

Horseracing is one of the few, and the first of, California Constitutional exemptions to the state's general prohibition on gambling. There are 12 horse racing tracks, at which licensed meets run within California. The racetracks, together with simulcast outlets and Advance Deposit Wagering (telephone and Internet), make horse racing accessible to all of California and the world. During FY 2011-12, the pari-mutuel handle totaled \$2,888,835,972 and generated \$11,716,000 in horse-racing revenue used to fund CHRB operations.¹ California tracks run Thoroughbred, Quarterhorse, Paint, and Harness races. The California horse industry produces goods and services valued at \$4.1 billion. More than a quarter of a million Californians are involved in horse racing as owners, service providers, or employees.²

Origins of California Horseracing

Horseracing in the United States dates back to 1665, when the first racetrack was constructed on Long Island, New York. The American Stud Book was started in 1868, prompting the beginning of organized racing in the United States.³ The track at Pleasanton is the oldest racetrack in America, it was built in 1858.⁴ The first known Thoroughbred was brought to California in the 1850s by Don Andreas Sepulveda. This imported Australian mare, won a race against Governor Pio Pico's prized Spanish-bred stallion and sparked an influx of Thoroughbreds into the state. The turn of the century brought new attitudes, and the 1909 Walker-Otis Anti-Race-Track Gambling bill brought an end to legalized racing in the state.⁵

In June 1933, the voters adopted Proposition 3 a legislative constitutional amendment to authorize the regulation and licensing of horseracing, meets, and to permit wagering.⁶ Shortly afterward races began to be run at Stockton, Pomona, Bay Meadows, Santa Anita, Del Mar and Hollywood Park.

Pari-mutuel Brings a New Paradigm

While the anti-gambling sentiment in California gave rise to a general prohibition on racing, in Kentucky, their legislative response was to target bookmakers. Churchill Downs was an early adopter of pari-mutuel wagering so that it could continue to run races without the need of bookmakers.⁷ In a pari-mutuel betting system, each participant contributes to a pool of bets, with odds determined based on the levels of betting. Winnings are then divided among those choosing the top three race winners, minus fees for the organizers and prizes for the racers. In the system, the individual bets against other gamblers not the house.

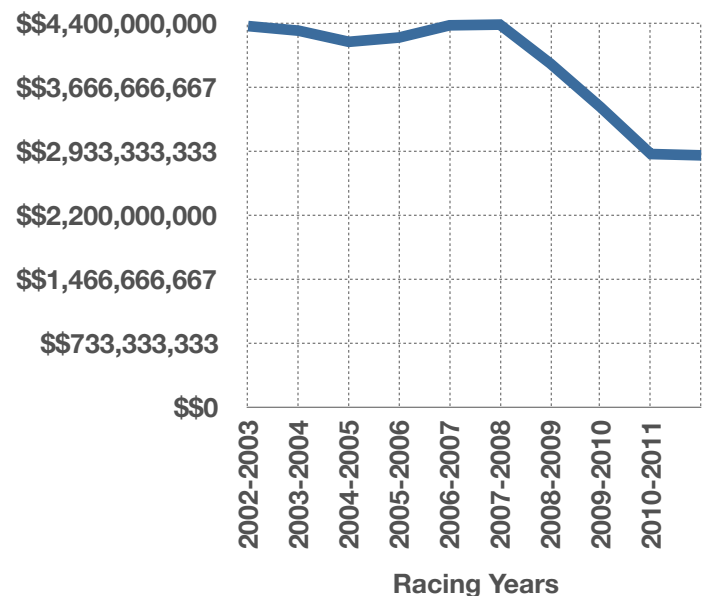
Horse Racing Board

The 1933 legislation that reauthorized racing in the state, established the California Horse Racing Board (CHRB). This Board oversees all elements of the sport in California including establishing and enforcing rules related to the licensing of jockeys, trainers, racing associations and satellite wagering facilities. They are also engaged in allocated racing dates to qualified associations, and helping to ensure equine safety. Funding for the CHRB's operations comes from a combination of license fees and a portion of the pari-mutuel take-out.

