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CHRB NEWS RELEASE

JUNE 24, 2010

REVIEW OF CHRB ACTIONS AND DISCUSSIONS 6-22-10

INGLEWOOD, CA – The California Horse Racing Board conducted its regular meeting Tuesday, June 22, at Hollywood Park. Chairman Keith Brackpool presided. Vice Chairman David Israel and Commissioners Bo Derek, Jesse Choper, John Harris, and Jerry Moss were in attendance.

- Before a large crowd of more than 150 industry leaders, horse owners, trainers, employees, reporters, and others interested in the future of horse racing in California, and with another 550 listening to the CHRB audio Webcast of the proceedings, Frank Stronach, chairman of MI Developments, testified about the company's plans for Santa Anita Park and Golden Gate Fields following MID's acquisition of those two racetracks along with XpressBet through bankruptcy proceedings for its subsidiary, MEC.

Chairman Brackpool welcomed Stronach and led off the discussion by acknowledging the "great deal of concern" shared by many over the future of the MID properties. He also pointed out that state law prohibits an individual or entity from having a financial interest in more than one California racing facility and/or account wagering company (ADW) unless the Board waives this restriction by determining that common ownership would be in the public interest. He reminded everyone that the Board gave MID conditional licenses in May to operate Santa Anita, Golden Gate, and XpressBet through July 22, the date of the next scheduled Board meeting, at which time the commissioners will determine whether to grant a permanent waiver. To that end, MID must provide the Board by July 1 with a full plan for operations. "We have not seen that yet, but we did request that they come to this meeting with a presentation as to their plans," said the chairman as he asked Stronach to "step forward and address what the plans are going to be." The chairman explained that the agenda item was for discussion only, so the Board would not be voting and taking any action on this matter during the meeting.

Stronach began by stating, "I'm here today to bring forward some ideas that I believe could be beneficial to horse racing in California, but first of all I would like to clear some of the air" over what he described as incorrect and inappropriate statements made at the last Board meeting. "I've never threatened to close Santa Anita," he said, and then went on to say, "The system doesn't work anymore. The model doesn't work

anymore. We need to do everything we can so that Santa Anita and Golden Gate will remain racing entities. I would like to get that message very clear. What else I want to make clear is we have invested here close to \$250 million. We haven't brought out one cent. We are prepared to invest even further if it makes business sense." He continued, "Nothing works unless there is free enterprise. That's why everybody wants to come to America, because it's one of the few countries left where you've got free enterprise. I'm a great believer that if you have a store, you should be able to open up that store whenever you think you've got the most customers. And you should be able to sell a product that customers want. I also want to state very clearly, we live in a civilized society, and a civilized society has rules and regulations to protect the public. I'm all for strong regulations to protect the public and for protecting the integrity of the sport. I will go way out of my way to support that. But once you've met all those regulations, then you should be allowed, give everybody a license. We've got a lot of factories in America. We are more competitive here because it's free enterprise. Let the best people which put on the best show, let them succeed. And the ones that don't invest, which don't put on a good show, well, they fall by the wayside. That's the way it's always been and any other way just doesn't work. But that does not mean, once we have free enterprise, that we could run anytime we want to." He described a negotiation process with other stakeholders and then added, "You've got to do it on a commercial basis. But I don't think it's a great idea when appointed government officials tell you that you've got to have a business plan, your market research, and all that kind of stuff. It doesn't lead to anything."

Stronach said he hoped to form a strong partnership with the California fairs. He described competition from casinos and lotteries that do not create as many jobs as horse racing. He bemoaned the "deterioration" of horse racing. He complained of overregulation of the industry and noted that new technology has facilitated massive illegal wagering through offshore operations. He suggested creation of a "jackpot" wager to rejuvenate horse racing, which he later described as a "quadruple quadfecta" but offered few details. "Time is running out," he cautioned, and he pleaded for all segments of the industry, including the racing commissioners, "We've got to sit down and make sure that we have a structure whereby the public would embrace that and we could bring back customers. Those are the things I want to try to get across. And it's very urgent. We are willing to sit down anytime. We try to be flexible. But when you look down, really down the road, it's got to be free enterprise. Anyway, I would be very happy to answer questions now."

