



Additional information regarding this meeting may be obtained from Mike Marten at the CHRB Office at Los Alamitos Race Course, 4961 Katella Avenue, Los Alamitos, CA, 90720; telephone (714) 820-2748; cell (714) 240-1870; fax (714) 821-6232. A copy of this notice can be located on the CHRB website at [www.chrb.ca.gov](http://www.chrb.ca.gov). \*Information for requesting disability related accommodation for persons with a disability who requires aids or services in order to participate in this public meeting, should contact Mike Marten.

**PARI-MUTUEL/ADW, SATELLITE AND SIMULCAST COMMITTEE**

Commissioner George Krikorian, Chairman  
Vice Chairman Richard Rosenberg, Member  
Rick Baedeker, Executive Director  
Jacqueline Wagner, Assistant Executive Director

## STAFF ANALYSIS

## DISCUSSION AND ACTION REGARDING THE FEASIBILITY OF DEVELOPING A RULE REQUIRING ADVANCE DEPOSIT WAGERING (ADW) PROVIDERS TO IDENTIFY THE LOCATION OF WAGERS PLACED THROUGH AN ADW ACCOUNT; AND PROVIDE AN ACCOUNTING OF ALL WAGERS PLACED AT A CALIFORNIA THOROUGHBRED RACING FACILITY ON DAYS WHEN LIVE THOROUGHBRED RACING IS BEING CONDUCTED AT THE FACILITY

Pari-Mutuel, ADW, and Simulcast Committee Meeting

May 11, 2016

## BACKGROUND

An unknown number of patrons at California's brick-and-mortar facilities (i.e. racetracks and simulcast outlets) place wagers through their advance deposit wagering (ADW) accounts using mobile devices instead of betting through the wagering terminals at those facilities. Such an ADW wager results in less money to purses and commissions than a wager placed at a terminal or with a pari-mutuel clerk at the brick-and-mortar facility. At the California Horse Racing Board's (CHRB or Board) November 19, 2014 regular meeting, some California stakeholders proposed adding a rule requiring ADW companies to utilize GPS tracking technology to identify those wagers placed by accountholders located within California brick-and-mortar facilities. The matter was referred to this committee and placed on the agendas for the April 2015 and October 2015 committee meetings. Advocates indicated at those committee meetings that they were not attempting to prevent patrons from wagering in this manner—only that revenue from these wagers should be distributed in a manner more favorable to horsemen and racetracks. These parties indicated that they were discussing alternatives with ADW companies that would involve negotiating some amount of compensation to purses and commissions rather than the more complicated process of tracking individual wagers and adjusting distributions accordingly.

On March 18, 2016, Greg Avioli representing the Thoroughbred Owners of California (TOC) sent an e-mail to this committee requesting an agenda item pertaining to the “growing issue of players wagering on track via their ADW accounts.” The TOC proposes that the CHRB adopt a rule requiring ADW companies to identify the location of each wager placed through an ADW account and to provide a full accounting of all wagers placed by a customer located at a licensed California thoroughbred racing facility on days when live thoroughbred racing is conducted at that facility. The TOC notes that the technology to accomplish this task is already in place. If the CHRB adopts such a rule, the industry will incorporate language in Hub Agreements identifying the rate fee for wagers placed through mobile devices within a brick-and-mortar facility, which will help to ensure that brick-and-mortar wagering locations receive an appropriate share of revenue from these wagers.

## ANALYSIS

Business and Professions Code section 19440 states that the Board shall have all powers necessary and proper to enable it carry out fully and effectually the purposes of this chapter,

including adopting rules and regulations for the protection of the public and the control of horse racing and pari-mutuel wagering. More specifically, Business and Professions Code section 19604(d)(1)(A) states that the board shall develop and adopt rules to license and regulate all phases of operation of advance deposit wagering for ADW providers operating in California, including advance deposit wagering activity that takes place within a minisatellite wagering facility. Accordingly, the Board has the authority to enact regulations pertaining to GPS tracking of ADW wagers should it choose to do so.

#### RECOMMENDATION

This item is presented to the Committee for discussion and possible action.

### On Track ADW Summary

On track wagering provides the highest margin revenue stream for the California racing industry at a time of continuing declines in total wagering and industry revenues. When ADW was first introduced in California, it was pitched to the industry as 1) a way to bring new customers who would watch the races on television and the Internet and wager through their new betting accounts, and 2) a way to increase handle from existing customers who would be able to wager without the necessity of travelling to a brick and mortar site.

The California racing industry was assured that very little cannibalization of brick and mortar wagering would occur. During the past 15 years, however, ADW wagering at live racing venues (“On Track ADW”) has become a commonplace activity driven by the explosive growth of smart phones and tablets. As a result, ADW providers now retain as Hub Fees a significant portion of betting handle occurring on track that would otherwise have been distributed to the California industry stakeholders.

