction Authority (CCA) will renovate, upgrade and convert an existing building into a Satellite Wagering Facility.
- The plan was implemented and the Jockey Club at the San Mateo County Event center opened its doors on Aug. 20, 2008. The grand opening occurred Friday, Oct. 24, 2008 in time for Breeders' Cup. The facility handled just under \$2 million for the 2-day Breeders' Cup event, roughly \$200,000 more than was handled at Golden Gate Fields.



# SAN MATEO SATELLITE



# SAN MATEO SATELLITE

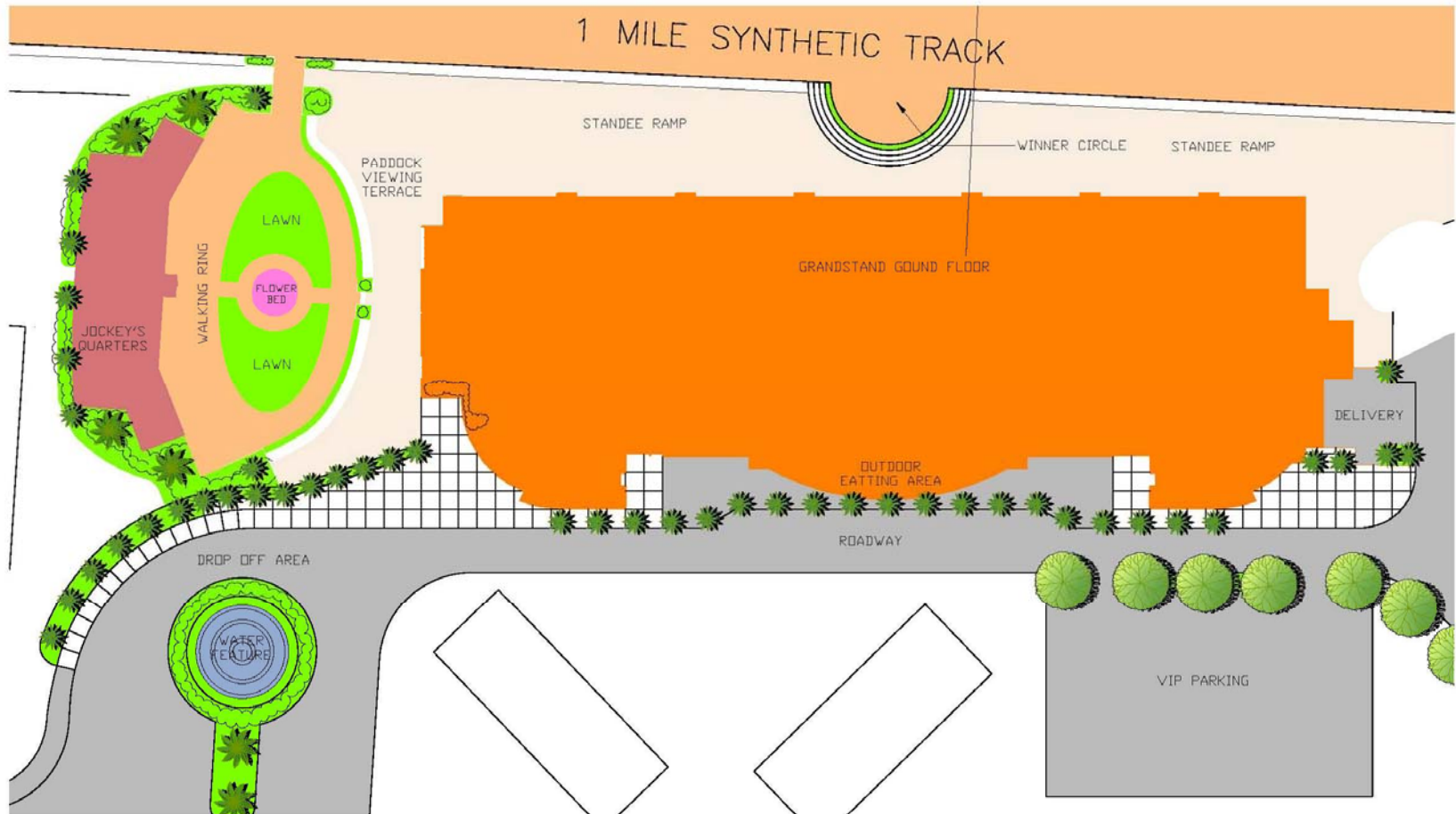


# WORKS-IN-PROGRESS – PLEASANTON RACING

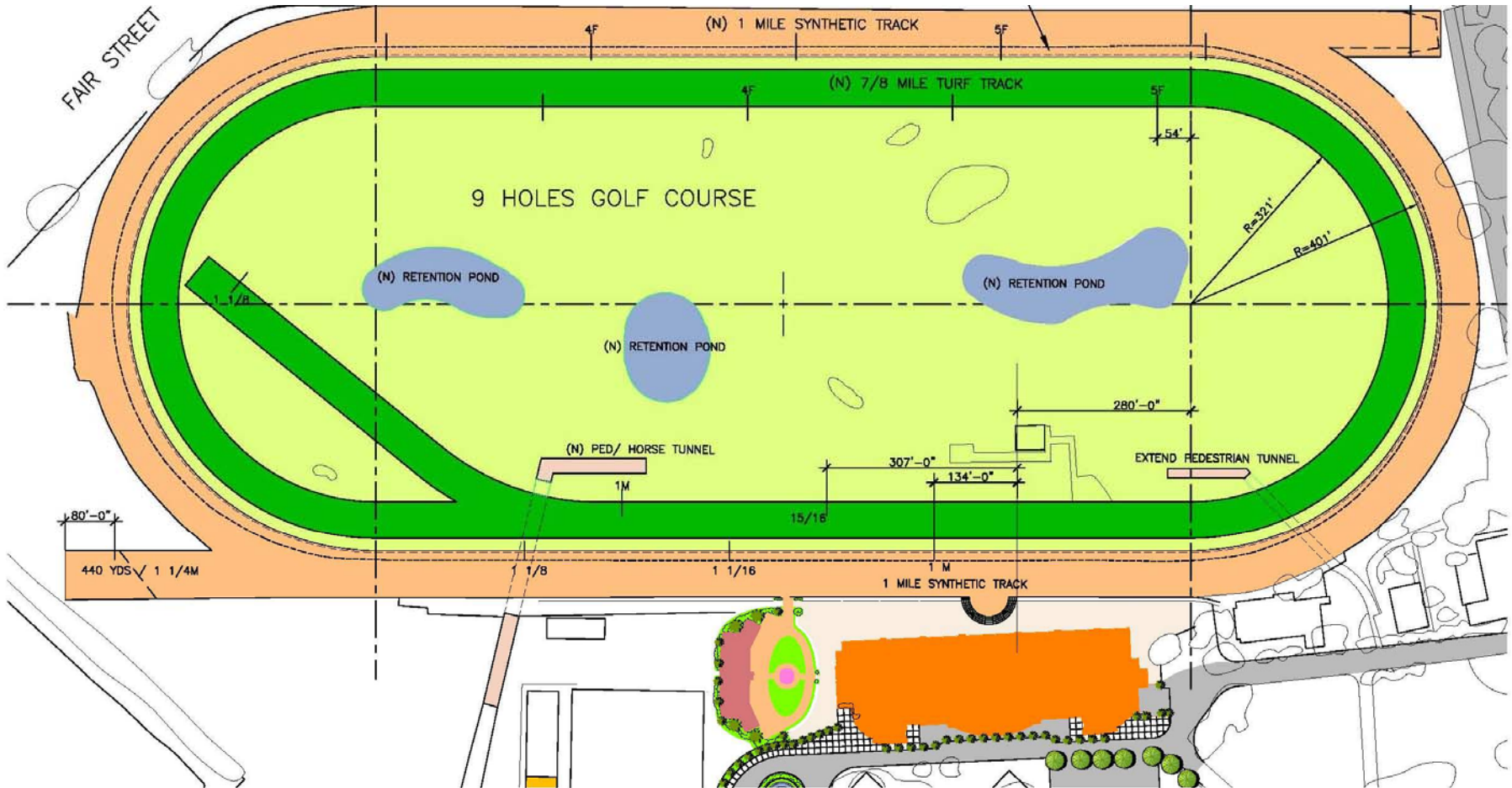
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# PLANS FOR PLEASANTON RACING



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