Chairman Brackpool asked for details on MID's plans for the California racetracks, but Stronach said, "We won't solve everything here today because we would need hours. We've got to include horsemen. Hopefully, some of the racing commissioners will be part of this. We've got to include everybody." The chairman noted that the

deregulation of racing dates would require changes in the law, and the CHRB held committee meetings this year to solicit ideas and support from the industry for meaningful legislation, yet MID had not brought forward any legislative proposals. Noting that unless or until there are changes in the law, and “the box we’re in is the box we’re in,” the chairman asked, “What changes do you foresee in Santa Anita and Golden Gate to improve the product?” Stronach repeated his call for changes in the law and for dialogue with all stakeholders in racing, “I want to plead with the horsemen here, if we don’t sit down and come up with a good framework, racing will not be around.”

Vice Chairman Israel asked if it is true that Stronach’s California racing operations are self-sustaining, but when he did not get a direct answer, the dialogue shifted to the MEC bankruptcy. Stronach blamed overregulation, lack of cooperation and assistance from regulatory authorities, and the flow of wagering dollars offshore for his company’s financial troubles. Both Vice Chairman Israel and Chairman Brackpool reminded Stronach of his long-promised plans to improve the barns and living conditions for backstretch workers at Santa Anita. Stronach again pointed to “government roadblocks.” Commissioner Derek asked specifically what the CHRB could or should have done to facilitate the planned improvements in the stable area. Stronach said the solution would be “to work for free enterprise” and “we should be allowed to open up our store when we could get the most customers.” He said substantial sums were spent on barn renovations and on the installation and repairs to the synthetic surface at Santa Anita.

Commissioner Choper asked, apart from changing the law, which he described as “a very, very difficult task,” if Stronach had any specific plans to increase purses in California in order to attract larger fields, increase handle, and create more jobs in the industry. “You are an enormously successful businessman,” said the commissioner, “and you understand what’s going on here. Is there anything realistically that this Board can do, that the industry can do, to make a dent in the very serious problem we’ve got?” Stronach said, “First of all, you’ve got to have a concept of what would be the ideal condition, the ideal structure...but then there are realities around you, like laws and rules and regulations...and I fully realize that we’ve got to be flexible and that it would take some time to change some of those, but first we as an industry, including the California Horse Racing Board, have to say that this is what we are fighting for, this is what we are aiming for, and we’ve got to remove one block at a time.” Chairman Brackpool asked Stronach if he could be any more specific about any suggested legislation. Stronach said everyone needed to sit down “and work on a structure to make sure that Santa Anita and Golden Gate Fields will be preserved as racing entities.” Stronach repeated his call for “big jackpot betting” and to “open up when we can get the most customers.”

Commissioner Derek, referring to MID's cancellation of the Oak Tree lease at Santa Anita (a later agenda item) and the decision by the Breeders' Cup to hold the 2011 championships at Churchill Downs due to uncertainties at Santa Anita, said, "Mr. Stronach, you say you want to save California racing and you are very concerned about California racing. I'm very concerned that you've driven away the Breeders' Cup. I find that so detrimental to California racing." Stronach responded that MID had not driven away the Breeders' Cup and that he would welcome the Breeders' Cup at Santa Anita if the Board were to give MID the fall dates.

Vice Chairman Israel, while stating that he agreed with Stronach in some areas, said they have a fundamental difference on one point. "I don't see a racetrack as a store," he said. "To me, it's a public trust. There are very few of them. They are very expensive to build." He likened racetracks to American sports leagues. "The league has seasons, and they play at specific times, and the number of games they play is mandated. And it's all for the benefit of the whole." He added, "Sometimes you've got to do what's good for the whole, and that will benefit everybody in the business, and that's not what you're saying to us." Stronach described this as "socialistic philosophy" and suggested the state could pay the asking price for Santa Anita or build its own racetrack.