Technological advances in Location Services now allow apps and websites to determine a user’s specific location using information from cellular, Wi-Fi, Global Positioning System networks, and Bluetooth. Location Services technology has become a central part of the emerging on line gambling industries in New Jersey, Delaware and Nevada.

All licensed operators in these states are required to utilize Location Services to allow regulators to verify that the online wagering is occurring only within the borders of their state (e.g., the relevant New Jersey regulations state that “*Internet or mobile gaming system shall employ a mechanism to detect the physical location of a patron upon logging into the gaming system and as frequently as specified in the Internet gaming permit holder’s approved submission.*”)

Similarly, Apple now requires ALL gambling apps in the U.S. iStore to have geo-location capabilities that will identify the location of the customer at the time of any wagering activity.

To address this issue, the TOC recommends the following two-pronged approach:

- Part 1: The CHRB adopts a new regulation that would require all licensed ADWs to identify and report all ADW bets generated within a licensed racing association venue on days when live racing is conducted.
- Part 2: Pursuant to the new regulation, the Hub Agreements entered into by Licensed ADW providers each year would be required to specifically identify the Hub Fee rate for bets generated within a licensed racing association venue on days when live racing is conducted (see proposed regulation language below)

### ***Proposed New CHRB Regulation***

*Effective as of [July 1, 2016], as a condition for processing any wager from California customers:*

*a. A licensed ADW shall be required to collect the location of its customers each time such a customer logs in to their account in the State of California, using a form of Location Services approved by the board. This requirement shall apply (i) to any device used by the customer to access their accounts, including without limitation phones, tablets and personal computers, and (ii) to all customers of the licensed ADW without regard to the State of residence of the customer.*

*b. Using the data collected in subsection (a), a licensed ADW provider shall provide a full accounting of all wagers originating from an ADW customer located at a licensed California thoroughbred racing facility on days when live thoroughbred racing is conducted at such facility (“Identified On-Track ADW Wagers”). Such data shall be delivered to the database designated by the board in a manner consistent with B & P Code 19604 (c).*

*c. As part of the annual licensing process, a Licensed ADW provider shall submit to the board and the database designated by the board the plan and methodology to be used during the license period by the Licensed ADW provider for complying with the requirements of this section.*

*d. A licensed ADW provider shall be required to retain all data collected pursuant to this section for a minimum period of two years for audit purposes by the board.*

*e. The Hub Agreement entered into by a Licensed ADW provider shall specifically identify the Hub Fee rate for Identified On-Track ADW Wagers.*

DISCUSSION REGARDING THE REPORT FROM STAFF AND CHRIMS CONCERNING  
BREAKAGE, TAKEOUT, UNCASHED TICKETS, VOUCHERS AND REFUNDS; INCLUDING  
THE STATUTORY AUTHORITY AND TOTALS FOR EACH FUND AS WELL AS THE  
DISTRIBUTION OF THESE FUNDS.

Pari-mutuel/ADW, and Simulcast Committee Meeting  
May 11, 2016

## BACKGROUND

Business and Professions Code section 19550 (a) states that the CHRB may tabulate, analyze and publish statistical information based on pari-mutuel handles, attendance, distribution of pari-mutuel proceeds among fees, commissions, purses, and awards, upon the breeding and production of race horses or other information related to pari-mutuel wagering. The California Horse Racing Information Management System (CHRIMS) is the organization recognized by the CHRB to provide the above services.

## ANALYSIS

The following sections describe how takeout distributions vary according to the many criteria available to evaluate the distribution. The sections also describe the different funds that make up the takeout distributions along with some applicable law sections, and the amount generated for racing year 2015. The sections also present an overview of the takeout distribution percentages for year 2015 of wagers placed at on-track and off-track brick and mortar facilities, California resident bets facilitated via Advance Deposit Wagering Providers licensed in California (ADW), and wagers placed outside California on races conducted in California. Also included is an overview of the distributions for unclaimed winning tickets, refunds and vouchers. The final section provides a summary of breakage generated on California races.

### A. Definitions

It is important to note that distributions are derived from the total amount wagered and are not a percentage of the takeout.

California Horse Racing Law establishes statutory distributions and percentages for amounts that are not distributed back to the wagering public (takeout). Statutory distributions vary according to many criteria, including the location where the wager is placed, the breed being raced, the type of wager, the type of host track, and the race type (live, out of zone, interstate or international). Brief descriptions are as follow:

- The “location” of the wager includes the following location types:
  - On-track, meaning a wager placed in California at the track where the host conducted racing
  - Off-track, meaning a wager placed in California at a brick and mortar site that is not conducting racing
  - Out of state, or export, meaning a wager placed outside California on a race conducted in California

