

CALIFORNIA AUTHORITY OF RACING FAIRS

Board of Directors
& Live Racing Committee
Tuesday, June 5, 2007

Minutes

A meeting of the California Authority of Racing Fairs Board of Directors and Live Racing Committee was held at 11:00 A.M., Tuesday, June 5, 2007. The meeting was conducted at the California Authority of Racing Fairs office located at 1776 Tribute Road, Sacramento, California, 95815.

Board of Director members attending: Joe Barkett, Dan Jacobs and Rick Pickering. Joining by conference call: John Alkire, Stuart Titus and Forrest White.

Live Racing Committee members attending: Joe Barkett and Rick Pickering. Joining by conference call: John Alkire, Chris Carpenter, Stuart Titus and Forrest White.

Staff and Guests attending: Christopher Korby, Larry Swartzlander, Heather Haviland, Margot Wilson, Louie Brown and Rick Wood.

Board Agenda Item 1, LRC Agenda Item 1 – Establish Date of Next Meeting/Adoption of Minutes. The next CARF Board meeting is set for July 3, 2007 at the Alameda County Fair. The Board/LRC meeting is pending issues that may arise from the upcoming CHRB meeting.

Mr. Pickering moved to approve the Board minutes as presented. Mr. Jacobs seconded, unanimously approved.

Mr. Barkett requested a grammatical change to the Live Racing Committee Meeting Minutes, Agenda Item 3, last sentence, to change the word “order” to “ordered.” Mr. Pickering moved to accept the minutes as amended. Mr. White seconded, unanimously approved.

Board Agenda Item 2, LRC Agenda Item 2 – 2007 Legislation. Mr. Brown reported that SB 379 (Denham), exempting the Dubai Cup from the list of imported races not subject to the 23 import cap, is moving along just fine and passed the Senate.

The CARF sponsored bill AB 765 (Evans) that allows Fairs to take up to an additional 1 percent takeout from handle for maintenance and improvements at Fairs will be up for a vote tomorrow. The language that created concern amongst Republicans due to the tax levy implications have been removed through several amendments. Mr. Brown has been in contact with the Republicans on a daily basis and foresees no opposition to the bill.

Mr. Brown and Mr. Korby thanked Mr. Alkire and Mr. White for making outreach to Michael Villines and Greg Aghazarian, who are very important Republicans and part of the leadership team that will assist their caucus in aligning with Fairs.

One small setback to AB 765 was that the California Horse Racing Board (CHRB) made contact with the Assembly of Appropriations Committee and expressed concerns that they should have authority to approve an increase in takeout to each requesting Fair. Mr. Barkett stated that he and Mr. Moore had conversed with Commissioner Harris at the last CHRB meeting and Mr. Harris made it very clear that he had a standing objection to any increase in takeout.

Mr. Brown asked the Governor's Office when they had given the CHRB permission to make contact with Committees on bills. The Governor's Office answered that the CHRB does not normally have that authority. Mr. Brown will work with the Governor's Office to try and remedy the CHRB involvement.

SB 873 (Florez), which addresses the Fair funding and other industry issues by retaining \$60 million from the Indian Gaming Compacts, was held in the Senate Appropriations Committee and is dead for the year. However, that does not mean the concept is dead and some of the industry is putting together a Revitalization Plan that addresses many of the same issues.

Senator Florez had made this bill his top priority to get off the suspense calendar and he had taken some amendments offered by the Senate Appropriations Committee to decrease the budgetary effect, yet the Committee still held the bill. Senator Florez still seems committed to the idea but is understandably disappointed.

Another major discussion taking place in the industry is Advance Deposit Wagering (ADW). The "industry" proposal involves the principles meeting with Anthony Portantino who authored the bill, AB 813, the vehicle for extending ADW. One unresolved issue remains location fees. CARF has made it very clear that we do not want to see any reduction at all in license fees. Los Alamitos also opposes a reduction in locations fees.

Mr. Brown reported on discussions regarding a middle-of-the road approach that creates another tier for location fees. The discussed example of language would state that between \$500 and \$750 million would be 1 percent; after \$750 million the location fee would be reduced to 0.5 percent. It is important to resolve industry issues because labor is now entering the discussions with their concerns.

Mr. Barkett asked if MAGNA, Bay Meadows and the other major associations opposed the 1 percent location fee. Mr. Brown reported that he hadn't heard them voice anything on the issue other than Mr. Liebau and Ms. Thurman mentioned that we would be hitting the \$500 million in the next couple of years and then the 1 percent would become an issue.

Mr. Korby stated that he felt the tiered approach was a reasonably amiable solution in that \$750 million is a pretty distant target and a 5 year sunset would allow everyone to revisit the language. The Board directed Mr. Brown that they would support Mr. Korby's suggestion.

Mr. Korby brought to the group's attention that current language stipulates that new satellites would not receive locations fees. Mr. Korby stated that CARF would work to clarify that new satellites of existing licensees would be grandfathered in.