Commissioner Harris said, "We all appreciate that you've put a lot of money into Santa Anita." He pointed out that the CHRB does not have authority to deregulate racing dates. The Legislature does. He noted that MID has a large cadre of well-paid legislative advocates, but never has formally worked with the California Legislature to draft, introduce, or lobby for legislation that would deregulate racing dates, which Stronach described as a key element to his plan. Commissioner Harris suggested working cooperatively towards various goals, "but I don't think we're going to get anywhere if we think we're just going to solve things by deregulating racing dates." Stronach commented, "That's your opinion." As for waiting until now to consider putting forward legislation for dates deregulation, Stronach said, "We alone, we could not make any headway." He suggested that things may now have reached a point where MID could gain the support of horse owners and other industry stakeholders. "I believe we could come up with something – not right away, but we must be committed to following certain steps" toward deregulation of dates.

Commissioner Moss noted that changes in the law "take a long time." In the meantime, "Don't you believe that having the Breeders' Cup at Santa Anita for five years would be very helpful to Santa Anita in the long run and to California in general? You own the plum. What you have at Santa Anita is the greatest racetrack in the country." Stronach said the Board could have given MID the fall dates to run the Breeders' Cup at Santa Anita (instead of authorizing Oak Tree to run the dates at any thoroughbred racetrack in Southern California, such as Hollywood Park or Del Mar).

Chairman Brackpool interjected, “You didn’t request any dates.”

Commissioner Choper asked Stronach if he would have time to sit down and discuss these matters further with the chairman and vice chairman, so that when the Board considers the waiver request at the July 22 meeting, “we could have some more specific ideas.” Chairman Brackpool stressed the need for the MID plan to have specific details. Stronach agreed to such a meeting, and in fact he did meet privately with Chairman Brackpool and Vice Chairman Israel after the Board meeting, joined there by MID’s chief executive officer, Dennis Mills, and George Haines, interim president of Santa Anita.

- Next on the agenda was the Oak Tree lease issue. Sherwood Chillingworth, executive vice president of Oak Tree, said there had been no progress over the last month and that Oak Tree still did not have a lease at Santa Anita. He said Oak Tree would prefer to conduct its meet at Santa Anita, as it has done for the last 41 seasons, but that Oak Tree was in discussions with Del Mar and Hollywood Park and was prepared to move the meet to either of those two tracks if MID would not reconsider and renew the Oak Tree lease. Several commissioners expressed support for continuing to stage the Oak Tree meet at Santa Anita and they urged Stronach to reconsider – if not a long-term lease, than at least for this year alone. But Stronach repeatedly and steadfastly maintained that the lease arrangement with Oak Tree was not in the best interests of MID. “We don’t want a tenant in our house because down the road we want to accomplish certain things.” He refused to budge on this issue until influential thoroughbred owner/breeder Mace Siegel came to the microphone and asked everyone to reconsider. He pleaded with Stronach to at least agree for Oak Tree to race at Santa Anita this year. Stronach suddenly and unexpectedly changed his mind and said in the best interests of racing in general and the employees of Oak Tree in particular, he would agree to a one-year lease. Chillingworth and the four other Oak Tree directors attending the meeting – founding director Dr. Jack Robbins and directors John Barr, Dr. Rick Arthur, and Richard Mandella – left the meeting room to consider the one-year offer. They returned and announced they would renew the lease for one year under the terms of the old lease.
- The Board approved the OC Tavern in San Clemente to open as a mini-satellite, provided the San Clemente City Council gives its permission for the restaurant/bar to conduct wagering when the council conducts a public hearing on this matter July 6. The application already has been approved by the San Clemente Planning Commission. Tom Varela, general manager of Southern California Off-Track Wagering, Inc. (SCOTWINC), which will provide the wagering infrastructure, said OC Tavern already has a separate room for the wagering operation, so it should take less than a month to install the self-service wagering terminals and complete other preparatory work to commence wagering. He said OC Tavern is located at least 30

miles from Del Mar, Los Alamitos, and the other Southern California racetracks, so the 20-mile-radius restriction in the law does not apply and OC Tavern does not require permission from any other wagering facility to operate. Owner Michael Merrigan said he will operate independently of any other wagering facility and he will retain the full 2 percent of the handle generated at OC Tavern, as permitted by law. He said OC Tavern is a popular venue for watching televised sports, “and we see this is another form of entertainment. It offers a great social aspect.”