- ADW meaning a wager placed by a California resident facilitated by a provider licensed to conduct business in California. The location of an ADW bet is determined by the zip code of the resident making the wager
- “Breed” refers to the different types of horses on which pari-mutuel wagering is conducted, including thoroughbred, quarter horse, standard bred, and the emerging breeds such as Paint, Mules, Arabians, and Appaloosas.
- “Type of wager” refers to bet types, which include conventional wagers (win, place, and show), and exotic wagers, (exacta, trifecta, superfecta, daily double, pick 3, pick 4, pick 5, pick 6, etc.).
- “California Host Track types” include thoroughbred associations, racing fairs, quarter horse associations and harness horse associations
- The “location of the track” where the race was conducted and location of the wager determines the race type, which includes:
  - Live race wagers are those placed on races conducted at the host’s track. For thoroughbred and racing fair meets, live race reports exclude wagering in the zone or zone (s) in California located outside the host’s zone, as determined by California Racing Law.
  - Out of zone (intrastate) race wagers are those placed in the southern or central zones on races run in the northern zone, and wagers placed in the northern zone on races run in the southern or central zones. Out of zone race types are applicable only to thoroughbred and racing fair meets.
  - Interstate race wagers are those placed in California on races conducted in other states.
  - International race wagers are those placed in California on races conducted outside the United States.

Given the number of variables that determine the statutory distributions of the takeout the blended percentages will vary from period to period depending on how predominantly any of the variables may occur during a particular time period.

## **B. Fund Descriptions**

Below we present a list of the different statutory distributions. The list includes the fund name, applicable Business and Professions Code sections, and the amounts generated for the racing year 2015.

### **1. Fund Description for Brick and Mortar Wagering in California**

CHRB Support  
(19616.51 (a) (2))

- Funding for the California Horse Racing Board (CHRB) in lieu of license fees. The annual formula is devised by the CHRB in consultation with industry to provide the CHRB

support. In racing year 2015, the total amount generated by brick and mortar wagering in California for CHRB Support was \$9,287,322.

#### Fairs and Exposition Fund

(19614(d), 19606.1, 19606.3, 19616.52, 19620.1, and 19620.2)

- Fair and Exposition Fund (F&E) distributed to the Department of Fairs and Expositions, including 1.0 percent on races conducted at fair race meets, and the repayment of prior year shortfalls. The repayment of prior year shortfalls was completed as of 6/30/15. In racing year 2015, the total amount generated for F&E from California brick and mortar wagering was \$731,392.

#### City Tax

(19610.3, 19605.7, 19605.71)

- California Horse Racing Law provides a distribution of 0.33 percent from California brick and mortar handle for the payment of possessory interest taxes, if any, assessed against the organization described in Section 19608.2, the racing association or fair. After payment of these taxes, the balance is distributed to the cities or counties in which the brick and mortar wagering was conducted. In racing year 2015, the total amount generated for City Tax was \$3,429,695.

#### Equine Research Fund

(19610.2, 19605.7(a), 19605.71(a))

- California Horse Racing law provides University of California, Davis funds for research on equine related diseases and other health related issues. One-third (33 percent) is dedicated to the Center of Equine Health's research and education to advance the health, well-being, performance and veterinary care of horses. Two-thirds (67 percent) is dedicated to the California Animal Health and Food Safety Laboratory which provides appropriate and timely diagnostic support to safeguard the health of California's livestock and poultry industries and to protect the public health from animal disease. In racing year 2015, the amount generated from California brick and mortar wagering for the Equine Research Fund was \$1,051,114.

#### Workers' Compensation Fund

(19605.75, 19605.76, 19605.77)

- A distribution of 0.5 percent of the amount handled in exotic pari-mutuel pools for thoroughbred and quarter horse races conducted in California is utilized to defray the cost of workers' compensation for trainers and owners. The distribution for harness horse meets is 1.0% of the amount handled in conventional pari-mutuel pools. In racing year 2015, the total amount generated for the Workers' Compensation Fund from brick and mortar California wagering was \$2,004,453.

Import Race Host Fees  
(19596)

- Licensee may accept wagers on Interstate or International races. Contractual Host Fees are paid to the track conducting such races. In racing year 2015, the total amount paid to Out of State Host Tracks from California brick and mortar wagering was \$14,665,102.

Breeder/Sires Incentive Funds

(19567, 19617.7, 19617.8, 19617.9, 19605.7, 19605.71, 19611, 19616.51, 19601, 19641.7)

- Breeder's incentives encourage agriculture and the breeding of horses in California. In racing year 2015, the total amount generated from California brick and mortar wagering for Breeder/Sires was \$5,586,083.

Expense Fund

(19605.7, 19605.71)

- These funds pay for pari-mutuel labor, telephone/data lines, totalizator expense, the cost of sending the audio-visual signal of the racing program and other related costs to support the California off-track wagering program. In racing year 2015, the total Expense Fund generated from California brick and mortar wagering was \$25,262,706.

Satellite Wagering Commission (aka Location fee)

(19605.7 (a), 19605.71(a))

- The various sites within California that participate in the off-track wagering program, including racetracks, fair locations, mini satellites and tribal sites in general receive two percent of the amount of simulcast handle generated at their location. In racing year 2015, the total amount generated for Location fees from California brick and mortar wagering was \$15,841,184.