Handle, Take-outs and Purses

The "handle" is the term given to the pool of all those funds collected in pari-mutuel bets placed on the race.

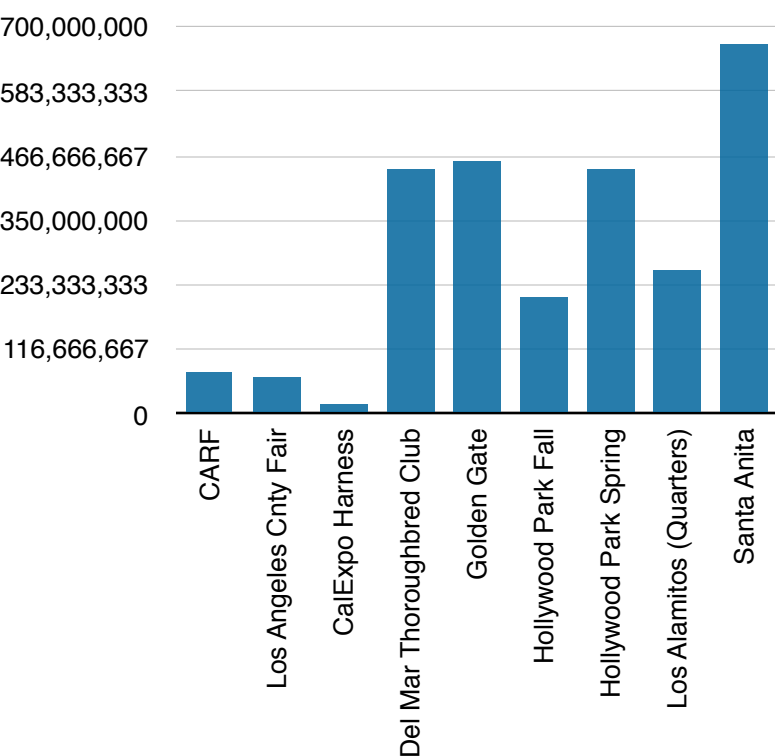
CA HORSERACING: PARIMUTUEL HANDLE REVENUES (IN BILLIONS)



The "take-out" is the collective term for those funds taken out of the "handle" to support racing activity. The takeout includes amounts set aside for purse supplements, racing association payments to track facilities and horsemen's organizations. Horse owners receive their compensation from what is known as the "purse", which is funded from a part of the "take-out".⁸ Both horse-owners and jockeys receive compensation from the purse. During FY 2011-12, the pari-mutuel handle totaled \$2,888,835,972 and generated \$11,716,000 in horse-racing revenue, which was used to fund CHRB operations.⁹

Increasing or decreasing the takeout on racing has a direct affect on the size of purses paid as well as the money paid to those who bet and win on race results.¹⁰ In recent years the handle on all races has been declining, impacting the funds remaining after the take-out for distribution as payouts to bettors and horsemen, and raising significant concerns regarding the future health of the industry.

Handle on Races conducted at California racetracks for FY2011-12



Handle Includes on-track, brick & mortar off track in California, ADW in California, out-of-state wagers.

California Tracks

Horseracing is conducted at 12 approved facilities in the state. These tracks are operated either under private ownership or by County Fair Districts. Horseracing has long been associated with fairs. In 1904, the state organized local fairs under agricultural associations to promote and encourage local agricultural and animal husbandry industries. Following the passage of Proposition 3, the state's share of the pari-mutuel revenue went to support the citrus, county and district fairs. Programs for training youth in agricultural and animal husbandry also benefited.¹¹ Currently, racing is conducted by a half-dozen county fairs, including: Alameda, Fresno, Humboldt, Los Angeles, San Joaquin, San Mateo, Solano, and Sonoma.

Racing's ties to agriculture promotion, seemed to move the background when the state passed Proposition 3, investors with an interest in the sport quickly took up the challenge to build tracks and conduct race meets. The first privately built track in the state was Del Mar. There are currently five privately constructed tracks in the state, including: Del Mar, Golden Gate, Hollywood Park, Los Alamos, and Santa Anita. These tracks now draw over 90 percent of the total handle on thoroughbred racing.