AB 649 (Ma) with language that increases jockey mount fees is facing some issues as the jockeys have changed their position.

Mr. Brown moved the discussion to the global perspective on compacts and the industry Revitalization Plan. Everyone at the Capitol is looking to have an on time budget and the Governor wants to see the compacts move right about the same time. That means labor and horse racing will not get their deal of \$300 million from the compacts. So, a new scheme has come together, which involves privatizing lottery and installing video lottery terminals (VLT). The idea is that 30,000 machines would generate \$1.6 to \$2 billion a year for the state. Of the money generated, \$1.5 billion would be earmarked for a universal healthcare proposal, and the remainder would be left over for the racing industry.

Mr. Barkett questioned whether 30,000 machines at private racetracks and card clubs would actually generate \$1.6 billion. Mr. Brown indicated that \$2 billion is projected, but he felt that this proposal might be a political move to divert the racing industry while the compacts are passed. Mr. Pickering added that partnering with the lottery at the Pleasanton satellite has proven successful and created a new revenue stream (the return from the racing dollar wagered is 2 percent and the return from a lottery ticket is 6 percent).

Mr. Korby introduced the California Horse Racing Comprehensive Strategic Growth Plan (known as the Revitalization Plan), which is a proposal that most, if not all, of the industry can back for Legislative Day. The Revitalization Plan is a \$150 million program that could possibly improve the game and improve the future of California racing. The five key strategies in the plan are: 1) Elimination of License Fees in SB 873 (Florez); 2) Electronic Horse Racing Games; 3) Sponsorship Monies from Gaming Tribes; 4) Elimination of sales tax on race horses bought, sold and claimed; and 5) Elimination of some restrictive Horse Racing Laws. There needs to be minor changes to the plan, but this package can be sold as the alternative to the privatization of the lottery and the installation of VLTs.

Mr. Korby made the group aware that Rod Blonien is drafting language that would increase the number of satellites to 15 “mini-satellites wagering facilities” in each zone with certain restrictions and limitations. The language is not yet in bill form. Mr. Barkett stated that he felt CARF should not protect exclusivity and should not be the obstacle to growth in the industry by limiting satellites to fairgrounds. However, we would be fooling ourselves if we didn’t understand that this kind of growth would eventually make fair satellite facilities obsolete. The model makes horse wagering readily accessible to the public through bars, restaurants, storefronts and card clubs. Mr. Barkett felt that CARF let an important opportunity pass by not aggressively pursuing the expansion of satellite wagering ourselves.

Board Agenda Item 3, LRC Agenda Item 3 – 2008 and Future Racing Dates. Mr. Barkett reported that Bay Meadows (BM) will be given some level of race dates in 2008. The position of the CHRB has changed drastically from the April meeting to the May meeting regarding synthetic surface waivers because it is becoming apparent that Golden Gate Fields (GGF) is not going to obtain city permits to install the new surface. A number of factors, including the possibility that GGF may need to request a waiver and political pressure from BM, have changed the CHRB’s firm stance on not granting 2008 race dates to tracks that have not installed a synthetic surface in 2007.

Bay Meadows has requested to meet with Golden Gate Fields, with the discussions to include the Horsemen and CARF in order to develop a 2008 plan. Mr. Korby reported that MAGNA has not yet met privately with BM and will not meet without notifying CARF.

Mr. White stated that Mr. Liebau and Ms. Thurman had called him and asked direct questions regarding his position on several possible proposals BM will run by GGF. Mr. Barkett reported that members of the CHRB tried to get Mr. Liebau to commit to whether BM would race the entire year of 2008, or agree to a schedule that included BM running in the Spring and Fall of 2008. Mr. Liebau seemed willing to approach a year-round schedule but would not commit. Mr. Liebau did state that he was not interested in repeating the 2007 calendar as he felt BM gave too many prime dates to GGF.

Board Agenda Item 4 – Strategic Planning. Mr. Carpenter shared with the group that he and his Board no longer felt comfortable with CARF's proposal to pool Fair racing dates. The San Mateo County Fair Board, with possible encouragement from Senator Yee, is interested in running at Bay Meadows in 2008 and possibly running in dates prior to the traditional August dates of their Fair. It is also possible that the San Mateo Fair is having discussions with BM regarding a partnership to run a satellite wagering facility.

Mr. Barkett asked Mr. Carpenter directly if it is his position that the SMCF wants to have the rights to do with its racing dates whatever it thinks is in its best interest (not necessarily participating in the CARF pool of dates that the CARF Board has been discussing for the past couple of months), and, in addition, also have the satellite wagering facility at the SMCF.

Mr. Carpenter and his Board felt that the concept of funding improvements for other fairgrounds created some fear that SMCF would be forgotten in the shuffle. Mr. Carpenter requested that SMCF be listed somewhere on the CARF race dates calendar.