Stabling and Vanning Fund

(19607)

- Funds from this Section provide reimbursement for offsite stabling at CHRB-approved auxiliary training facilities for additional stalls beyond the number of usable stalls the association or fair is required to make available and for the vanning of starters from these additional stalls for thoroughbred races. In racing year 2015, the total amount generated for Stabling and Vanning Funds from California brick and mortar wagering was \$8,839,251.

Promotion Fund

(19605.73, 19605.7, 19605.71)

- 19605.73 allows for the formation of an organization to promote thoroughbred and fair racing in California. The California Marketing Committee was created to fill this function for Thoroughbred and Racing Fairs. Sections 19605.7 and 19605.71 provide for distributions to promote California racing for other breeds. In racing year 2015, the total amount generated for Promotion Funds was \$2,134,711.

CHRIMS  
(19642.1)

- In addition to the distributions specified in Sections 19605.7, 19605.71, and 19605.72, from the amounts that would normally be available for commissions and purses from wagering on all breeds, an amount not to exceed 0.05 percent of the total amount handled by each satellite wagering facility shall be distributed to the nonprofit organization designated by the CHRB for purposes of maintaining a database of horse racing information to further the purposes of Section 19444. In racing year 2015, the total amount generated for CHRIMS was \$399,463.

Purses

(19601.3, 19605.8, 19611.5 (a), (19611 (d) (19612) 19612 19614.2) (19491) (19616.51) (19613.5) (19601.02 (b) (19601 (d) (19606)

- In racing year 2015, the total amount generated for Purses from California brick and mortar wagers was \$67,586,948.

Owners Premiums

(19611 (d), 19605.8, 19614.4, 19612)

- Owner's Premiums are distributed to owners of California-breds placing in qualified races to encourage racehorse breeding in the State of California. In racing year 2015, the total amount generated for Owners Premiums was \$679,192.

Track Commissions

(19601.3, 19605.8, 19611.5(a), 19612), 19614.2, 19616.51, 19601 (d), 19606, 19614 (c), 19614.2 (a), 19613.5, (19491 (b)

- Track Commissions fund the daily operation at the race tracks to operate the horse racing industry. In racing year 2015, the total amount generated from California brick and mortar wagering for Track Commissions was \$59,197,847.

## **2. Fund Description for California ADW Handle**

Hub fee

(19604 (a) (5))

- The portion of contractual compensation, excluding host fee payments, retained by ADW providers licensed to conduct business in California from wagers placed in California. In racing year 2015, the total amount generated for Hub Fees from California ADW was \$30,873,583.

Import Host Fee

(19604 (a) (B))

- Contractual amount, generally limited to 3.5% of handle, retained by ADW Providers to pay tracks located outside of the state for accepting California wagers into their respective

pools. In racing year 2015, the total amount retained from California ADW for Import Host Fees was \$13,093,152.

#### Backstretch Fund

(19604. (f) (3) (A) and (B))

- An amount equal to 0.165 percent of the amount handled on ADW wagers that originate in California. One-half of the amounts shall be distributed to supplement, not supplant, the trainer-administered pension plans for backstretch personnel. The other one-half shall be distributed to supplement, not supplant, the welfare fund established for horsemen and backstretch personnel. In racing year 2015, the total amount generated for Backstretch Fund was \$991,967.

#### DIR/Problem Gambling

(19604. (f) (2))

- An amount equal to 0.03 percent of the amount handled on ADW wagers originating in California shall be distributed to the Department of Industrial Relations (DIR) to cover costs associated with its audits on California trainers' payroll. However if the amount generated exceeds the costs incurred by DIR the reduction shall be forwarded to an organization designated by the racing association to augment a compulsive gambling prevention program. In racing year 2015, the total amount generated for DIR was \$180,359.

#### Equine Research Fund

(19604 (f) (1))

- An amount equal to 0.11 percent of the amount handled on ADW wagers originating in California for each racing meeting shall be distributed to the Center for Equine Health to establish the Kenneth L. Maddy for the benefit of the School of Veterinary Medicine at UC Davis Laboratory. In racing year 2015, the total California ADW generated for Equine Research Fund was \$661,312.

#### Workers' Compensation Fund

(19605.75, 19605.76, 19605.77)

- A distribution of 0.5 percent of the amount handled in exotic pari-mutuel pools for thoroughbred and quarter horse races conducted in California is utilized to defray the cost of workers' compensation for trainers and owners. The distribution for harness horse meets is 1.0% of the amount handled in conventional pari-mutuel pools. In racing year 2015, the total amount generated for the Workers' Compensation Fund from ADW California wagering was \$808,985.