OC Tavern will be the second mini-satellite to open in California – one year after the Commerce Club opened the first mini-satellite wagering operation just south of Los Angeles in a section of its casino. The Commerce Club has averaged \$80,767 daily in handle. The law authorizes up to 15 mini-satellites in each of the three racing districts in California (north, central, and south), each subject to CHRB approval.

- The Board rejected a separate request to open a mini-satellite at Artichoke Joe’s Casino in San Bruno. Artichoke Joe’s is located within 20 miles of the San Mateo Event Center (San Mateo County Exposition and Fair Association), which took over satellite wagering on the peninsula following the closure of Bay Meadows, and therefore Artichoke Joe’s required permission from the Event Center to offer simulcast wagering. Event Center General Manager Chris Carpenter said Artichoke Joe’s and the Fair entered into an agreement whereby the 2 percent takeout from the handle would be divided equally between the two entities once Artichoke Joe’s recouped the cost of improvements associated with the new wagering operation. No one from Artichoke Joe’s attended the meeting to respond to questions.

When asked by the commissioners why the Event Center had not given permission for another proposed mini-satellite wagering operation at another card club within its 20-mile radius, the Lucky Chance Casino in Colma, Carpenter said it was because the Event Center and Lucky Chance had not been able to reach an agreement. Chairman Brackpool asked, “Is it the philosophy and intent of San Mateo that it will only allow facilities to open within a 20-mile radius of (the Event Center) if San Mateo is effectively either the operator or effectively the franchisor of the system?” Carpenter said, “We will look at any deal that’s out there.” Vice Chairman Israel said, “What’s fair is what’s good for all of California horse racing, not what’s good for one particular element at one particular time. What’s fair is what benefits the whole and generates the most revenue for everybody involved. And you still have never proved to us through any kind of market survey or whatever that there’s any kind of atavistic or cannibalistic quality to opening up these facilities. But you resist the expansion (unless) you get a cut of the action.”

Commissioner Moss said, “The question here is who owns this right? Is it the right of the San Mateo County Events Center or the right of California? We’re supposed to regulate California and what’s right for California, so at this point I would like to not

approve this application.” Chairman Brackpool, Vice Chairman Israel, and Commissioner Derek joined with Commissioner Moss in rejecting the Artichoke Joe’s application. Commissioners Harris and Choper voted against the motion. Commissioner Harris explained, “On balance I believe we need these mini-satellites even though I don’t believe this would be the best business model.”

- In a somewhat related discussion on a separate agenda item, Chairman Brackpool asked why the Events Center and California Authority of Racing Fairs (CARF) had together opposed and successfully defeated a bill (SB 1439 [Price]) supported by the rest of the industry that would have reduced the 20-mile radius to 15 miles and would have authorized the CHRB to conduct a one-year test at the proposed site if a wagering facility or tribal casino within the a 15-mile radius did not give its consent. “We spent a considerable amount of time on this bill over the last few months. Commissioner Choper and I conducted a legislative hearing where this was one of the main focuses. We implored the parties to try to work this out. Unfortunately, San Mateo Fair and CARF believed that it was in their better interest to block this issue and not attempt to try to resolve this (and so) I have asked (them) to state what their opposition was to this.”

When CARF Chairman John Alkire and Executive Director Chris Korby came forward, he asked them, “What horse racing interests do you believe were successfully advanced, in our difficult times, by your significant effort to oppose passage of this bill to significantly increase the number of mini-satellites that are available to get our product into more people’s hands?” Korby said CARF supports expansion of the satellite network but “we believe this bill was flawed. It would hurt our interests and hurt the existing satellite network when it’s in such a fragile condition.” Alkire added, “There was no business plan or economic criteria for the implementation behind this bill.” He said SB 1439 would have allowed “cannibalization on existing satellites.”

