

INITIAL STATEMENT OF REASONS

RULE 1481. Occupational Licenses and Fees

RULE 2071. License to Conduct Advance Deposit Wagering by a California Applicant.

RULE 2072. Approval to Conduct Advance Deposit Wagering by an out-of-state Applicant.

SPECIFIC PURPOSE OF THE REGULATION

The Board proposes to amend Rule 1481, Occupational Licenses and Fees; Rule 2071, License to Conduct Advance Deposit Wagering by a California Applicant; and Rule 2072, Approval to Conduct Advance Deposit Wagering by an out-of-state Applicant. The proposed amendment to Rule 1481 will modify subsection 1481(b)(2) to require officers, directors, partners or any individual or person who holds five percent or more of the outstanding shares of an advance deposit wagering (ADW) provider, mini-satellite wagering, or exchange wagering provider as persons who must obtain a valid license issued by the Board. In addition, the proposed amendment will change subsection 1481(b)(6) to require ADW, mini-satellite wagering and exchange wagering managerial personnel who exercise control over other licensees to obtain an occupational license. The proposed amendment to Rule 2071 will modify the form Application for License to Conduct Advance Deposit Wagering, CHRB-132 (Rev. 02/19) (CHRB-132). Rule 2071 incorporates by reference the CHRB-132. The proposed amendment to Rule 2072 will modify the form Application for Approval to Conduct Advance Deposit Wagering, CHRB-133 (Rev. 02/19) (CHRB-133). The CHRB-133 is incorporated by reference into Rule 2072. The CHRB-132 and CHRB-133 will be amended to collect specific information regarding the individuals required to be licensed under the amended Rule 1481. The forms will also be amended to increase the period of time that financial documents submitted by the ADW applicant must cover from the preceding 12 months to the preceding 24 months. Additional changes to the CHRB-132 and CHRB-133 deal with the submission of financial information and profit and loss statements by applicants. All other changes to the regulation texts and the CHRB-132 and CHRB-133 are for the purposes of consistency and clarity.

PROBLEM

Business and Professions Code section 19440 provides that the responsibilities of the Board shall include, but are not limited to, adopting regulations for the protection of the public and the control of horse racing and pari-mutuel wagering. In addition, the Board shall license each racing association and all persons, other than the public at large, who participate in a horse racing meeting with pari-mutuel wagering. Board Rule 1481, Occupational Licenses and Fees, currently requires that officers, directors, partners and persons with ownership interest of five percent or more in racing associations, simulcast service suppliers or totalizator companies to obtain a CHRB license. Such persons are required to obtain an occupational license because they own or participate in entities that offer pari-mutuel wagering to the public, or that provide services to such entities. To obtain an occupational license, a criminal background check is conducted to ensure the applicant is fit to hold such license in accordance with the horse racing law and the Board's rules and regulations. These individuals must be licensed as they may have access to the restricted areas of the inclosure, and may be in a position to exercise control over other licensees, horse racing, pari-mutuel wagering or simulcast operations. The same is true of individuals who are involved with

newer pari-mutuel wagering entities. Due to technological changes, the venues through which the wagering public can place a pari-mutuel wager have expanded. Wagering entities such as ADW, mini-satellite and exchange wagering¹ have been authorized under horse racing law and the Board's rules and regulations. Board Rule 1481, however, has not been updated to identify officers, directors, partners and persons with significant ownership interest in such entities as persons who must be licensed by the CHRB. To correct the omission the Board proposes to amend Rule 1481. Subsection 1481(b)(2) will require officers, directors, partners or any individual who holds 5% or more of the outstanding shares of ADW, mini-satellite or exchange wagering providers to obtain a CHRB issued occupational license. An amended subsection 1481(b)(6) will update the regulation to add management personnel of ADW, mini-satellite and exchange wagering providers. The addition of such individuals to subsections (b)(2) and (b)(6) is necessary because they may be in a position to exercise control over other licensees, pari-mutuel wagering or simulcast operations.

The Board proposes to amend Rule 2071, License to Conduct Advance Deposit Wagering by a California Applicant, and Rule 2072, Approval to Conduct Advance Deposit Wagering by an out-of-state Applicant. The ADW application CHRB-132 is incorporated by reference in Rule 2071 and the ADW application CHRB-133 is incorporated by reference in Rule 2072, therefore, any revisions to the applications would necessitate an amendment to the rules. The CHRB-132 will be amended to require that the applicant provide the names, titles and license number of all management personnel directly involved in the management of ADW operations. The form currently requires only the names and titles of management personnel. This makes it difficult for the Board to determine if such personnel are directly involved in ADW operations. Requiring the CHRB license number reminds the ADW applicant that managers must be licensed by the Board. The CHRB-133 will be amended to require that the applicant provide the names, title and license number of all management personnel directly involved in the management of ADW operations, and whether such personnel are responsible for California operations. The CHRB-133 is submitted by out-of-state ADW providers. Some of the applicants have operations which can include out-of-state and international ADW. The current version of the CHRB-133 does not provide the Board with a way to identify managers who are directly involved in California ADW. The proposed amendment to the CHRB-132 and CHRB-133 will require applicants to identify all management personnel directly involved in the management of ADW operations, and in the case of the CHRB-133, identify which management staff is responsible for California operations, and provide their CHRB license number. The proposed amendment of the CHRB-132 and CHRB-133 is consistent with the managerial licensing requirements of the proposed amendment of Rule 1481. The CHRB-132 and CHRB-133 revisions will also require the applicant to provide the CHRB license number of officers, directors, and all persons that hold five percent or more of outstanding shares in the ADW entity. The amendments are consistent with proposed amendments of Rule 1481, which require the licensing of such persons. A person applying for a CHRB license must undergo a background check. The proposed amendments will help guarantee the integrity of California's horse racing industry by ensuring that persons found unfit to hold a CHRB license will not be involved with entities that offer pari-mutuel wagering on California horse racing.