#### Satellite Wagering Commissions (aka Location Fees)

19604 (f) (4)

- (4) With respect to wagers on each breed of racing that originate in California, an amount equal to 2 percent of the first two hundred fifty million dollars (\$250,000,000) of handle from all advance deposit wagers originating from within California annually, an amount equal to 1.5 percent of the next two hundred fifty million dollars (\$250,000,000) of handle from all advance deposit wagers originating from within California annually, an amount

equal to 1 percent of the next two hundred fifty million dollars (\$250,000,000) of handle from all advance deposit wagers originating from within California annually, and an amount equal to 0.50 percent of handle from all advance deposit wagers originating from within California in excess of seven hundred fifty million dollars (\$750,000,000) annually, shall be distributed as satellite wagering commissions. California ADW handle generated \$10,440,993 in satellite wagering commissions during the 2015 racing year.

Expense Fund  
(19604 (f) (5) (E))

- A contractual modification, approved by the Board, of the distribution of net market access fees which would otherwise have been distributed to track commissions and purse commissions, applicable to meets hosted by thoroughbred associations. The funds generated are distributed to NCOTWINC and SCOTWINC to cover expenses incurred in operating the off-track wagering network. In racing year 2015, the total amount generated from California ADW was \$13,837,388. Amounts not expended to operate the network equally shared between purses and tracks.

Stabling and Vanning Fund  
(19604 (f) (5) (E))

- A contractual modification, approved by the Board, of the distribution of net market access fees which would otherwise have been distributed to track commissions and purse commissions, applicable to meets hosted by Southern California thoroughbred associations and Racing Fairs which augments the amounts distributed to the Southern California Vanning and Stabling Fund from brick and mortar wagering. In racing year 2015, the total amount generated from California ADW was \$1,975,480.

Breeders  
19604 (f) (5) (A)

3. In general, from the amounts remaining after contractual and statutory distributions, breeders receive the same relative proportion as was generated during the prior year. California ADW wagering generated \$2,534,315 for breeders during the 2015 racing year.

Purses  
19604 (f) (5) (A)

- In general, from the amounts remaining after contractual and statutory distributions, purses receive the same relative proportion as was generated during the prior year. Including AB 480 distributions, California ADW wagering generated \$25,582,570 for purses during the 2015 racing year.

Tracks  
19604 (f) (5) (A)

- In general, from the amounts remaining after contractual and statutory distributions, tracks receive the same relative proportion as was generated during the prior year. Including AB

480 distributions, California ADW wagering generated \$22,110,084 for purses during the 2015 racing year.

#### Retirement Fund

(19604 (i) (1) and (2)), 19604 (j)

(i) Amounts distributed under this section shall be proportionally reduced by an amount equal to 0.00295 multiplied by the amount handled on advance deposit wagers originating in California for each racing meeting, except for harness racing meetings, provided that the amount of this reduction shall not exceed two million dollars (\$2,000,000). The method used to calculate the reduction in proportionate share shall be approved by the board. The amount deducted shall be distributed as follows:

(1) Fifty percent of the money to the board to establish and to administer jointly with the organization certified as the majority representative of California-licensed jockeys pursuant to Section 19612.9, a defined contribution retirement plan for California-licensed jockeys who retired from racing on or after January 1, 2009.

(2) The remaining 50 percent of the money shall be distributed as follows:

(A) Seventy percent shall be distributed to supplement the trainer-administered pension plans for backstretch personnel established pursuant to Section 19613. Moneys distributed pursuant to this subparagraph shall supplement, and not supplant, moneys distributed to that fund pursuant to Section 19613 or any other provision of law.

(B) Thirty percent shall be distributed to the welfare fund established for the benefit of horsemen and backstretch personnel pursuant to subdivision (b) of Section 19641. Moneys distributed pursuant to this subparagraph shall supplement, and not supplant, moneys distributed to that fund pursuant to Section 19641 or any other provision of law.

(j) Amounts distributed under this section shall be proportionally reduced by an amount equal to 0.00295 multiplied by the amount handled on advance deposit wagers originating in California for each harness racing meeting, provided that the amount of this reduction shall not exceed five hundred thousand dollars (\$500,000). The method used to calculate the reduction in proportionate share shall be approved by the board. The amount deducted shall be distributed as follows:

(1) First to the welfare fund established for the benefit of horsemen and backstretch personnel, pursuant to subdivision (b) of Section 19641, and administered by the organization representing the horsemen participating in the race meeting, in the amount requested by the welfare fund. Moneys distributed pursuant to this paragraph shall supplement, and not supplant, moneys distributed to that fund pursuant to Section 19641 or any other provision of law.

(2) The amount remaining, if any, shall be utilized for the benefit of the horsemen as specified in a written agreement between the racing association that conducts the live harness race meeting and the organization representing the horsemen participating in the race meeting.

In racing year 2015, the total amount generated for "0.295%" ADW Retirement Funds was \$1,803,998.