In recent years, two of the state's tracks have faced closure, Bay Meadows in the San Francisco Bay Area in 2005, and Hollywood Park in the Los Angeles area at the end of the 2013 season.

The only track to buck this downward trend is Del Mar. They have had an aggressive marketing campaign for years to entice thousands of race-goers with its festive as well as a sporting atmosphere. During its once-a-year, seven week season, Del Mar has posted increased handles for a number of years. In 2013, the meet's average attendance increased a further 2 percent over the prior year, numbering an additional 17,656 - the track's single-day attendance record exceeds 47,399.¹²

Satellite Wagering

The Off-Track-Betting (OTB) system established in 1988, had over 30 wagering sites in 2012, mainly at county fair locations. It enjoyed early success but OTB has experienced "serious deficits" since 2007. Funds from OTB facilities fund several racing-related programs, including off-site stabling and vanning (transportation of horses between stables and track facilities) in each half of the state. Recently, bettors have been abandoning the old physical Off-Track-Betting (OTB) facilities to wager from home via computer or telephone. Wagering at satellite locations has dropped 40% since advance deposit wagering (ADW) was approved in the state. The reduction in OTB revenue has resulted in the closure of training facilities at San Luis Rey Downs and Fairplex Park, and the loss of funds for vanning.¹³

Under the ADW system, approved by the legislature in 2002, individuals can place bets over an Internet website, watch races, receive up to the-minute odds, scratches and program changes. ADW was introduced in California in the belief that it would increase the handles and purses, making California a more attractive place to race. Under the state Constitution, betting on horse races is authorized only within the racetrack enclosure, so when the Legislature sought to authorize Advance Deposit Wagering they were forced to include language that stated that when a bet was placed over the Internet (or phone), that bet transaction was actually occurring at the track. This language allowed them to avoid placing a constitutional amendment before the voters to authorize this gambling expansion.¹⁴

Cal-Bred Program

One other program overseen by the California Horse Racing Board (CHRB) is the California-Bred (Cal-Bred) Program to encourage continued stabling of horses in the state. The Cal-Bred program was additionally created to bolster the state's stock of horses, as well the breeding and training segments of the industry. Statue defines a "California-bred horse" as a foal dropped by a mare which remains in California until the foal is weaned.¹⁵ Currently, the California Standardbred Sires Stakes Committee retains authority to establish the base purses for races run under this program.¹⁶ Under the program breeders and owners of registered California-bred horses are eligible to receive additional purse monies if their horses place. Monetary compensation is also paid to the owner of a registered California-bred horse which runs in qualifying races within the state. Having a Cal-Bred horse also provides additional racing opportunities.¹⁷ By law, racetracks in California are required to offer one race per day restricted to Cal-bred horses. In 2011, this meant 286 additional racing opportunities and over \$13 million in additional purses for Cal-Breds. In addition, the legislature declared its intent that at least 10 percent of the total stakes purses paid at any race meeting in California be paid on stakes races restricted to Cal-Breds - amounting to nearly \$4 million in 2011.¹⁸

Safety and Fairness

Another piece of the state's horseracing puzzle lies with the Kenneth L. Maddy Equine Analytical Chemistry Laboratory. In order to ensure that races are run honestly, and that the horses's health is maintained, the Horseracing Board requires analysis of post-race blood and urine samples from horses in competition. The Maddy Laboratory is the authorized equine drug-testing laboratory for California horseracing. Funding for the laboratory and its routine drug testing comes from a portion of the handle. This full-service lab tests over 60,000 samples per year.

Post-race urine and blood samples are taken from the winner of every race, the horses finishing second and third in certain stakes races, from other horses selected at random, as well as other horses designated by the stewards. In recent years, in addition to post-race testing, pre-race tests are conducted to ensure that horses have not been subjected to "milkshaking" - a process that neutralizes the natural occurrence of lactic acid which causes fatigue.

