

Date of Hearing: April 6, 2016

ASSEMBLY COMMITTEE ON GOVERNMENTAL ORGANIZATION

Adam Gray, Chair

AB 2808 (Gipson) – As Introduced February 19, 2016

SUBJECT: Horse racing: exchange wagering: repeal deletion

SUMMARY: Existing law allows the California Horse Racing Board (CHRB) to authorize exchange wagering, as specified, and makes the exchange wagering provisions inoperative on May 1, 2016, and repeals them on January 1, 2017. This bill would delete the inoperative and repeal dates.

EXISTING LAW:

- 1) Provides that California Horse Racing Board (CHRB) shall regulate the various forms of horse racing authorized in this state.
- 2) Provides that CHRB shall have all powers necessary to carry out the purposes of the Horse Racing Law, such as adopting rules and regulations to protect the public, allocating dates for and controlling horse racing and pari-mutuel wagering, and enforcing all rules and regulations.
- 3) Provides that "pari-mutuel wagering" is a form of wagering in which bettors either purchase tickets of various denominations, or issue wagering instructions leading to the placement of wagers, on the outcome of one or more horse races. When the outcome of the race or races has been declared official, the association distributes the total wagers comprising each pool, less the amounts retained for purposes specified in this chapter, to winning bettors.
- 4) Provides that CHRB may authorize any racing association, racing fair, betting system, or multijurisdictional wagering hub to conduct Advance Deposit Wagering (ADW), as specified. Permits racing associations, racing fairs, and their respective horsemen's organizations to form a partnership, joint venture, or any other affiliation, as specified.
- 5) Authorizes exchange wagering, as provided, and authorizes the CHRB to recover any costs associated with the licensing or regulation of exchange wagering by imposing an assessment on the exchange wagering licensee in an amount that does not exceed the reasonable costs associated with the licensing or regulation of exchange wagering.
- 6) Requires any racing association or racing fair receiving distributions from any exchange provider's exchange revenues to distribute a portion of that revenue to the official registering agency in a specified manner.
- 7) Makes these exchange wagering provisions inoperative on May 1, 2016, and repeals them on January 1, 2017.

FISCAL EFFECT: Unknown

COMMENTS:

Purpose of the bill. According to the author, this bill seeks to remove a sunset in current law that allows for exchange wagering on horse races in California. To date, exchange wagering has not been implemented by any racing association in California. Exchange wagering cannot be conducted unless the horsemen who participate at the live race meet grant consent. The current law sunsets on January 1, 2017. AB 2808 is necessary to ensure that more time is provided for current negotiations so that the original vision of exchange wagering might be realized in California to provide the industry with a tool to increase track commissions, purses, and breeder's awards.

Background. SB 1072 (Ron Calderon), Statutes of 2010, authorized the CHRB to license entities to operate exchange wagering systems that accept "exchange wagers" from individuals residing either within or outside of this state on horse races run in California or in other states, so long as the process is conducted in compliance with the federal Interstate Horseracing Act. "Exchange wagering" is defined as a means of pari-mutuel wagering in which two or more persons place identically opposing wagers on a horse race. The bill required exchange wagering agreements to be entered into by the exchange wagering licensee, the applicable racing association or fair conducting live racing in the state, and the horsemen's organization representing the particular breed currently racing at the meet.

Wagering on horse races in California is conducted using the "pari-mutuel method" in which bettors are betting against each other, with no other entity having an interest or stake in the outcome of the race.

In pari-mutuel "exchange wagering" (which involves bettors betting against each other, with no other entity having an interest or stake in the outcome of the race), each bettor again selects a horse, an outcome, and the amount the bettor desires to wager. Another bettor can match that wager, choosing to wager the opposite of the original wager. For example, if bettor "A" thinks a horse will win a race and would like to wager \$2 to win on that horse at 1-1 odds, bettor "B" can match the wager for \$2 at 1-1 odds if bettor B has the opinion that the horse will not win the race. When wagers are matched, they are pooled together and the pari-mutuel exchange wagering operator is responsible for paying the winning bettors out of the pool (just as is the case in all other forms of pari-mutuel wagering on horse races in California.) Pari-mutuel exchange wagering is limited to win, place and show wagering.

The effort in California to launch an exchange wagering platform has been stymied by disagreements among the exchange wagering provider, horsemen, and racetracks over the amount of money the racing industry would receive from the operation's revenue.

Supporters of exchange wagering contend that the practice will reinvigorate interest in racing by offering players a new way to wager on the game, at a price to the player of approximately 5 percent of winnings, compared to existing takeout rates in the pari-mutuel pools remain around 20 percent. The service has proved very popular in Britain and Ireland, where bookmaking was an established part of horserace betting markets hundreds of years prior to the advent of exchange wagering. Exchanges typically return 95 percent of money bet to players, compared to the 80 percent return commonly offered by U.S. pari-mutuels systems.

Exchange wagering in New Jersey: The New Jersey State Racing Commission issued its first horse racing exchange wagering license on November 18, 2015 but horseplayers will not be able

to match bets on the exchange until Spring 2016 at the earliest, according to published reports. In addition, the first-ever licensed betting exchange in the United States will be limited to New Jersey resident—at least initially.

In support: Betfair US TVG Network, the sponsor of this bill, states this bill would merely extend the "sunset" clause in current law for four more years and give the horse racing industry more time to implement this new and exciting form of wagering. The CHRB has adopted regulations for exchange wagering in California but the respective parties have not agreed to a business arrangement for implementation. If exchange wagering were to be authorized in California, proponents believe it would not only increase the wagering handle but purses and breeders awards for horsemen and horsewoman.

In opposition: The California Thoroughbred Trainers of California writes, it has now been six years since exchange wagering was authorized in California and the industry still has not agreed on a plan to implement this new form of wagering. The implementation of exchange wagering will continue to stall unless and until there is a business model that satisfies the financial needs of horsemen. Other issues raised include the various business models available, the potential for cannibalization of the existing wagering dollar, and whether exchange wagering would compromise the integrity of horse racing in California. At this point, the CTT states that there is no need to eliminate the current sunset date on what clearly is a failed enterprise.

Prior legislation: AB 2414 (John A. Perez), Chapter 299, Statutes of 2010. Added a sunset date of May 1, 2016, to a provision contained in SB 1072 (Ron Calderon) of the 2009-10 Regular Session relating to exchange wagering on horse racing.

SB 1072 (Ron Calderon), Chapter 283, Statutes of 2010. Among other things, the bill authorized the CHRB to license entities to operate "exchange wagering" systems, as defined, that accept exchange wagers from individuals residing either within or outside of this state on horse races run in California or other states and makes it explicit that exchange wagering shall not become operative until May 1, 2012.

REGISTERED SUPPORT / OPPOSITION:

Support

Betfair US TVG Network

Opposition

California Thoroughbred Trainers of California

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