

**CALIFORNIA
STATE BOARD OF FOOD AND AGRICULTURE**

**MEETING
AUGUST 29, 2007**

CALIFORNIA FAIRS, HORSE RACING AND AGRICULTURE

***Testimony
by***

**CHRISTOPHER KORBY
EXECUTIVE DIRECTOR**

CALIFORNIA AUTHORITY OF RACING FAIRS

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TESTIMONY BY CHRISTOPHER KORBY, EXECUTIVE DIRECTOR
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Thank you very much for the opportunity to testify before this Board today. I'd like to offer some background on the historical, political and economic connections between horse racing, Fairs and agriculture. I'd also like to describe the forces that are pushing the horse racing industry toward great uncertainty, thereby endangering the future of an important sector of California's agricultural economy. Finally, I will offer a realistic vision for the long-term viability of our industry based on sound public policy and on a strong partnership between the private and public sectors.

Fairs have a grand old tradition of horse racing in California going back over 150 years to the days of the Gold Rush. So when pari-mutuel wagering came along in the early '30s, the Fairs embraced it like an old friend.

Fairs and horse racing share a long political heritage, reflecting a balance of interests that has served the racing industry well since 1933, when support from Fairs helped assure passage of the referendum approving pari-mutuel wagering. That referendum laid the foundation for modern racing in California.

California agriculture and California Fairs also share a long-standing interest in the economic vitality of California racing. The Legislature has recognized the common agricultural connection that links the breeding of horses, Fairs and horse racing. The very first section in Horse Racing Law, B&P Code Section 19401, cites "encouraging agriculture and the breeding of horses in this state" and "supporting the network of California fairs" as important reasons in the legislative intent for allowing pari-mutuel wagering on horse racing. Statute already asserts an affirmative interconnection between agriculture, horse racing, Fairs and the public interest.

Right now, we are lacking an articulated public policy and a coherent, realistic vision for our future that will carry that statutory affirmation forward.

Rounding out the connections to agriculture, the law recognizes Fairs as a vehicle through which the Legislature has chosen to distribute the economic benefits of horse racing to local communities and to the agricultural sector. Revenues derived from horse racing help sustain overall Fair activities, an important part of the fabric of California life. It's more important than ever that this long-standing alliance continue to work for the long-term, best interests of the racing industry in California.

Racing and parimutuel wagering are the economic engines that drive, support and sustain the agricultural components of the industry. These agricultural components are significant. Horse racing represents a multi-billion dollar sector of the state's agricultural economy, employing tens of thousands of Californians on breeding farms, in animal husbandry and related professions, equine medical care, and as suppliers of animal feed. The prosperity of these agricultural enterprises depends on a robust horse racing industry. See UC Davis *Economic Analysis of the California Thoroughbred Racing Industry*, Dr Harold Carter, et al.

There are major changes on the horizon for California horse racing. Planning for these changes will be critically important to its future. We urgently need a vision and a sound public policy that keeps this industry and its agricultural sector economically viable. I'd like to offer some thoughts on this matter from the perspective of the California Fairs.

Background and Perspective

The economic model that underpins ownership of most Thoroughbred tracks in California is under strain. Real estate on which privately-owned, commercial race tracks sit has appreciated to valuations that no longer justify horse racing as the highest and best use of the asset. Corporate owners, with responsibilities to their shareholders, are compelled to consider development of their property for uses other than racing.

The move to develop race track real estate is already underway at Bay Meadows in San Mateo. Local observers with whom we have spoken estimate 12-18 months until approvals allow demolition and development to proceed. The same land development company that owns Bay Meadows also owns Hollywood Park and has expressed similar plans for that Southern California track. These tracks are pillars of racing in California. Unless we have a plan that provides for replacements, the racing industry in California, and all the attendant economic beneficiaries, will find themselves in a severe crisis.

It's time for industry leaders in racing, breeding, Fairs and in agriculture, leaders who have a major stake in the future vitality of this important sector of California's economy, to step up with a commitment to our industry for the long term. Fairs are making such a commitment.

