

Date of Hearing: June 30, 2016

ASSEMBLY COMMITTEE ON GOVERNMENTAL ORGANIZATION

Adam Gray, Chair

SB 1240 (Hall) – As Amended April 5, 2016

SENATE VOTE: 36-0

SUBJECT: Horse racing: thoroughbred racing: northern, central, and southern zones: auxiliary offsite stabling, training, and vanning

SUMMARY: This bill makes detailed and extensive modifications to existing provisions in Horse Racing Law pertaining to the Stabling and Vanning Fund (S&V Fund) to help horsemen and horsewomen in the northern, central, and southern zones defray the costs of having to transport and stable their race horses at auxiliary training facilities in California. Specifically, **this bill:**

- 1) Increases the amount that is required to be deducted by a racing association or racing fair in the northern, central, and southern zones from 1.25% to 2% and provides that this amount in the northern zone, if adjusted by the California Horse Racing Board (CHRB), may be a different percentage of the handle for different associations and fairs, but only if all the associations and fairs agree to the differing percentages.
- 2) Establishes an auxiliary offsite stabling and training facility and vanning program for thoroughbred races in the northern, central, and southern zones.
- 3) Revises and recasts provisions governing the organization formed and operated to administer the S&V Fund to include, among other things, a 50-50% allocation of specified voting interests on the board of the organization, the use of funds to compensate the provider of a CHRB approved auxiliary facility for offsite stabling and training of thoroughbred horses in the northern, central, and southern zones, and the requirement that the organization submit its proposed financial and operational plans for the upcoming calendar year to the CHRB for review no later than November 1 of the preceding year.
- 4) Requires that the 2% of funds of the total amount handled, as specified, be used to pay the organization's expenses in the northern zone.
- 5) Requires, in the northern, central, and southern zones and at the request of the CHRB, the organization to submit a report detailing all of its receipts and expenditures over the prior two fiscal years and, upon request of any party within the organization, that those receipts and expenditures be audited by an independent third party selected by the CHRB at the organization's expense.
- 6) Provides that the funds be used to cover all or part of the cost of vanning thoroughbred horses in the northern, central, or southern zone from a CHRB approved auxiliary offsite stabling and training facility. Also, authorizes the organization to enter into multiyear contracts for auxiliary facilities in the northern, central, or southern zone, subject to specified conditions.

- 7) Authorizes the organization to use the funds to pay back commissions, purses, and owners' premiums to the extent that the deductions made exceed in any year the amount of the funds necessary to achieve the objectives of the organization.
- 8) Authorizes a thoroughbred racing association or fair in the northern zone to opt out of the auxiliary offsite stabling and training facility and vanning program, as specified.
- 9) Provides that the CHRB shall reserve the right to adjudicate any disputes that arise regarding costs or other matters relating to the furnishing of offsite stabling, training, or vanning.
- 10) Contains an urgency clause to take effect immediately.

EXISTING LAW:

- 1) Provides, under existing law, Article IV, Section 19(b) of the Constitution of the State of California, which the Legislature may provide for the regulation of horse races and horse race meetings and wagering on the results.
- 2) Authorizes the CHRB to regulate the various forms of horse racing authorized in this state.
- 3) Defines "pari-mutuel wagering" as a form of wagering in which bettors purchase tickets of various denominations on the outcome of one or more horse races.
- 4) Requires, when satellite wagering is conducted on thoroughbred races at associations or fairs in the northern zone, that an amount not to exceed 1.25% of the total amount handled by all of those satellite wagering facilities be deducted from the funds otherwise allocated for distribution as commissions, purses, and owners' premiums.
- 5) Provides that, when satellite wagering is conducted on thoroughbred races at associations or fairs in the northern, central, or southern zone, an amount equal to 1.25% of the total amount handled by all of those satellite wagering facilities must be deducted from the take-out for the benefit of the S&V Fund. This deduction is to compensate for the additional stalls beyond the number of usable stalls the association is required to provide under existing law and for the vanning of starters from these additional stalls on racing days for thoroughbred horses.
- 6) Provides an organization formed and operated by thoroughbred racing associations, fairs conducting thoroughbred racing, and the organization representing thoroughbred horsemen and horsewomen, to administer the fund to provide reimbursement for offsite stabling at sanctioned auxiliary training facilities and for the vanning of starters from these additional stalls on racing days for thoroughbred horses.
- 7) Divides the state into three geographical zones for regulating horse racing (northern zone, central zone and southern zone) and with respect to racing meetings conducted in the northern zone, requires the association or fair conducting the meeting to provide all stabling required by the CHRB without cost to participating horsemen.

