

CALIFORNIA HORSE RACING BOARD
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NOTICE OF PARI-MUTUEL OPERATIONS COMMITTEE MEETING

Notice is hereby given that a meeting of the California Horse Racing Board's **Pari-mutuel Operations Committee** will be held on **Wednesday, April 23, 2003**, commencing at **11:00 a.m.**, at the **Hollywood Park Casino, 1050 South Prairie Avenue, Inglewood, California**. Non-committee members attending the Board's committee meeting may participate in the public discussion, but shall not participate in any official committee vote or committee executive session.

A G E N D A

1. Discussion and action by the Committee on the matter of **"batch betting"**.
2. Update by the **ADW companies on their marketing efforts and results in California**.
3. Discussion and action regarding **advertisements in California media promoting wagering with out-of-state and offshore wagering sites**.
4. Discussion and action regarding **visits made by industry representatives to out-of-state wagering hubs**.
5. Proposed amendment to **CHRB Rule 1979.1 – Superfecta, to remove the requirement that at least five wagering interests finish the race in order to avoid a refund of the pool**.

Further information regarding the committee meeting may be obtained from John Reagan, Senior Management Auditor, at the CHRB Administrative Office, 1010 Hurley Way, Suite 300, Sacramento, California, 95825; telephone (916) 263-6000 or fax (916) 263-6042. A copy of this notice can be located on the CHRB website at www.chrb.ca.gov

PARI-MUTUEL OPERATIONS COMMITTEE

Commissioner Alan W. Landsburg, Chairman
Chairman Roger H. Licht, Member

Date of Notice: April 14, 2003

**STAFF ANALYSIS
DISCUSSION REGARDING "BATCH BETTING"**

**PARI-MUTUEL OPERATIONS COMMITTEE MEETING
APRIL 23, 2003**

Background:

"Batch betting", which has come to denote a process whereby a specific patron is allowed the privilege of connecting his or her personal computer directly into the wagering network so that the totalizator system recognizes the device as a wagering terminal. This allows the patron to process large numbers of wagers quickly and generally in the last few wagering cycles. This issue got nationwide coverage a couple of years ago when it was noted that a value player in North Dakota was making a large number of bets into the pools at Gulfstream. Literally hundreds of bets of various denominations and combinations were made automatically by the player's personal computer that had been given access to the Amtote system at that location.

At the time of that occurrence CHRB staff had discussions with Autotote representatives regarding the issue. Autotote affirmed then and continues to affirm that the company does not allow or condone such arrangements at any of its wagering locations and more specifically, no such arrangements have ever been made in California.

Recommendation:

This item is for information and discussion.

ITEM 2

STAFF ANALYSIS UPDATE FROM THE ADW COMPANIES

PARI-MUTUEL OPERATIONS COMMITTEE MEETING
APRIL 23, 2003

Background:

With a bit more than a year of Advance Deposit Wagering experience in California, the Committee has requested an update from each of the three approved ADW providers. Representatives from each of the ADW providers will be at the meeting to make opening remarks and then answer any questions that the commissioners may have regarding their ADW operations.

Recommendation:

This item is for information and discussion.

ITEM 3

STAFF ANALYSIS DISCUSSION REGARDING ADVERTISEMENTS FOR OUT-OF-STATE AND OFFSHORE WAGERING SITES

PARI-MUTUEL OPERATIONS COMMITTEE MEETING
APRIL 23, 2003

Background:

It has been noted several times in the past that industry publications and other media in California carry advertisements for out-of-state and offshore wagering sites. Since wagering via these sites by Californians has been deemed illegal by CHRB counsel and others, it has been suggested that the various media outlets that carry these ads should be required to stop advertising these illegal activities, especially within the borders of California. The publication most often mentioned in these discussions is the Daily Racing Form (DRF). Charles Hayward of the DRF has responded to these concerns in a letter included with this item. In conversations with CHRB representatives, Mr. Hayward has offered to insert the phrase "Restricted to those jurisdictions where permitted by law" in all such ads in an effort to address the concerns of the CHRB. Mr. Hayward may attend this committee meeting but will definitely be at the Board meeting to address this matter which is also on that meeting's agenda.

Recommendation:

This item is for information and discussion.

31 March 2003

John C. Harris
Chairman/CEO
Harris Farms
23300 W. Oakland Avenue
Coalinga, CA 93210

Dear John,

I hope that this letter finds you well, and I apologize for the delay in getting back to you.

Regarding the plans on the website, the pricing tries to encourage people to order more cards over a longer period of time. In addition, we have to be sensitive to cannibalization of the daily paper. We do have a new annual plan which is 120 race cards for \$189.95, which would give you unlimited access to News and Charts. We also have an annual plan for News Only (no PP's) for \$99.95. A summary of all of the online plans is available under "Purchase DRF Online Past Performance." I hope that this is helpful.

When we spoke at Santa Anita, you mentioned the concern regarding proper identification on geldings in past performance lines. We are working with The Jockey Club and various racing offices to eliminate the inconsistencies and problems. I hope to have specific details to report when I next see you.

The second subject you inquired about was advertisements for off shore wagering sites in the Daily Racing Form. First, there are two clear categories of off shore sports books; there are the ones that bet into the pools by paying for a simulcast rate and handle large volumes of wagers such as RGS in St. Kitts, which handled over \$500 million in 2002. This high volume site rebates up to 10% for high volume customers. These rebates are of some concern to some industry organizations as you know, but these sites are generally not Daily Racing Form advertising customers. The second group of off shores does not bet directly into the pools and put severe limitations of maximum payouts that eliminate any serious player from betting into their pools. There is also some anecdotal evidence that if these smaller off shores handle get a large horseracing wager, they will lay it off in a co-mingled pool.