Fairs' Commitment to Racing-- Historical Antecedents

The significant capital investment and the long history of racing at California Fairs is evidence of the commitment that Fairs have to the sport. Racing has been conducted at Fairs in this state since the 1850's. Fairs were instrumental in securing passage of the initiative that created modern pari-mutuel wagering. In fact, the first racing of the modern pari-mutuel era was conducted at Fairs in 1933 because Fairs had the facilities already in place to accommodate it. Fairs went on to build and re-build grandstands and stable facilities at nine venues around the state, from Humboldt County in the north to Del Mar in the south. Fairs are part of the DNA of California racing.

With the advent of simulcasting in the mid-1980's, Fairs stepped up again, investing in a network of twenty-three simulcast facilities around the state. These satellite facilities annually contribute over \$600 million in pari-mutuel handle to California's racing industry. Through Fairs, which are publicly owned, the public sector already has a significant investment in California horse racing.

A Vision for the Future

So how do we pull all these elements together with an eye to the future. We came here today to offer a vision for the future of California racing that is at once practical, realistic, sustainable and familiar. We propose that racing facilities at Fairs expand and improve to fill the industry's needs as privately-owned, commercial race tracks are developed for purposes other than racing. There are examples and precedents of this public/private partnership model throughout major league professional sports; there is an especially successful example in the racing industry right here in California.

I'd like to describe some of the stars that line up in this vision.

- Fairs are California-based and publicly owned by Californians, with a mission to use their profits right here in our state.
- Fairs already have an investment in the racing industry.
- Fairs can issue bonds, secured by future revenues from pari-mutuel wagering, in order to finance facility expansion and improvements.
- As publicly-owned facilities, Fairs are less susceptible to the impact of changing real estate valuations.
- Fairs are already diversified entertainment and commercial enterprises, landmarks in their communities, with year-round attendance measured in the millions.
- Profits from racing at Fairs are re-invested at California Fairs.
- Fairs can be a good political ally with deep roots in the state's agricultural community and a major presence in the Legislature.

Let's take a quick look at the example of major league professional sports.

Partnership between publicly owned venues and privately-owned franchises is a model long evident in major league professional sports. Such arrangements, though they may vary in form and nature in each instance, generally relieve franchises of the financial burden of venue ownership while allowing municipalities to secure and maintain major league sport franchises. Both benefit: the franchise is more economically viable and the municipality can realize the sense of civic pride and

economic benefits attendant to a major league sports franchise. There are examples from baseball, basketball, football and hockey up and down the state in California.

There is a successful, existing example of this model that already works for California racing: the operating partnership between Del Mar Thoroughbred Club (DMTC) and the 22nd District Agricultural Association (Del Mar Fair). Del Mar Thoroughbred Club, a private entity, operates one of the finest racing meetings in North America at a public venue financed, built and owned by the Del Mar Fair. The current facility was built 1990-1992 through state revenue bonds secured by revenue from pari-mutuel wagering. Profits are re-invested in the facility. The upshot is a tremendously successful operation that benefits DMTC, the Del Mar Fair, the state and California horsemen. We don't think that the California racing industry could find a better model on which to build a strong, stable future.

So let's recap briefly. We have an industry, horse racing, based in agriculture that generates billions of dollars in economic impact and tens of thousands of California jobs. This ag-based industry is on the brink of crisis due to macro-economic forces outside its control. We have a statutory framework that recognizes the affirmative connections between horse racing, agriculture, Fairs and the public interest. We have a vision of a new economic model for conducting horse racing, a model based on existing, publicly-owned venues, structured to underpin a sustainable future, operating for the benefit of agriculture, horse racing, Fairs and ultimately the state of California. So what are we lacking? We need a sound public policy that recognizes the interconnections of all these elements and creates a strong foundation on which to build a prosperous future for our industry. That's where we need this Board's help.

We would like to ask this Board to engage a group of interested parties to develop a public policy recommendation regarding agriculture, horse racing and Fairs. We're here to offer some thoughts on what that would encompass.

The state of California recognizes horse racing as a competitive sport, distinguished from other sports in that its existence depends entirely on the successful breeding,

ownership and training of race horses. Breeding, owning, caring for and training horses are elements of the agricultural economy. Therefore, the state of California recognizes horse racing and its attendant equine husbandry as an agricultural activity.