In the ensuing discussion, it was learned that Golden Gate Fields, which seeks to open one or more mini-satellites in San Francisco within a 20-mile radius of both Golden Gate and San Mateo, has entered into an agreement with the Events Center that will allow Golden Gate to upon mini-satellites in San Francisco in return for Golden Gate granting San Mateo permission to open mini-satellites within 20 miles of Golden Gate. Given that a key issue had been whether a mini-satellite in San Francisco would hurt business at San Mateo, and now San Mateo and Golden Gate have resolved that issue, Chairman Brackpool said he was “mystified” as to why San Mateo and CARF would continue to block the legislation. Korby pointed to a lack of economic criteria to determine the impact, “There were no criteria for determining where would be good satellite wagering facilities.” He said CARF has had conversations with the Thoroughbred Owners of California, Del Mar, and MID for a “bill that would allow for the expansion of satellite wagering in California in an orderly businesslike

fashion.” The language will contain a requirement for a business plan for expansion of satellite wagering and it will define market areas based on population density and apply a mileage requirement based on that demographic. Commissioner Choper urged CARF to complete its plan and share it with the rest of the industry as soon as possible.

- Craig Fravel, president of the Del Mar Thoroughbred Club and a member of the SCOTWINC board, described steps that have been and are being taken to improve operations and the financial conditions of satellites throughout California. He said Phase 1 has been completed, including a comprehensive review of operations. He said they’ve already “achieved efficiencies and better services” at satellite locations, and additional improvements are forthcoming. In the meantime, in order to balance revenue and the cost of operations, Fravel requested a modification of the distribution of existing takeout by modifying the distribution of market access fees from ADW. Chairman Brackpool said he was pleased with the progress made to date to establish a sensible business plan for the simulcast network, and he supported the request. It was stressed that this would not in any way affect the takeout from bettors. This shifts the distribution of the existing takeout. The Board approved the request.
- The Board rejected a request by CARF to waive the rules and allow for Pick 6 carryovers from one fair meet to another on the northern circuit, so that instead of a mandatory payout of the Pick 6 on the final day of each meet, the carryover would have transferred from one meet to another and continue to grow.
- The Board approved for public notice an amendment to CHRB Rule 1844 to modify the permitted levels for procaine from procaine penicillin. Under the proposed change, the administrative level of procaine permitted in the post-race sample would be increased and would not result in a penalty if the treated horse were to meet certain conditions, including surveillance for six hours prior to a race. Commissioner Harris noted that procaine penicillin remains one of the most effective antibiotics for the treatment of equine infections, but its use creates an ongoing problem for those treating the horse and regulatory agencies because the procaine in the penicillin sometimes shows up as a positive in post-racing drug testing – and there is no way for the tests to distinguish between procaine residue from penicillin and procaine illegally administered as a pain blocker. Procaine as a local anesthetic is better known as Novacain. Studies show the local anesthetic effect of procaine is no longer present beyond three hours after administration even in combination with epinephrine. Six-hour surveillance would eliminate any chance of improper use of procaine. This change would allow for the horse to receive the best medical treatment without compromising the integrity of racing.

- The Board authorized the Oak Tree Racing Association to distribute \$48,365 in race day charity proceeds to eight beneficiaries.
- The Board approved the license application to conduct a horse racing meeting of the Humboldt County Fair at Ferndale from August 13 through August 22.
- The Board authorized the California State Fair Harness Association to conduct a horse racing meeting at Cal Expo in Sacramento from August 13 through December 18.
- The Board approved an amendment to CHRB Rule 1766 to require a jockey or driver who chooses to participate in more than one designated race per day in California to then serve additional suspension days similar to the caliber of the days of the designated races (e.g. Saturday for a Saturday).

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