FISCAL EFFECT: Unknown

COMMENTS:

Horse racing law provides for the Stabling and Vanning Fund (S&V Fund) to help horsemen and horsewomen defray the costs of having to transport and stable their races horses at auxiliary training facilities. These statutes date back to the late 1980s and early 1990s when wagering at satellite facilities located on fairgrounds and racetracks was the only form of off-track pari-mutuel wagering available. The S&V Fund was financed exclusively from revenue generated at satellite wagering facilities in this state. With the advent of advance deposit wagering (ADW), the pari-mutuel handle began to migrate from satellite wagering facilities to online ADW sources. The subsequent decline in handle at satellite facilities has resulted in a significant depletion of revenue to the S&V Fund.

In 2013, Hollywood Park racetrack announced the discontinuance of racing which created a severe stabling and training problem for the horse racing industry. The CHRB and the racing industry were able to negotiate an agreement for Hollywood Park to remain open for stabling and training through the first quarter of 2014, but had to find other stabling and training facilities to replace Hollywood Park immediately thereafter.

Industry stakeholders and the CHRB came together to reach agreements and the necessary commitments were made to preserve thoroughbred racing in southern California. Specifically, Los Alamitos race track built 500 new stalls to accommodate thoroughbred training on a year-round basis; the San Luis Rey Training Center, located in Bonsall (San Diego County) was upgraded with an improved track and renovated barns to play a major stabling role; Fairplex Park, located in Pomona, agreed to provide stabling and training for a limited time; and, Santa Anita race track and Del Mar race track continued to operate race meets and stabling programs.

More recently, due to the decision by Fairplex to discontinue training and racing, the CHRB granted Galway Downs training center in Temecula a conditional license to begin providing stalls and training. The CHRB and the industry are hopeful that a new training center will eventually be built somewhere in southern California to accommodate the horse racing industry which plays a vital role in the state's economy.

In northern California, the two licensed auxiliary offsite stabling facilities, Alameda County Fair and Golden Gate Fields, have been operating with deficient balances. In 2014, the Alameda County Fair lost approximately \$300,000 in off-track stabling operations.

In addition, for more than a decade, horse racing has been a declining industry in California. Some argue that the decline stems from increased competition from expanded gaming in California to the inability of the industry to attract new fans. Further exasperating the problem is the downturn in the economy, which has significantly affected the amount, wagered (the handle).

Purpose of the bill: According to the author, this bill is intended to address vanning and stabling issues for the racing industry in California. The author states that current statutory language limits available funding and decision-making flexibility. This bill gives the CHRB and the organization governing the S&V Fund more flexibility in governance and decision-making. Furthermore, it provides for additional money from purses and commissions to help stabilize the S&V Fund.

The author's office claims that without the changes the S&V Fund will continue to operate in the red and the two-licensed auxiliary offsite stabling facilities in northern California will continue to lose money.

Related Legislation: AB 2011 (Cooper) of 2016. Among other things, increases the amount that is required to be deducted by a racing association or racing fair in the northern zone for the S&V Fund from an amount not to exceed 1.25% to 2% of the total amount handled by satellite wagering facilities, as defined. (Pending in Senate Appropriations Committee)

Prior legislation: AB 650 (Perea) of 2015). Would have increased the portion of the take-out used to fund the S&V Fund from 1.25% of handle on wagers made on thoroughbred races at northern California satellite facilities to 2% of handle. Also, restructures the organization that governs the S&V Fund. (Pending in Senate Rules Committee).

SB 766 (Negrete McLeod), Chapter 616, Statutes of 2009. Authorized the CHRB to shift money around from various funds dedicated for specific purposes within horse racing that are in surplus, such as the promotions fund and workers' compensation fund, to others that are in deficit, such as the S&V Fund.

SB 1805 (Florez), Chapter 883, Statutes of 2006. Provides that any funds that are not used to defray the cost of workers' compensation insurance from the supplemental "takeout" may be used for reimbursing racing organizations for safety improvements to racing and training surfaces.

AB 701 (Horton), Chapter 40, Statutes of 2004. Provided a framework for the deduction from pari-mutuel pools in order to address increased costs in workers compensation insurance in the horse racing industry. Required Thoroughbred racing associations to deduct an additional one-half percent of the total amount handled in exotic pari-mutuel pools to be used to defray workers' compensation costs in the horse racing industry.

AB 2931 (Horton), Chapter 922, Statutes of 2002. Authorized racing associations to use existing industry funds (stabling and vanning and promotion funds) for use in developing a program to offset workers' compensation rates for horse trainers in the state.

REGISTERED SUPPORT / OPPOSITION:

Support

Del Mar Thoroughbred Club
Oak Tree Racing Association

Opposition

None on file

Analysis Prepared by: Eric Johnson / G.O. / (916) 319-2531