### **3. Fund Description for bets placed outside California on races conducted in California**

(19602 (b), 19601.02, 19605.75, 19605.76, 19605.77, 19616.51, 19615.52)

California tracks receive contractual host fees (generally a percentage of handle) from out of state entities wagering on California races. The host fees received by the tracks are in turn distributed to CHRB Support, F & E, Breeders, Purses and Track Commissions. The out of state wagering entity retains the takeout remaining after the payment of host fees and workers' comp fees to California tracks.

During the 2015 racing year, export wagering generated \$3,341,195 for CHRB Support, \$120,553 for F & E Recapture (which was paid in full as of 6/30/15), \$4,591,431 in Workers' Comp Fees, \$2,065,280 for Breeders, \$43,760,894 for Purses and \$34,812,193 for tracks. Out of state entities retained \$189,479,247.

#### **C. Overview of the Takeout Distribution Percentages for Racing Year 2015**

Table 1, Takeout Distributions 2015 Race Year in Percentages, shows handle and takeout distributions for the 2015 race year and the blended percentages of the takeout distribution for wagers placed in California (CA) including; on-track, off-track, and ADW. The Total CA column combines the previous three columns to arrive at the total CA wagers blended takeout distribution rates. Next column shows the wagers placed on out state races conducted in CA. The last column on the table shows the blended total takeout distributions of the wagers placed in CA and the out of state wagers. Table 2, Takeout Distributions 2015 Race Year in Dollars shows the same data presented in Table 1, in Dollar figures.

**Table 1. Takeout Distribution 2015 Race Year Percentage**

<b>Distribution</b>	<b>CA On Track</b>	<b>CA Off Track</b>	<b>CA ADW</b>	<b>Total CA</b>	<b>Out of State (Exports)</b>	<b>Total Blended</b>
Handle	358,156,089	692,946,336	611,524,176	1,662,626,600	1,320,551,077	2,983,177,678
Payable to Public	285,513,217	547,667,223	486,630,019	1,319,810,460	1,042,379,187	2,362,189,647
<i>Payable to Public %</i>	<i>79.72%</i>	<i>79.03%</i>	<i>79.58%</i>	<i>79.38%</i>	<i>78.94%</i>	<i>79.18%</i>
Takeout	72,642,871	145,279,113	124,894,157	342,816,141	278,171,890	620,988,031
<i>Takeout %</i>	<i>20.28%</i>	<i>20.97%</i>	<i>20.42%</i>	<i>20.62%</i>	<i>21.06%</i>	<i>20.82%</i>
<b>Distribution of Takeout:</b>	<b>Percent</b>	<b>Percent</b>	<b>Percent</b>	<b>Percent</b>	<b>Percent</b>	<b>Percent</b>
Backstretch Fund	0.00%	0.00%	0.16%	0.06%	0.00%	0.03%
Breeder/Sires	0.53%	0.53%	0.41%	0.49%	0.16%	0.34%
CHRB Support	0.84%	0.91%	0.00%	0.56%	0.25%	0.42%
CHRIMS	0.02%	0.05%	0.00%	0.02%	0.00%	0.01%
City Tax	0.33%	0.33%	0.00%	0.21%	0.00%	0.11%
Commingled Guest	0.00%	0.00%	0.00%	0.00%	14.35%	6.35%
DIR/Problem Gambling	0.00%	0.00%	0.03%	0.01%	0.00%	0.01%
Equine Research Fund	0.10%	0.10%	0.11%	0.10%	0.00%	0.06%
Expense Fund	0.92%	3.17%	2.26%	2.35%	0.00%	1.31%
Fair and Exposition	0.07%	0.07%	0.00%	0.04%	0.01%	0.03%
Hub Fee	0.00%	0.00%	5.05%	1.86%	0.00%	1.03%
Import Host Fee	0.83%	1.69%	2.14%	1.67%	0.00%	0.93%
Location Fee	0.23%	2.17%	1.71%	1.58%	0.00%	0.88%
Owners Premiums	0.07%	0.06%	0.00%	0.04%	0.00%	0.02%
Promotion Fund	0.08%	0.27%	0.00%	0.13%	0.00%	0.07%
Purses	8.21%	5.60%	4.18%	5.64%	3.31%	4.61%
Retirement Fund	0.00%	0.00%	0.30%	0.11%	0.00%	0.06%
Stabling and Vanning Fund	0.37%	1.08%	0.32%	0.65%	0.00%	0.36%
Track Commissions	7.46%	4.78%	3.62%	4.93%	2.64%	3.91%
Workers Compensation Fund	0.22%	0.17%	0.13%	0.17%	0.35%	0.25%

