

Date of Hearing: July 5, 2017

ASSEMBLY COMMITTEE ON GOVERNMENTAL ORGANIZATION

Adam Gray, Chair

SB 274 (Glazer) – As Amended April 18, 2017

SENATE VOTE: 36-0

SUBJECT: Horse racing: fairs: funding

SUMMARY: Authorizes the California Department of Food and Agriculture (CDFA) to remit funds collected from specified live racing fees and pari-mutuel pools, to a fair conducting a live racing meeting or to a joint powers authority (JPA) involved in conducting a live racing meeting at a fair, for the purposes of improving a fair enclosure, racetrack maintenance, safety at fairs, or other similar activities. Specifically, **this bill:**

- 1) Provides that the 1% retained for payment to the state as a license fee and the additional 1% deducted from the total amount handled by any fair racing association in its daily conventional and exotic pari-mutuel pools may be used by CDFA as payment, in the form of a grant or as payment pursuant to a memorandum of understanding or other mechanism, to a fair conducting a live racing meeting at a fair or to a JPA involved in conducting live racing meetings at fairs for purposes of improving a fair enclosure, racetrack maintenance, safety at fairs, or other similar activities.
- 2) Provides this permissive authority to be retroactive to funds collected as of January 1, 2016.

EXISTING LAW:

- 1) States, under Article IV, Section 19(b) of the Constitution of the State of California that the Legislature may provide for the regulation of horse races and horse race meetings and wagering on the results.
- 2) Provides that the California Horse Racing Board (CHRB) regulate the various forms of horse racing authorized in this state.
- 3) Grants CDFA the regulatory authority of ensuring the integrity of the Fair and Exposition (F&E) Fund, administering allocations from the fund to the network of California fairs, and providing oversight of activities carried out by each California fair.
- 4) Requires any fair conducting a live racing meeting to retain 1% of the total amount handled on live races, excluding wagering at a satellite facility for payment to the state as a license fee.
- 5) Requires any fair racing association to deduct an additional 1% from the total amount handled in its daily conventional and exotic pari-mutuel pools, and provides for the deposit of the money in the F&E Fund for expenditure for the construction or operation of recreational and cultural facilities of general public interest at fairs throughout the state.

FISCAL EFFECT: Unknown

COMMENTS:

Background: Existing law provides that, above and beyond the current takeout for conventional and exotic wagers at live horse racing fair meets, an additional 1% shall be deducted from live fair wagers and deposited into the F&E Fund. SB 274 would allow the state to allocate that deducted amount as payment, in the form of a grant or as payment pursuant to a memorandum of understanding or other mechanism, to a fair conducting a live racing meeting or as payment to a joint powers authority involved in conducting live racing meetings for purposes of improving a fair enclosure, racetrack maintenance, safety at fairs, or other similar activities. The bill would provide that these provisions are retroactive to January 1, 2016. It is estimated that the 1% deduction equates to approximately \$450,000 to the F&E Fund per year.

California network of fairs. Currently, CDFR assigns its responsibility over fairs to its Division of F&E. The Division of F&E provides oversight of the state-supported fair system and manages the F&E Fund to ensure accountability and responsible distribution of state resources to the fairs. The F&E Fund was established in part to help finance the construction, renovation, and repair of fair facilities, including the racing infrastructure and race track safety.

Prior to 2009, license fees imposed on horse racing wagers were deposited into the Fairs and Exposition Fund and the SWA, which supports the annual budget of the California Horse Racing Board, and supplements California fairs. However, in 2009, the Legislature shifted the horse racing industry's obligation to fund fairs through license fees imposed on wagers to the General Fund, instead providing an annual continuous appropriation of \$32 million from the General Fund to support fairs (SBx2 16, Ashburn). However, the 2011-12 State Budget Act eliminated General Fund contributions to the Fund, requiring DAAs and all other designated fairs to be self-sufficient as of January 1, 2012.

Horse Racing at California's fairs: For years, the fairs and racing industry have been tied. In 1933, the passage of Proposition 3 legalized pari-mutuel wagering on horse racing in California. Proposition 3 included a “commitment for the continuous funding of the fairs of California with an annual allotment of racing revenues to be used for health, safety and maintenance projects.”

