

CALIFORNIA AUTHORITY OF RACING FAIRS

Live Racing Committee

Tuesday, February 5, 2013

MINUTES

A teleconference meeting of the California Authority of Racing Fairs Live Racing Committee was held at 11:00 A.M., Tuesday, February 5, 2013. The meeting was hosted at the CARF offices, 1776 Tribute Road, Sacramento, California.

CARF Live Racing Committee members attending: John Alkire, Randy Magee, Rick Pickering, Tom Sawyer and Tawny Tesconi. Joining by conference call: Jim Morgan and Mike Paluszak.

Staff and Guests attending: Christopher Korby, Larry Swartzlander, Tom Doutrich, Heather Haviland, Amelia White, Raechelle Gibbons, Anne Grottveit, Louie Brown, Dave Elliott, Allen Aldrich and Richard Lewis. Joining by conference by: Kelly Violini, Michael Margetts and Cindy Olsen.

**Agenda Item 1 – Date, Time and Location of Next Meeting.** The next CARF Live Racing Committee meeting will be held March 5, 2013 in Sacramento.

**Agenda Item 2 – Approval of Minutes.** Ms. Tesconi moved to approve the meeting minutes as presented. Mr. Sawyer seconded, unanimously approved.

**Agenda Item 3 – Report, Discussion and Action, if any, on Legislative Program.** Mr. Alkire elected to defer this item to the CARF Board of Director’s meeting at 12:30 p.m.

**Agenda Item 4 – Report, Discussion and Action, if any, on Sonoma County Fair Use of CARF Management Services for 2013.** Mr. Korby reported that this agenda item was included at the request of the Sonoma County Fair and was placed early on the agenda because the resulting discussions could impact subsequent agenda items. Ms. Korby turned the agenda item over to Ms. Tesconi.

Ms. Tesconi stated that fellow Committee members should be familiar with Sonoma County Fair’s concerns regarding increasing CARF expenses for managing live race meets as all Fairs Managers have been copied on correspondence between Sonoma County Fair and CARF staff. Ms. Tesconi added that between 2012 actuals and the 2013 budget; CARF costs increased approximately \$220,000, even though the number of live racing days continues to decline.

Ms. Tesconi stated that she and her staff have done their due diligence to determine the cost of Sonoma County Fair operating their meet without CARF services. The results of that process indicate that running the meet internally is a more viable option long-term. Ms. Tesconi added that the CARF model for providing live racing services to member Fairs is broken and needs to be fixed. In a time

when Fairs have been cutting salaries and staff, CARF salaries have actually increased and the benefits and pay given to seasonal staff seems disproportionate to the realities of today's economy.

Ms. Tesconi stated that in January, her Board of Directors gave her the authority to withdraw from CARF live racing support services if Sonoma County Fair's concerns were not adequately addressed by CARF staff. Ms. Tesconi stated that the recent written response she received from Mr. Korby did nothing to alleviate those concerns and did not address Sonoma County Fair's request to consider reducing expenses by 15 percent. Instead, the letter was a six page response defending the current CARF budget and outlining past services CARF has provided the Fair.

Ms. Tesconi stated that she was disappointed in CARF staff's unwillingness to consider reducing expenses and though it is not Sonoma County Fair's intent to harm the other live racing Fairs, Sonoma County Fair will be formally withdrawing from CARF services to manage the 2013 race meet.

Mr. Korby stated that he respectfully disagrees with the characterization that there was an unwillingness to look at cutting CARF expenses. Furthermore, at the beginning of the year, CARF staff requested twice to meet with Sonoma Board Directors and Ms. Tesconi. The resulting response to that request was a letter that specifically demanded written reports detailing a 15 percent reduction in CARF expenses as a precondition to any meeting in which Sonoma County Fair's future with CARF would be discussed.

Ms. Tesconi stated that she and Mr. Korby would have to agree to disagree in regards to CARF's willingness to reduce expenses.