**Table 2. Takeout Distribution 2015 Race Year Dollars**

<b>Distribution</b>	<b>CA On Track</b>	<b>CA Off Track</b>	<b>CA ADW</b>	<b>Total CA</b>	<b>Out of State (Exports)</b>	<b>Total Blended</b>
Handle	358,156,089	692,946,336	611,524,176	1,662,626,600	1,320,551,077	2,983,177,678
Payable to Public	285,513,217	547,667,223	486,630,019	1,319,810,460	1,042,379,187	2,362,189,647
<i>Payable to Public %</i>	<i>79.72%</i>	<i>79.03%</i>	<i>79.58%</i>	<i>79.38%</i>	<i>78.94%</i>	<i>79.18%</i>
Takeout	72,642,871	145,279,113	124,894,157	342,816,141	278,171,890	620,988,031
<i>Takeout %</i>	<i>20.28%</i>	<i>20.97%</i>	<i>20.42%</i>	<i>20.62%</i>	<i>21.06%</i>	<i>20.82%</i>
<b>Distribution of Takeout:</b>						
Backstretch Fund	-	-	991,967	991,967	-	991,967
Breeder/Sires	1,912,160	3,673,923	2,534,315	8,120,398	2,065,280	10,185,677
CHRB Support	3,004,006	6,283,317	-	9,287,322	3,341,195	12,628,517
CHRIMS	57,345	342,118	-	399,463	-	399,463
City Tax	1,171,742	2,257,952	-	3,429,695	-	3,429,695
Commingled Guest	-	-	-	-	189,480,352	189,480,352
DIR/Problem Gambling	-	-	180,359	180,359	-	180,359
Equine Research Fund	358,156	692,957	661,312	1,712,425	-	1,712,425
Expense Fund	3,311,835	21,950,870	13,837,388	39,100,094	-	39,100,094
Fair and Exposition	261,747	469,645	-	731,392	120,553	851,945
Hub Fee	-	-	30,873,583	30,873,583	-	30,873,583
Import Host Fee	2,965,095	11,700,007	13,093,152	27,758,254	-	27,758,254
Location Fee	818,203	15,022,981	10,440,993	26,282,177	-	26,282,177
Owners Premiums	258,139	421,053	-	679,192	-	679,192
Promotion Fund	290,402	1,844,309	-	2,134,711	-	2,134,711
Purses	29,389,086	38,810,926	25,582,570	93,782,581	43,760,894	137,543,476
Retirement Fund	-	-	1,803,998	1,803,998	-	1,803,998
Stabling and Vanning Fund	1,340,549	7,498,702	1,975,480	10,814,731	-	10,814,731
Track Commissions	26,709,247	33,101,664	22,110,083	81,920,994	34,812,193	116,733,187
Workers Compensation Fund	795,188	1,209,265	808,985	2,813,438	4,591,431	7,404,868

#### **D. Uncashed Winning Tickets, Refunds, and Vouchers**

(19598, 19601(d), 19641, 19612 .9, 19642, 19616.51)

Pursuant to Business and Professions Code Section 19598, any person claiming to be entitled to any part of a redistribution from a parimutuel pool who fails to the claim the money due prior to the end of the race meet at which the pool was formed may file a claim with the association prior to May 15<sup>th</sup> of the year immediately following the close of the race meet.

- Uncashed winning tickets from 2014 race meets that were not claimed prior to May 15, 2015 totaled \$4,818,650. Purses and Track Commissions each received \$1,574,869, Welfare Funds established for the benefit of horsemen and backstretch personnel received \$944,512.
- Uncashed refunds from 2014 race meets that were not claimed prior to May 15, 2015 totaled \$724,400. The California Jockey Welfare Corporation received these funds for the purpose of providing health and welfare benefits to California licensed jockeys, former California jockeys and their dependents.
- Unclaimed Vouchers are distributed to a nonprofit organization for the purpose of maintaining a database of horse racing information. CHRIMS is the organization designated by the CHRB to receive these funds. During 2015, CHRIMS received \$393,199 from unclaimed vouchers.

#### **E. Breakage**

Section 19405 defines breakage as the odd cents by which the amount payable on each dollar wagered exceeds a multiple of ten cents.

Section 19597 requires a licensee to deduct breakage in addition to takeout.

California Rules & Regulation #1960 requires a licensee to pay a minimum dividend of 5% to holders of winning tickets. This requirement is unaffected by the existence of a parimutuel pool which does not contain sufficient money to distribute said 5% to all persons holding such tickets. Pursuant to Section 19613.5, minus pools are distributed in the same proportion as they would be distributed in the provision under which they were deducted.

Code Sections governing the distribution of breakage generated within the state of California on California races vary by host type, source type (on-track, off-track brick & mortar, ADW) and race type (live vs. out of zone). Code sections include 19491, 19491.5, 19491.6, 19491.7, 19597, 19601, 19605.3, 19606.6, 19612, 19613.5, 19619 and 19604.

In calendar year 2015, net breakage on races conducted in California totaled \$9.142 million. Out of state entities retained \$5.290 million (59%), while \$3.852 million flowed to various California stakeholders. California horsemen received \$2.374 million (61.6%), tracks received \$1.329 million (34.5%) and Board Support payments accounted for the remaining \$149k (3.9%).