Mr. Pickering asked exactly what wording Mr. Carpenter would like the CARF Board to vote on and support. Mr. Carpenter stated it was too confusing with the many different variables for him to form the wording. He felt the SMCF Board meeting and the June 19, 2007 CHRB Board meeting might bring some clarity to the situation.

Board Agenda Item 5, LRC Agenda Item 4 – Future Satellite Wagering Facility at San Mateo. Mr. Pickering directly asked Mr. Carpenter what he would like CARF to recommend so that Mr. Carpenter can take a CARF position to the SMCF Board that would be endorsed. Mr. Carpenter stated that he met with Mr. Korby and they discussed retrofitting the SMCF Oak Hall and/or Cyprus Hall. The SMCF Board is concerned about replacing the business the Halls currently conduct.

Mr. White made a motion that the CARF Board set aside \$50,000 for the design of retrofitting the Oak Hall and/or Cyprus Hall to conduct satellite wagering, pending the SMCF come to CARF with an acceptable proposal for the CARF Board's approval. Mr. Jacobs seconded, unanimously approved.

Mr. Barkett stated that if timing became an issue, the CARF Board can be brought to a special meeting to review the proposal.

Board Agenda Item 6, LRC Agenda Item 5 – CDFR Funding. Mr. Wood reported on CARF financials. Mr. Wood shared that CARF uses the same investment vehicle as CCA and CFSA. A recent changing of custodians from Smith Barney to Charles Schwab reduced administration fees from 40 basis points annually to about 27 basis points annually. CARF, CCA and CFSA are going to save about \$20,000 annually in administration fees. All three agencies combined invest a total of \$18 million. All investment strategies are based on Government codes stated for public agencies which states the longest our maturities can be is 5 years for any given purchase. Our average maturity is 1.8 years. CARF stays very conservative by staying in the 2 year range and investing in Grade A corporate bonds and Government Treasuries. We have strict investment policy and procedures for a joint-powers authority and Madison Investments follows that.

Mr. Wood reported that first quarter returns for LAIF was 5.1 percent and Madison Investment was 5.5 percent which is an annualized return. Approximately 40 percent of what can be invested is put out in the market. Madison Investments advisors will remain our primary advisors.

Mr. Korby reported that CARF had just received the \$75,000 balance per Fair for the 2006-2007 fiscal year funding for live racing facility projects that are underway or are in planning.

Mr. Korby also reported that F&E expects another shortfall of \$1.2 million. F&E is looking to fund that shortfall through reduction in operating costs, California Construction Authority (CCA) and CARF. Mr. Korby and accounting staff have been reviewing the funds that might be available through CARF. Funding possibilities include allocation for emergency generators that were never utilized and interest from F&E allocations which should realize \$500,000-\$600,000.

Mr. Pickering reminded the Board of F&E's future strategies for its Expenditure Plan for allocating funding. This new plan could place the Live Racing Backside Improvements and Equipment Replacement Fund in jeopardy since there would not be percentage allocations.

Mr. Korby recommended that the Finance Committee sit down with F&E and discuss exactly how this new Expenditure Plan will be implemented. Mr. Pickering indicated that CARF needs to do a better job of making F&E aware of our expenditures, planning and results.

Mr. Korby read to the group a letter written by Mr. Elliott to F&E requesting Live Racing Facility Improvement Funds, Pari-Mutuel Facility Upgrades and Development Funds and Equipment Replacement Funds for 2005-2006 and 2006-2007 fiscal years. Mr. White asked if CARF was obligated to pay these funds and what CARF's original position was on Fairs that are not CARF members.

Mr. Jacobs reminded the group that the CARF Board adopted a resolution that both CARF member Fairs and non-member Fairs would continue to pay the same Administrative Fees

annually established by the CARF Board on project funds flowing through CARF. Non-member Fair's annual allocations will also be reduced by an amount equal to what each non-member Fair would have paid in annual dues. Also, satellites could only participate in the Equipment Replacement Fund if they had their full deposited monies in and CalExpo has taken theirs out.

Dan Jacobs made a motion that CARF stand by their original adopted resolution, meet with F&E, and come back to the CARF Board with official direction from F&E. Mr. Pickering seconded, unanimously approved.

Board Agenda Item 7, LRC Agenda Item 6 – Executive Directors Report. Mr. Korby made the Board aware and invited them to the Racing Industry Legislative Day on June 11, 2007.

Mr. Korby reported that CARF secured \$30,000 from the California Marketing Committee (CMC) for the Live Racing Fair Recruitment Program.

CARF will be working with industry representatives and the equine medical director at the CHRB to form a new equine injury reporting protocol in conjunction with a program back East.

Mr. Korby also reported that CARF is working with legal counsel and EDD concerning certain of the CARF workers who may not qualify for independent contractor status.

Board Agenda Item 8, Evaluation of Executive Director. At 2:45 P.M., with no further business before the Board, the Chairman requested the Board move into Closed Session for Agenda Item 8.

Respectfully submitted,

Meeting Secretary