Mr. Korby asked if the Sonoma County Fair has taken into consideration the elimination of F&E funding and the need for the live racing Fairs to begin absorbing costs that had traditionally been subsidized by outside sources.

Ms. Tesconi replied that regardless of prior funding sources, Sonoma County Fair has done its due diligence and has determined that they can run their meet more efficiently without CARF services. Ms. Tesconi stated that the day is going to come, one way or another, when the Sonoma County Fair will withdraw from CARF services.

Mr. Korby reiterated, for the record, that CARF staff has always been more than willing to sit down with the Sonoma County Fair and discuss reducing expenses, but CARF staff is unwilling to accept an arbitrary reduction in expenses as a precondition for a meeting.

Mr. Swartzlander stated that two years ago, CARF requested to meet with each Fair and look at the Fair's racing expenses so that they could collaborate and look for redundancies and opportunities for cost savings. In 2012, CARF eliminated the program/telecommunications position and existing staff resumed those responsibilities. The responsibilities that could not be absorbed by existing staff were performed by a seasonal employee at a cost of \$17,000 versus \$76,000. The

simulcast coordinator position was also eliminated, saving \$32,000. CARF staff is continually looking at creating more efficiency in the racing office.

Ms. Tesconi stated that the largest cost-savings Sonoma County Fair will realize in running the meet themselves is in salaries, such as paying \$15,000 for a racing secretary instead of \$28,000.

Mr. Magee stated that there seem to be two issues at work, one being the cost to manage CARF as an agency and the other being day-to-day racing expenses. The focus of cost cutting in Pleasanton in the past has been at the local level.

Ms. Tesconi stated that the Sonoma County Fair has already cut local level costs to a bare minimum, the problem is the costs that are being passed down from CARF, which increase year after year while the number of race days decrease, creating a decline in profitability. Ms. Tesconi stated that if Fairs want to remain in racing and dedicate 60-70 acres of valuable land to the sport, we must figure out how to shore up the dam.

Ms. Tesconi stated that as a public servant expected to stay within budget guidelines, it is difficult to find out in October that CARF expenses are over budget and then receive a 2013 CARF budget in December of 2012 that includes significant increases in costs. Ms. Tesconi added that by serving as a Fair Manager, she has an obligation to make sure she is doing the best for her Fair and the public, and in her opinion, the CARF model needs to be blown up and we need to start again.

Mr. Alkire stated that it is obvious that Ms. Tesconi and the Sonoma County Fair Board of Directors have done their due diligence. They have discussed the possibility of leaving CARF for the past two years, and as a group, we should respect their decision. Mr. Alkire added that he regrets the involved parties cannot come together and work to resolve the issues at hand, but maybe with costs increasing and the economy the way it is, that would have been a difficult task to achieve.

Mr. Pickering stated that as a member of the CARF Board of Directors, he would still offer to meet with Ms. Tesconi and her Board to answer any questions he could.

Ms. Tesconi stated that her Board of Directors understands why costs went up and what CARF has done for the Sonoma County Fair in the past. Her Board wants to hear about cutting costs for the future, especially with so much valuable land on the fairgrounds being dedicated to horse racing.

Mr. Korby stated that Sonoma County Fair picking up an additional week of racing was a collective CARF effort. One of the reasons expenses went up in 2012 was because the Sonoma County Fair made a decision not to accept a recommendation from CARF that would help cut expenses and reduce the overpayment of purses. Mr. Korby added that millions of dollars have gone through CARF to the Sonoma County Fair.

Mr. Pickering cautioned that talking about using Fair property for something other than racing alters the support a facility receives from bettors, horsemen and the racing industry.

**Agenda Item 5 – Report, Discussion and Action, if any, on CARF Policies Regarding Security Agreement for Monies Owed the Agency by Member Fairs.** Mr. Korby reported that he and Ms. Grottveit have been working since mid-2012 on a security agreement that would serve as a mechanism to carefully and deliberately structure the flow of funds between CARF and member Fairs. Ms. Grottveit has been in contact with Jerry Blair who is reviewing the agreement on behalf of DAAs.