#### **RECOMMENDATION**

This item is presented for the information of and discussion by the committee.

STAFF ANALYSIS  
DISCUSSION AND ACTION REGARDING PLAYERS POOLS,  
TO INCLUDE HOW PLAYERS POOLS OPERATE AND THE LEGAL STANDING  
OF SUCH POOLS IN CALIFORNIA

Pari-Mutuel, ADW, and Simulcast Committee Meeting  
May 11, 2016

BACKGROUND

On June 30, 2014, on advice from counsel, California Horse Racing Board (CHRB) Executive Director Rick Baedeker advised all licensed racing associations and ADW companies that Player Pools are illegal, as a form of bookmaking, under the California Penal Code. A copy of that letter is included in the committee package. Player Pools involve individuals forwarding monies to a third party for the purpose of pooling funds for the placement of wagers, typically Pick 6 wagers.

Eric Sindler representing Monarch Content Management sent an email to this committee on March 31, 2016, requesting that Player Pools be placed on the committee agenda. In his correspondence with CHRB counsel, Mr. Sindler has focused exclusively on the question of the legality of player pool wagers that are placed out of state, but based on the outcome of California races.

RECOMMENDATION

This item is presented to the Committee for discussion and possible action.

## STAFF ANALYSIS

### DISCUSSION AND ACTION REGARDING SWITCHING TRACK SURFACES (TURF TO DIRT) DURING THE RACING PROGRAM, AFTER CERTAIN WAGERING POOLS HAVE CLOSED, AND THE IMPACT THIS ACTION HAS ON THE WAGERING PUBLIC

Pari-Mutuel, ADW, and Simulcast Committee Meeting

May 11, 2016

#### BACKGROUND

On April 7 and 8 2016, Santa Anita moved races off the turf due to rain. Both actions occurred during the programs, after certain wagering pools had closed. As a result, under CHRB Rule 1976.9(n), Pick (n) Pool which specifies that if the racing surface changes from turf to dirt or dirt to turf in any race of a Pick (n) pool, and such changes was not announced to the public before the close of wagering on the Pick(n) pool, all wagers on such race shall be considered winning wagers for the purpose of the Pick (n) pool; all selections in the third race in Pick 4 and Pick 5 wagers on April 7, 2016 were considered winners; and all selections in the fourth race in Pick 5 wagers on April 8, 2016 were considered winners.

Santa Anita was criticized in the news and social media, after the second consecutive late switch off the turf course. Managements at California racetracks usually make the important decision to take races off the turf prior to the first race, which has less impact on wagers. Santa Anita's decisions to switch surfaces after the starts of back-to-back programs raised questions concerning how those decisions are made. Rick Hammerle, racing secretary at Santa Anita, has agreed to discuss this process.

#### RECOMMENDATION

This item is presented for discussion.

## STAFF ANALYSIS

### DISCUSSION AND ACTION REGARDING THE ASSOCIATION OF RACING COMMISSIONERS INTERNATIONAL (RCI) MODEL RULE FOR PENTAFACTA WAGERING, USED FOR THE SUPER HIGH FIVE WAGER IN CALIFORNIA, AND THE OPTION TO DISTRIBUTE THE POOL TO TICKETS THAT CORRECTLY SELECT THE FIRST FOUR FINISHERS IN A RACE WHEN NO TICKETS CORRECTLY SELECT THE FIRST FIVE FINISHERS, RATHER THAN USING THE CARRYOVER OPTION

Pari-Mutuel, ADW, and Simulcast Committee Meeting

May 11, 2016

#### BACKGROUND

A racing accident at Gulfstream Park on February 20, 2016, resulted in only four of the eight starters finishing the 11th race. Because five horses did not cross the finish line, management applied an option in the Association of Racing Commissioners International (ARCI) model rule for pentafecta wagering to carry over the entire pool to the next program: "X-Pentafecta Pools...(4) Distribution of Winnings -- Option 3: (a) The net Pentafecta pool shall be distributed to winning wagers in the following precedence, based on the official order of finish: (i) as a single price pool, including any applicable carryover, to those whose combination finished in correct sequence as the first five betting interests, but if there are no such wagers, then (ii) the entire net pool shall be retained and added to a corresponding carryover pool into the next designated Pentafecta race."

Some thought it unfair that a person could select the first four finishers correctly, and possibly have all of the other horses in the fifth position on a pentafecta ticket, yet be denied an opportunity to win because the rest of the horses did not finish the race.

The CHRB does not have a pentafecta rule, so Super High Five wagering in California also is offered under the ARCI model rule. This model rule also has an option to distribute the pool to tickets that correctly select the first four finishers in a race when no tickets correctly select the first five finishers. Another option available is to divide the net pool into two separate pools, one to be distributed to those with four winners, the other carried over.

This item is presented to discuss the various options afforded an association for distribution of the pool; and to determine which option best serves California's wagering public.

#### RECOMMENDATION

This item is presented for discussion.