Tests are updated routinely as new threats to the industry arise. The CHRB uses information provided by the lab in its regulatory formulation. The lab works in concert with the UC Davis School of Veterinary Medicine with which it is affiliated.¹⁹

Conclusion

Before the development and expansion of professional athletics, horseracing was the most popular spectator sport in the United States. During this time, racing

effectively held a favored status as a government-protected quasi-monopoly for gambling. However, the advent of large-scale casino operations in Nevada, and more recently large scale tribal-gaming operations have impacted the attendance at racetracks - falling to record low levels. The current recession has also played a factor in weighing down the industry. The tightening market has California horsemen concerned about the continued higher cost of doing business in the state, including the cost-of-living and workers compensation, and how by extension these costs are passed on to owners.²⁰ In addition, privately-owned tracks are re-evaluating whether racing offers the greatest profit potential for their land.

Some attribute horse racing's problems to the industry's failure to adapt to the current marketplace. There have been many issues that have been cited among failures to properly position the industry, including: a) failure to embrace television in its early years to draw new market share; b) historically poor racetrack marketing; c) the proliferation of alternative forms of gaming and entertainment options; and d) new ways to place bets on races over the internet and via phone, reducing racetrack revenue. Additionally, in recent years, the depressed economic conditions have left many without the available disposable income to contribute to a pari-mutuel handle.²¹

California racing, may have been further handicapped by an increase in the take-out that many regard as a tax increase on purses. These increased take-outs depress the amount of pay-outs and provide no incentive for an increased volume in betting.²²

The potential entry of exchange wagering is being viewed as a threat by many who wish to protect the sports integrity. There is a concern that the practice of betting on a horse to lose will lead to cannibalization of other bets, along with the possibility of corruption and fair distribution of the money.²³ These factors may bring revenues to track services, but may also lead to a decline in the quality of horses and training.

The California racing industry is seeking to "pull itself up from its bootstraps", though in recent years it appears as though it may have been doing more harm than good in seeking short-term benefits rather than longer-term solutions to bring spectators to the stands, maintain (or improve) the quality and excitement of racing. A strong industry would continue to generate revenues for California's horsemen, agriculture, tourism, and entertainment business sectors. Failure of the industry would impact far more than the quarter of a million Californians involved in the activity. It would also be a blow to communities that have long and traditional ties to the tracks, training facilities, and stables.

NOTE: If you have any questions, regarding this brief, please contact me at peter@pradvocacy.com.

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Significant California Horseracing Measures

Cite	Legislation	Enacted
Proposition 3 of 1933	Authorized horse racing. Authorized pari-mutuel wagering. Provided for regulation of that industry by the California Horse Racing Board. (Const. Amend.)	1933
SB 1499 (Maddy)	Implemented satellite wagering in the central and southern part of the state, and made conforming and technical changes in the norther part of the state.	C. 1698 of 1984
SB 14 (Maddy)	Expanded satellite wagering statewide.	C. 1273 of 1987
AB 1209 (Tucker)	Required veterinarians treating horses within the racetrack enclosure to report, on a form provided by the CHRB, the name of the horse treated, the trainers name, time treatment given, and medication prescribed.	C. 881 of 1994
SB 27 (Maddy)	Authorized wagering on the results of out-of-state thoroughbred races.	C. 335 of 1998
AB 471 (Hertzberg)	Authorized advanced deposit wagering (ADW); further it addressed unionization of backstretch workers, set minimum standards, and established welfare/pension funds.	C. 198 of 2001
AB 1180 (Torrico)	Establishes a list of new requirements on the horse racing industry for the benefit of jockeys, including on-track medical treatment, conditions of payment, safety equipment requirements, and procedures for adopting jockey weight standards.	C. 329 of 2005
AB 241 (Price)	Authorizes the California Horse Racing Board (CHRB) to approve 45 new "minisatellite" wagering sites. Authorizes all fairs to operate satellite wagering facilities off of fairgrounds property.	C. 594 of 2007