

# *California Fairs and Horse Racing*

## *Planning for the Future of Racing in California*

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# CONTENTS

- 1) Introduction: SCRAMBLE or BLUEPRINT
- 2) SCRAMBLE Scenario
- 3) BLUEPRINT Scenario
- 4) Long History of Political Alliance Between Fairs and Horse Racing
- 5) Fair Connection to Agriculture
- 6) The Current Landscape
- 7) Fair Strengths and Resources
- 8) Let's Look at the Business Metrics
- 9) Opportunities Ahead for Fairs
- 10) DECISIONS
- 11) Challenges We Will Face
- 12) Tasks Ahead
- 13) Forming a Unifying Vision

# INTRODUCTION



- Two possible routes to the future for California Horse Racing.
- Call the first scenario “SCRAMBLE.”
- Like a horse race, this scenario promises excitement and fierce competition.
- Call the second scenario “BLUEPRINT.”
- BLUEPRINT is a more deliberate and planned approach, depending for its success on the discipline and ingenuity of those involved.

Acknowledgement: “Scramble” and “blueprint” scenarios - Shell strategic planning

# “SCRAMBLE” SCENARIO



- Racing associations, including Fairs, will rush to secure racing dates for themselves, fearing that the competition is a zero sum game with clear winners and losers.
- Like a horse race, this scenario promises excitement and fierce competition.
- SCRAMBLE scenario will seem initially simpler and more comfortable because it is closer to the current laissez-faire approach, i.e., maintain long-standing traditional calendar structure with intense competition for interstitial dates.
- Path of least resistance for the California Horse Racing Board.
- Racing industry may suffer as real estate development interests “game” the process for maximum short-term advantage before converting track properties to other purposes.
- **Consequences**: some winners; casualties along the way; great uncertainties, both near-term and long-term, leading to frustration for fans, employees and horsemen. Outcome unpredictable.

# “BLUEPRINT” SCENARIO



- BLUEPRINT scenario relies on certain levels of cooperation amongst industry interests.
- BLUEPRINT scenario is more difficult at the beginning but less painful in the longer run.
- Successful execution of the BLUEPRINT scenario will depend on the discipline of the participants and the ingenuity of all those involved in the endeavor.
- Coalitions and tactical alliances will emerge to deal with such issues as financing of necessary infra-structure improvements and near-term transition challenges.
- Innovations will occur as industry interests recognize the restructuring necessary for implementation of this scenario.
- New economic models of racing venue ownership will emerge.
- **Consequences**: some winners; emergent cooperation amongst interests; greater certainty about near short-term and the long-term future of racing; more predictable outcome.

# POLITICAL ALLIANCES



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

- 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.

# AGRICULTURE



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.
- California Department of Food and Agriculture does not presently consider equine husbandry as formally part of California agriculture
- 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 adopt a policy formally recognizing equine husbandry as an agricultural activity.

# CURRENT LANDSCAPE



- 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.
- Pleasanton is 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.



# FAIR STRENGTHS



- 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.

# BUSINESS METRICS



- Horse racing is the biggest single business in the California Fair industry.
- Patrons at the California Fairs' satellite network (23 Satellite Wagering Facilities) wagered over \$630 million in 2007.
- Pari-mutuel wagering from the Fair satellite network annually generates over \$100 million in distributions to a whole spectrum of beneficiaries, including: race tracks, satellite facilities, horsemen in the form of purses, license fees to the state, breeders in the form of breeders' awards, equine research and several other beneficiaries.
- Pari-mutuel wagering on horse racing is the sole source of revenue for Fairs and Expositions' Funds.

# OPPORTUNITIES



- 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!

# DECISIONS



- 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.
- 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.

# CHALLENGES



- Structure effective alliances amongst: Fairs; horsemen; private racing associations; breeders.
- Persuade and educate CHRB.
- Secure support of key legislators.
- Secure financing for necessary improvements and upgrades to Fair racing venues.
- Create model for effective working relationships between venue owners and racing management entities (e.g. RTLC/DMTC/22<sup>ND</sup> DAA)
- Re-structure management and purpose of Stabling and Vanning Fund.
- Secure support of local municipalities and counties.

# TASKS AHEAD



- Secure financing for Phase I at Pleasanton (\$12 million, including engineered racing surface); proceed with design and permit efforts for installation of synthetic surface and barn area improvements.
- Add San Francisco and LA Basin Fair satellites, along with miscellaneous mini-SWF's, to increase overall California handle.
- Secure agreement between CARF, Magna and TOC on 2009 Racing Calendar and re-structuring of Stabling and Vanning Fund for Northern California.
- Work with LA County Fair to begin planning for design development, cost estimates and financing for improvements to their facility; focus initially on training operations; secure financing.
- Plan logistics for migration of primary auxiliary training facility to Pleasanton, effective January 1, 2009.

# UNIFYING VISION



- 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.