Mr. Korby stated staff would like to explore a new direction that would allow CARF Board approved policy to govern these financial transactions in lieu of a signed agreement. Mr. Korby will be working with the Finance Committee to bring policy language to the next meeting.

**Agenda Item 6 – Report, Discussion and Action, if any, on Overpayments from CARF Consolidated Purse Account in 2012.** Mr. Korby reported that the meeting packets include a spreadsheet titled “2012 Consolidated Fair Purse Report” that shows the current status of overpayments/underpayments by Fair and the overall status of the current balance of the consolidated purse account. The report also enumerates specific race days and the resulting overpayments.

Mr. Swartzlander presented the spreadsheet in detail and noted that the consolidated purse fund for the CARF meets is currently \$81,924 overpaid, which is a positive number when compared to the initial projection of \$321,000 overpaid. The bottom of the sheet includes projections for overpayments and simulcast-only generation for key race dates. CARF staff is projecting that \$329,000 could be saved by choosing not to run on those dates in 2013. Mr. Swartzlander reported that the balance of money left in the consolidated purse fund is approximately \$550,000. The goal of CARF staff is to maintain the consolidated purse account balance for as long as possible and to make the consolidated purse program self-sustaining.

Ms. Gibbons provided a detailed overview of the NCOTW, Inc. expense fund.

The conversation segued to overpayments and Mr. Pickering stated that the importance of the consolidated purse fund is that a Fair by itself can lose large amounts of money with one bad race day and the Fair is on the hook for paying that purse money out to horsemen. In the case of an underpayment horsemen will push for retro checks. Ms. Tesconi replied that CARF is holding \$110,000 from Santa Rosa for overpayments, so the benefit of the consolidated purse program doesn't seem to apply. Ms. Gibbons responded by saying that in years past, before the consolidated purse program, if a Fair produced an overpayment for the meet, those funds were withheld from the Fair's commissions and reconciled the following year.

Mr. Korby stated that one of the reasons this item was on the agenda was to discuss Sonoma County Fair's overpayment. Ms. Tesconi asked if all Fairs incurring overpayments had those funds withheld from their commissions. Mr. Korby responded that the money being held on behalf of Sonoma County Fair was for overpayments incurred on Wednesdays when CARF recommended the

Sonoma County Fair not run. Other member Fairs also desired to have additional race days to complement their Fair schedule, but followed CARF's recommendation to not run Wednesdays for the benefit of the overall consolidated purse fund.

Ms. Tesconi asked what Board policy was used to determine the decision to hold Sonoma County Fair's overpayment from its commissions. Mr. Korby reported the decision was made based on a recommendation by CARF staff in 2012 and that the CARF Board of Directors has yet to take action to determine if Sonoma County Fair's overpayment incurred on days CARF staff recommended they not run be paid out of CARF reserves. Mr. Korby stated that Sonoma County Fair's overpayment has already been paid out to horsemen by CARF. Now the matter is determining which party is responsible for the liability and if any Fair should be able to ignore a CARF recommendation and still be protected from financial consequences. Ms. Tesconi reiterated that there is no CARF policy in place today that stipulates Sonoma County Fair has to pay for their overpayments while no other Fair is required to do so. Mr. Alkire added that a number of years ago Fresno incurred a \$450,000 overpayment and the CARF group determined that Fresno was liable for most of that overpayment.

Ms. Tesconi asked to clarify that CARF is holding a \$550,000 cushion in the supplemental purse account that originated over several years from F&E funding, even though F&E supplemental purse funding no longer exists today. Mr. Korby replied that Ms. Tesconi's statement was incorrect. The balance in the existing consolidated purse fund exists from purse generation.