Horse racing in California is conducted year-round in a number of venues, including fairgrounds. The fairs that host horse racing meets include the Alameda County Fair, the State Fair, the Sonoma County Fair, the Humboldt County Fair, the Fresno County Fair, and the Los Angeles County Fair (held at Los Alamitos Race Course).

Purpose of the bill. According to the author, this bill “would streamline the handle allocation process by allowing CDFR to provide funds directly to a fair or JPA involved in live racing. Rather than having CDFR go through a lengthy administrative process to issue the funds, SB 274 expedites revenue to fairs for strengthening infrastructure at racetracks and enclosures. This provides greater safety at fair events and benefits the entire horse racing industry.”

In support: According to the California Authority of Racing Fairs, “CDFR has expressed an interest in using Live Racing License Fees to support the fair racing circuit, but lacks the clear statutory authority to allocate these fees back to a JPA for the purpose of infrastructure improvement and racetrack safety. SB 274 remedies this situation.”

Policy consideration: This bill could possibly divert the only remaining revenue stream deducted from horse racing wagers that is deposited into the F&E Fund. This change could impact non-

racing fairs in California who receive financial support from the Fund and the budget of the Department of Food and Agriculture who is required to provide regulatory oversight for each California fair.

Related legislation: SB 368 (McGuire) of 2017. Specifies that any unallocated balance of revenues derived from satellite wagering license fees and the distribution of handle from live racing at fairs is continuously appropriated for allocation by CDFA to California fairs for specified purposes. Further, the bill specifies that all funds appropriated or designated for California fairs shall be deposited in the F&E Fund and be continuously appropriated as specified in Horse Racing Law. (Pending in Senate Appropriations Committee)

AB 1499 (Gray) of 2017. Directs retailers to segregate the amount of gross receipts from sales at fairs; requires the Board of Equalization to calculate $\frac{3}{4}$ of 1% of these gross receipts and report this amount to the Department of Finance; requires the Governor's Budget to include these amounts in the Budget for allocation to the Department of Food and Agriculture to fund state-designated fairs. (Pending in Senate Governance and Finance Committee)

Prior Legislation: AB 2226 (Bigelow) of 2016. Among other things, would have specified that any unallocated balance of revenues derived from license fees from satellite wagering and distribution of handle from live racing at fairs is continuously appropriated for allocation by CDFA to California fairs. (Held in Senate Appropriations Committee)

SB 1227 (Negrete McLeod) of 2012. Would have diverted from deposit into the F&E Fund, the existing 1% deduction from all wagers handled at fair racing meets and, instead divided it equally between the fair that conducted the racing meeting and to the horsemen and horsewomen who participated in the racing meeting. (Held in Assembly Appropriations Committee)

AB 95 (Committee on Budget), Chapter 2, Statutes of 2011). Among other things, discontinued the \$32 million annually appropriated from the General Fund to the F&E Fund.

SBX2 16 (Ashburn), Chapter 12, Statutes of 2009. Among other things, eliminated the \$40 million floor on the amount the horse racing industry is required to pay annually for support of the network of California fairs, the CHRB, and the Kenneth L. Maddy Equine Analytical Chemistry Laboratory at UC Davis. Other than the supplemental 1% assessed against fair meets, it also eliminated the license fee on horse racing wagers and provided that beginning on July 1, 2009, and annually thereafter, \$32 million shall be appropriated from the state's General Fund and paid into the F&E Fund for the financial support of the state's network of fairs.

SB 517 (Florez), Chapter 636, Statutes of 2009. Allowed a Thoroughbred association or fair, subject to the approval of the CHRB, to alter the amount deducted from horse racing wagering. Also, allowed the distribution of funds from the amount deducted to be modified or redirected, subject to the approval of CHRB.

AB 765 (Evans), Chapter 613, Statutes of 2007. Among other things, provided that a fair, combination of fairs, or an association conducting racing at a fair, may, with CHRB approval, deduct an additional 1% from its handle, to be used for maintenance and improvements at a fair's racetrack enclosure, as specified.

SB 1825 (Kelley), Chapter 342, Statutes of 2000. Provided a minimum of \$40 million per year in license fees paid to the state by racing associations and fairs for support of the Network of

California Fairs, CHRB, and the Kenneth L. Maddy Equine Analytical Chemistry Laboratory at UC Davis.

REGISTERED SUPPORT / OPPOSITION:

Support

California Authority of Racing Fairs

Opposition

None on file

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