

CALIFORNIA AUTHORITY OF RACING FAIRS

Board of Directors

Tuesday, December 9, 2008

Minutes

A meeting of the California Authority of Racing Fairs Board of Directors was held at 11:30 A.M., Tuesday, December 9, 2008. The meeting was conducted at the California Authority of Racing Fairs Conference Room, 1776 Tribute Road, Suite 205, Sacramento, California, 95815.

Board Members attending: John **Alkire**, Norb Bartosik and Rick Pickering. Joining by conference call: Kelly Baldwin, Dan Jacobs and Stuart Titus.

Staff and Guests attending: Chris Korby, Larry Swartzlander, Heather Haviland, Margot Wilson, Rick Wood, Mike Treacy, Debbie Cook, Raechelle Gibbons, Kevin Wong, Dave Elliott and Dan White. Joining by conference call: Richard Lewis, Kate Phariss, Scott Grieve and Chris Workman.

Agenda Item 1 – Presentation of Audit Report by Gilbert Associates. Mr. Wong reviewed the California Authority of Racing Fairs 2007 Audit. The bulk of the audit work was done in May/June 2008. Gilbert Associates will work with CARF to accelerate the audit for 2008. Mr. Gilbert walked the group through the audit report provided to the Board of Directors.

The only control deficiencies exist with not receiving sufficient audit evidence to guarantee the revenue from Advance Deposit Wagering (ADW) generated from contracts and the segregation of paymaster duties to provide stronger internal control during live racing.

Mr. Jacobs moved to accept the 2007 CARF Audit Report as presented. Mr. Pickering seconded, unanimously approved.

Mr. Treacy requested a simplified version of the CARF financials. Mr. Pickering suggested Mr. Treacy review some of the reports used by the Finance Committee.

Agenda Item 2 – Determination of Date, Time and Location of Next Meeting. Approval of Minutes Sept. 3, 2008. The next CARF Board and Live Racing Committee meeting is scheduled for Tuesday, February 3, 2009 in Sacramento, same time and location. Mr. Pickering moved to approve the meeting minutes as presented with one grammatical correction. Ms. Baldwin seconded, unanimously approved.

Agenda Item 3 – Discussion and Action, if any, on 2009 Agency Budget. Mr. Korby reviewed the structure of the agency budget for the new Board members.

Mr. Korby reported that the 2009 budget is similar to the 2008 budget with very little change. The overall budget is so close to the previous year that there is no need to adjust member dues. Interest rates have gone down, so it is estimated that interest revenue will decrease.

There is a new line item in the expense category for the Racing Secretary position based on race dates. The post retirement benefit line item is based on the figure per employee used by CFSA. Dues and subscriptions include the NTRA dues.

Mr. Pickering moved to approve the 2009 agency budget as presented. Ms. Baldwin seconded, unanimously approved.

Agenda Item 4 – Discussion of Satellite Wagering Facilities Profitability. Mr. Korby reported that satellites are facing significant challenges by tribal gaming, transfer in handle to ADW and the current economy. These problems are magnified by increasing expenses. A couple of the small satellites are being especially tested.

Mr. Grieve stated that in the past three to four years his satellite revenue has steadily declined while expenses have increased. His Fair Board supports racing, but feels it is in a position where the operation has to cease night racing to lower costs. The Santa Barbara satellite revenue/costs are in the \$360,000 range and Mr. Grieve predicts the satellite will break even or lose approximately \$10,000 this year.

Mr. Swartzlander met with Mr. Grieve and his satellite supervisor and has several recommendations to cut costs. Mr. Grieve was adamant that there were no other feasible options to make the operation profitable. Mr. Jacobs has reviewed the recommendations for Santa Barbara and agrees that most of the savings are paper savings and not all are realistic or can be implemented at this time. Mr. Jacobs feels that CARF hasn't taken an appropriate role in securing night racing losses from Los Alamitos.

Mr. Treacy stated that we have to proceed carefully because the first facility to become unsustainable will set precedence for future facilities with economic challenges. Mr. Treacy feels CARF needs to take a leadership role in this transition.

Mr. Pickering suggested CARF create a standard chart of accounts to ensure that expenses are uniformly determined at each facility. Mr. Pickering also brought up the issue of the unpaid F&E bonds and who has ownership of the satellite equipment and improvements. A standard chart of accounts will also be valuable for future legislation increasing commissions.

Mr. Alkire reminded the group that most industries are currently experiencing challenging times and we need to think outside the box and come up with drastically new ideas. Mr. Korby asked Mr. Treacy for F&E's assistance in obtaining financial information from Fairs.

Mr. Brown added that the fundamental problem with the satellite model is that operations are controlled by statute (established around 1985) and revenues are capped, while expenses are not. The economy and art of doing business have grown beyond the legislation. The problem is that a bill taking satellite commissions from 2% to 3% is taking a percentage point away from someone else. However, cutting costs is a band-aid fix until the revenue can be addressed.

Mr. Elliott asked Mr. Grieve if he had considered contacting SCOTWInc. to look into reimbursement for daytime losses similar to the procedure for night racing. That approach could be an option though the satellite should not be expected to operate at break even.

Mr. Alkire directed staff to establish protocol for satellite viability and/or closure. Mr. Pickering volunteered to be part of a subcommittee.

Agenda Item 5 – Discussion and Action, if any, on Development of New Satellite Wagering Facilities. Mr. Korby reported Monterey is in talks with a card room in Salinas and that Santa Rosa is also in conversations with a card room. The Fair in Dixon has asked for permission to apply for a license.

The Lucky Chance Casino in Coloma, south of San Francisco, is very interested in a mini-satellite but the location is within 20 miles of the San Mateo facility and would need the Fair's approval to proceed. Mr. Korby and Mr. Carpenter have been discussing the impact and the pros and cons of potentially allowing a six-month test.

The Amador County Fair has been contacted by Jackson Rancheria Casino to place a satellite wagering facility in their casino and pass all commission revenue to the Fair. The casino sees it as an opportunity to give back to the community.

The Cow Palace is also interested in developing a satellite wagering facility. Mr. Treacy stated that finding funding for that project would be a high priority for F&E.

Agenda Item 6 – Discussion and Action, if any, on 2009 Legislation. Mr. Brown reported that legislative counsel is drafting language and looking for authors based on prior Board requests. The deadline to introduce legislation is Feb. 27, 2009. There has not been any racing legislation introduced at this point.

Agenda Item 7 – Executive Director's Report. [From Live Racing Committee meeting.] Mr. Korby reported on the state of the racing industry in California, specifically MAGNA Entertainment which operates Santa Anita and Golden Gate Fields and the imminent closure of Hollywood Park. MAGNA Entertainment is facing significant debt and their long-term future is uncertain. Fairs need to remain attentive to ongoing changes in the racing landscape and the opportunities and challenges that might be created for Fairs.

Mr. Korby reported that he received a finding from CHRB legal counsel that states monies being held by SCOTWInc. and NCOTWInc. from Sacramento Harness Association cannot be used to pay outstanding satellite commissions. CARF will continue to seek a means to secure those owed funds.

Respectfully submitted,

Heather Haviland