Ms. Tesconi stated that in the CARF meeting minutes from March/April there was discussion by the CARF Live Racing Committee regarding the need to adopt a policy before the 2012 race meets and not arbitrarily charge Fairs, but the issue was never resolved. Additionally, commissions were withheld from the Sonoma County Fair in the amount of \$110,000 even though the entire consolidated purse program for 2012 was \$82,000 overpaid. Ms. Tesconi stated that if the goal of the consolidated purse program is for Fairs to work together, it doesn't seem reasonable take more from Sonoma County Fair than the existing overall overpayment.

Ms. Tesconi asked if CARF is withholding commission from any other Fair in the room. Ms. Gibbons confirmed that CARF is not. Mr. Korby added that no other Fair in the room went against CARF's recommendation to not run Wednesdays, knowing that the decision to run on Wednesdays could be detrimental to the horse population and the consolidated purse program based on existing circumstances in the racing industry.

Mr. Pickering asked for an accounting of the commissions being withheld from Santa Rosa. Mr. Korby replied that \$139,846 is the total overpayment from the three Wednesdays run at Santa Rosa (\$58,846 in overpayment to purses and \$81,000 in lost revenue from the opportunity to benefit from simulcast-only days). Late purse revenue received after the overpayments were calculated brought the figure down to \$110,000. Ms. Tesconi stated that under this scenario there is no advantage for Sonoma County Fair to be in the CARF consolidated purse program.

Ms. Tesconi stated that she would have to agree to disagree and let legal counsel sort it out.

Mr. Korby stated that the CARF Live Racing Committee and Board of Directors still have to determine policy for Fairs that go against CARF recommendations thereby incurring an overpayment situation. Mr. Korby stated that his preference would be to adjust Santa Rosa's overpayment as part of a purse reduction in Santa Rosa's 2013 purse structure, which is the traditional method for reconciling overpayments.

Mr. Korby asked if Ms. Tesconi had a recommendation. Ms. Tesconi stated she would have appreciated a phone call before she received a statement showing commissions being held, at which time some sort of resolution could have been negotiated.

Mr. Korby asked if Ms. Tesconi received his e-mail correspondence last year outlining the inevitable overpayment that would be incurred if Sonoma County Fair ran on Wednesdays. Ms. Tesconi stated that there was correspondence regarding CARF's recommendation not to run on Wednesdays and that the matter was discussed in CARF Live Racing Committee meetings, but though the issue was discussed, it was never resolved. It was never decided or implied that CARF would withhold Wednesday overpayments from commissions.

Mr. Pickering stated that we need to keep this conversation moving forward. He asked Ms. Tesconi if there was an opportunity for CARF and Sonoma County Fair to split the overpayment amount being held for the three Wednesdays in question. There might also be an opportunity for CARF staff to look at cutting live racing expenses by 10 percent over the next year. Mr. Pickering asked if those two items might be sufficient to keep Santa Rosa participating in CARF services through 2013. Mr. Pickering stated that attorney's fees alone could exceed the amount Santa Rosa is trying to save in CARF expenses. Mr. Pickering stated that it would be beneficial for everyone if Santa Rosa could go home with some money and the other Fairs could be assured that daily expenses billed through CARF would not increase due to Santa Rosa's lack of participation.

Ms. Tesconi stated that her Board views CARF management of the race meet and the commissions being held for overpayments as two separate issues, so she cannot speak to Mr. Pickering's suggestion. Mr. Pickering thanked Ms. Tesconi for her honesty and asked how the CARF Board can work a compromise with the Sonoma County Fair Board of Directors if they are not going to give Ms. Tesconi the authority to negotiate. Mr. Pickering added that it comes back to the 15 percent reduction in CARF expenses. Is a 15 percent reduction a prerequisite to a meeting to discuss negotiating the overpayment and reducing CARF expenses by 10 percent? If so, obviously that goal is unattainable and the circumstances are unfortunate.