State of California has the sovereign right to permit parimutuel wagering on horse racing. The Legislature exercised this right, in statute, creating the California Horse Racing Board to license and regulate racing's conduct. Acting through the Board, the state grants annual licenses for the conduct of racing to racing associations, which are either private, for-profit entities, not-for-profit entities, and Fairs. The state also requires that racing associations have a valid contract with horse owners (private entrepreneurs) for the payment of purses. This nexus of state's regulatory mission, private enterprise, and the public interest represents a successful partnership between the public and private sectors.

California statute asserts an affirmative connection between agriculture, horse racing, Fairs and the public interest. The Legislature has recognized that allowing parimutuel wagering serves the public interest when it 1) assures protection of the public; 2) encourages agriculture and the breeding of horses; 3) supports the network of California Fairs; 4) provides for maximum expansion of horse racing opportunities in the public interest; and 5) provides for uniformity of regulation for each type of horse racing (B&P Code §19401).

State government has a revenue interest in the economic vitality of horse racing, beyond meeting the costs of regulation, because horse breeding and racing generate both direct and indirect revenues to the public sector and provide economic opportunities for its citizens. Revenues are distributed to horsemen as purse payments, to racing associations as commissions, and to the state as license fees. License fees are distributed by the Department of Food and Agriculture for the support of Fairs. Other distributions include wildlife restoration, local charities, and an equine veterinary research and teaching facility at the University of California Davis.

Fairs play an important role in the social fabric of their communities. California Fairs and horse racing have a century-long, mutually beneficial relationship. All Fairs and all Californians who attend Fairs, those employed by Fairs, or who participate in Fairs benefit from this economically interdependent connection. In order to support and encourage this activity it is the policy of the State of California to reinvest revenues generated by horse racing in: 1) California Fairs generally; 2) the improvement of racing venues, equipment and facilities on Fairgrounds; 3) horse racing at California Fairs; 4) a competitive California satellite simulcast program; and 5) the interstate and international export of California-produced equines, products and services.

Horse racing represents a multi-billion dollar component of the state's agricultural economy, employing tens of thousands of Californians on breeding farms, in animal husbandry and related professions, equine medical care, and as suppliers of animal feed. The prosperity of these agricultural enterprises depends on a robust horse racing industry. Thus, the policy of the State of California's Department of Food and Agriculture shall be to support and encourage 1) improvements in breeding stock, supported by the well-regulated conduct of horse racing; and 2) increased interstate and international export of California-bred horses.

In conclusion, racing is a majestic sport with a long and cherished tradition in California. We believe that a realistic vision for its future, along with a sound public policy that governs its structure and conduct, will ensure benefits to Fairs, to agriculture and to the people of California for a long time to come.

**THE CALIFORNIA HORSE RACING INDUSTRY, CALIFORNIA FAIRS
AND CALIFORNIA AGRICULTURE
POLICY STATEMENT**

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The State of California has the sovereign right to permit parimutuel wagering on horse racing. The Legislature exercised this right, in statute, creating the California Horse Racing Board to license and regulate its conduct. Acting through the Board, the state grants annual licenses for the conduct of racing to racing associations, which are either private, for-profit entities or Fairs. The state also requires that racing associations have a valid contract with horse owners (private entrepreneurs) for the payment of purses. This nexus of state sovereignty, private enterprise and the public interest represents a successful partnership between the public and private sectors.

California statute asserts an affirmative connection between horse racing, parimutuel wagering, agriculture, and the public interest. The Legislature has recognized that allowing parimutuel wagering serves the public interest when it 1) assures protection of the public; 2) encourages agriculture and the breeding of horses; 3) supports the network of California Fairs; 4) provides for maximum expansion of horse racing opportunities in the public interest; and 5) provides for uniformity of regulation for each type of horse racing. (B&P Code §19401).

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Horse racing represents a multi-billion dollar component of the state's agricultural economy, employing 30,000 people on breeding farms, in animal husbandry and related professions, equine medical care and as suppliers of animal feed. The prosperity of these agricultural enterprises depends on a robust horse racing industry. Thus, the policy of the State of California is that the Department of Food and Agriculture shall be to support and encourage 1) improvements in breeding stock, supported by the well-regulated conduct of horse racing; and 2) increased interstate and international export of California-bred horses.

Christopher Korby
Updated August 2007

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