Before proceeding, it should be noted that there has been the suggestion that the off shore advertising in DRF is illegal. This is not true. Our lawyer firmly believes that under commercial first amendment rights, we have the legal right to run these sports book advertisements. I would be happy to have our lawyer discuss our position with anyone you would designate.

In my discussions with Roger Licht, Mike Marten and Roy Wood, I did agree to consider putting some cautionary language in off shore ads. I recently submitted that language to Roy and will be following up with him.

I have attached a summary sheet which details how much our advertisers handle in total sports bets, how much they handle on horseracing and what maximum payouts they place on horse wagers.

Clearly the greatest concern we all have is whether these off shores are siphoning off significant money from the industry. I would strongly suggest that this group of off shores is not. These four sports books generated over 90% of our sports book advertising revenues of \$500,000 in 2002. In total, I believe they generated less than \$20 million for the entire year, which is the equivalent of one day of all source handle on a Saratoga weekend day.

Why all the advertising for such little handle? These books want our customers for their sports betting. SBG, our largest advertiser, limits all bets, straight and exotics on horses to a maximum of 50-1 return. I do not believe that any serious horse player would bet on those terms, and I believe that any research you do would confirm that. In addition, if SBG were to get a straight bet wager of less than 50-1, we have anecdotal evidence that they lay off this type of action with books that are betting into the pool.

If all \$20 million that is handled by non co-mingled sports books was subject to the traditional 3% simulcast fee, the total loss to the industry for the year 2002 was \$600,000. However, I would suggest the number is actually substantially less than that for two reasons: (1) as mentioned above, larger wagers find their way into a co-mingled pool where a simulcast fee is paid, and (2) a significant amount of money is bet by sports bettors that are not horseplayers, but are looking for some action.

John, if I truly thought that Daily Racing Form was encouraging a significant drain of revenues paid to purses and racetracks, we would stop taking these ads. However, our research does not bear this out and it would be a breach of my responsibility to our owners if I stopped accepting advertising that was not having a material effect on the industry.

I do believe that the more discussion that we have on this topic, the better it is for the understanding of all industry stakeholders. At the suggestion of Roger and Roy, I am planning to attend the next CHRB meeting at Hollywood Park on April 24th to discuss this issue.

I hope that this letter is helpful and I look forward to discussing this with you in more detail.

Thank you for your interest.

Regards,

Charles Hayward

SUMMARY OF OFF-SHORE BETTING

WORLD SPORTS EXCHANGE:

***Thoroughbred racing handle = \$4.9 million in 2002
1.5% of total wagers***

- Win, Place, and Show pay Track Odds.
- Trifectas pay Track Odds with a maximum payout of (300 to 1).
- Exactas, Quinellas, & Daily Doubles pay Track Odds with a maximum payout of (100 to 1).

ROYAL SPORT BOOK:

***Thoroughbred racing handle = \$1.9 million in 2002
2.5% of total wagers***

MAJOR TRACKS:

Win, Place, Show = Track Odds
Maximum pay-out on propositions
Quinella and Daily Double 275 to 1
Exacta 275 to 1
Trifecta 500 to 1

SBG GLOBAL:

***Thoroughbred racing handle = \$15 million in 2002
1.5% of total wagers***

Win, Place & Show:

Maximum odds will be 50 to 1.

Exotics:

- Exactas: maximum odds – 50 to 1
- Quinellas: maximum odds – 50 to 1
- Trifectas: maximum odds 50 to 1
- Daily Doubles: maximum odds 50 to 1

TRIPLE CROWN RACEBOOK:

Handle information not available

- Triple Crown Race and Sportsbook pays up to 300 to 1 for all other wagers.

**STAFF ANALYSIS
DISCUSSION REGARDING VISITS BY INDUSTRY
REPRESENTATIVES TO OUT-OF-STATE WAGERING HUBS**

**PARI-MUTUEL OPERATIONS COMMITTEE MEETING
APRIL 23, 2003**

Background:

The California industry, both horsemen and racing associations, recently sponsored what will most likely be the first of many inspections of out-of-state wagering hubs and wagering sites. The first tour included visits to two out-of-state hubs, i.e. sites that act as conduits for wagers that are processed and forwarded to California host tracks. The two hubs visited were the wagering hub in Hunt Valley, Maryland and the hub in Lewiston, Maine. Preliminary information was gathered during the inspections of the two hubs and further data will be collected when the team completes the cycle by inspecting wagering sites that process their wagers through these hubs. For example, visits are planned for the Racing Services (RSI) site in North Dakota which processes wagers through Hunt Valley and RGS which processes wagers through Lewiston. When the data collected from the visits to RSI and RGS have been collated with the data from their respective hubs, the inspection team will be able to provide reports with some insight into the structure of out-of-state wagering systems.

Recommendation:

This item is for information and discussion.

**STAFF ANALYSIS
AMENDING THE SUPERFECTA**

**PARI-MUTUEL OPERATIONS COMMITTEE MEETING
APRIL 23, 2003**

Background:

Paragraph (f) of CHRB Rule 1979.1 – Superfecta requires a refund of the pool “if less than five wagering interests finish the race.” A request has been forwarded from more than one racing association to delete this requirement. If the Committee believes that this would be a reasonable amendment to the rule, staff can prepare the amendment and begin the rulemaking process that would delete the above requirement.

Recommendation:

This item is for information and discussion.