Mr. Korby stated that he would be in favor of Mr. Pickering's suggestion to negotiate the overpayment and look at reducing CARF expenses by at least 10 percent. Mr. Korby stated that as part of those discussions, clear policies need to be adopted regarding overpayments because the balance left in the consolidated purse fund is all that Fairs have left and keeping that safety net whole

is crucial. CARF member Fair's must have a policy determining which risks are shared risks and which are not.

Mr. Magee stated that he supports Mr. Pickering's suggestion because if the Sonoma County Fair does leave CARF services, the remaining Fairs will be forced to revisit the CARF budget to keep the daily rates manageable.

Mr. Pickering moved to release 50 percent (\$56,000) of the commissions being held from Sonoma County Fair for the purse overpayments incurred while running three Wednesdays in 2012 contrary to CARF's recommendation. Additionally, Santa Rosa will continue to participate fully in CARF live racing management services for the 2013 season with a joint commitment between CARF, Sonoma County Fair and all live racing Fairs to reduce CARF expenses by at least 10 percent. Due to existing CARF contracts some reductions may occur in 2013, but others might not be feasible until 2014. Mr. Sawyer seconded. YES VOTE: Randy Magee (Pleasanton), Rick Pickering (Sacramento), Tom Sawyer (Stockton) and John Alkire (Fresno). ABSTAIN VOTE: Mike Paluszak (Vallejo), Jim Morgan (Ferndale) and Tawny Tesconi (Santa Rosa). MOTION PASSES 4-0-3.

**Agenda Item 7 – Discussion and Action, if any, on Financial Reports on Purses and Pari-Mutuel Commissions at Racing Fairs in 2012.** Mr. Alkire stated that this item was sufficiently covered under Agenda Item 6.

Mr. Elliott asked to clarify that starter purses and participation purses come out of the \$550,000 consolidated purse fund balance. Mr. Swartzlander confirmed that they do and that both of those items would be reviewed and adjusted with the 2013 purse schedule.

**Agenda Item 8 – Report, Discussion and Action, if any, on Specific Racing Days per Week at Fairs in 2013.** Mr. Korby reported that the horse shortage Northern California has been experiencing is not changing. With that in mind, staff will be carefully analyzing trends and will bring a recommendation back to the Live Racing Committee. Mr. Korby stated that the recommendation might include a request to run fewer days. Mr. Korby stated that the Humboldt County Fair (due to Golden Gate Fields overlap) was an example that not running Thursdays might be a better option than Wednesdays.

**Agenda Item 9 – Discussion and Action, if any, on Planning for the 2013 Fair Racing Circuit.** Mr. Swartzlander reported that it is time to start determining and negotiating the 2013 purse schedule. The goal is to have a self-sustaining purse program in 2013.

Mr. Swartzlander reported that the Pegasus Communications (TV production) contract is up for renewal as is the starting gate contract. Mr. Swartzlander stated that he expects a \$50 per day increase on the starting gate and a 1-5 percent increase on the Pegasus Communications contract.

**Agenda Item 10 – Report, Discussion and Action, if any, on Racing License Application Time Table.** Mr. Swartzlander reported that the CHRB license application schedule is available online. The Pleasanton application is due March 22, 2013.

**Agenda Item 11 – Executive Director’s Report.** Mr. Korby reported that the former CHRB Chairman Keith Brackpool submitted his resignation to buy an equity position in The Stronach Group and head West Coast operations.

Mr. Korby reported that Los Alamitos Racecourse is announcing plans to expand their racing surface.

Mr. Korby requested that as part of reviewing CARF expenses, Fairs also share their local racing-related expenses so that we are looking at the whole picture. Mr. Magee asked to clarify that a reduction in local expenses would not count toward the 10 percent reduction in CARF expenses. Mr. Korby confirmed that they would not. Mr. Pickering added that sharing local expenses gives both parties the opportunity to look for overlap and redundancies.

Respectfully submitted,  
Heather Haviland