The proposed amendment to Rule 2071 and Rule 2072 revises the CHRB-132 and CHRB-133 to adjust the time period covered by financial information submitted with the applications. The

¹ To date, no person or entity has applied for a license to operate exchange wagering in California.

CHRB-132 and CHRB-133 currently require ADW applicants to submit the most recent annual financial statement, including a copy of a report made during the preceding 12 months to shareholders, the Securities and Exchange Commission, or the corresponding state where registered. The Board has determined that a one year period does not provide an adequate fiscal history to determine if the applicant is able to meet its financial obligations and has the assets to maintain its business. To address this problem, the proposed amendment requires ADW applicants that identify their business structure as a corporation or LLC to submit the two most recent annual financial statements and all reports issued during the preceding 24 months to shareholders, the Securities and Exchange Commission, or the corresponding state where registered. The additional information will help inform the Board in its ADW licensing decisions, and give California's horse racing fans confidence in the financial integrity of this state's ADW providers.

The proposed amendment to the CHRB-132 and CHRB-133 will add a requirement for ADW applicants with business structures other than a corporation or LLC to submit the two most recent annual financial statements, including balance sheets and profit and loss statements, and a copy of all reports issued during the preceding 24 months to shareholders, the Securities and Exchange Commission, or the corresponding state where registered; the same information collected for a corporation or LLC applying to conduct ADW. Applicants who identify as "other" under the business structure section on the CHRB-132 or CHRB-133 are currently not required to submit an annual financial statement. This reduces the Board's ability to determine whether or not the ADW provider with a sole proprietor or partnership business structure is financially solvent prior to approving an application.

The proposed amendment to the CHRB-132 and CHRB-133 provides that applicants previously licensed by the Board to conduct ADW must attach the prior two years annual profit and loss statements for California ADW operations. Financial information currently required by the CHRB-132 and CHRB-133 focuses on all ADW operations for the applicant, including ADW not related to California. Although this allows the Board to determine the entity's overall viability, it does not provide enough information for the Board to determine the entity's profitability specific to California ADW operations, which directly affects the California horse racing industry. Applicants do not provide information for the Board identifying the costs associated with providing ADW for California, or the methodology used to determine the costs. This is a concern to the Board because ADW providers have expressed a lack of profitability, without providing documentation. The proposed amendment to the CHRB-132 and the CHRB-133 will resolve the issue by requiring all ADW applicants previously licensed by the Board to submit two years annual profit and loss statements for their California ADW operations and the methodology used to determine the cost allocation for the profit and loss statements.

NECESSITY

The Board proposes to amend Rule 1481, subsection (b)(2), to require officers, directors, partners or any individual who holds five percent or more of the outstanding shares of an ADW, mini-satellite wagering, or exchange wagering provider to obtain a CHRB occupational license. The rule currently requires such persons associated with racing associations, simulcast service suppliers or totalizator companies to obtain an occupational license. The addition of officers, directors, partners and persons with significant ownership in ADW, mini-satellite and exchange

wagering providers is necessary to update the regulation. ADW, mini-satellite and exchange wagering are “newer” venues through which the public may place pari-mutuel wagers. ADW was initiated in 2002, mini-satellite wagering was authorized in 2007 and exchange wagering was authorized by law in 2010. Persons who apply for a CHRB occupational license must undergo a criminal background check. Licensing persons who are officers, directors partners or who hold significant ownership in ADW, mini-satellite, or exchange wagering providers is necessary to protect the integrity of horse racing and the public interest by ensuring that no person who is found to be unfit to hold a license is involved in an entity that provides pari-mutuel wagering opportunities in California. The proposed modification of subsection 1481(b)(2) is consistent with the proposed amendment to Rules 2071 and 2072, which will amend the CHRB-132 and CHRB-133 to require that applicants for a license to operate ADW identify and provide the CHRB license number of officers, directors, partners or any individual who holds five percent or more of the outstanding shares of an ADW. Additional changes to the text of Rule 1481 include a modification of subsection 1481(b)(6) to provide that managerial personnel of ADW, mini-satellite, or exchange wagering providers obtain a CHRB occupational license. Such persons may exercise control over other licensees, pari-mutuel wagering or simulcast operations, or in the case of mini-satellite wagering have access to the restricted areas of the inclosure. As with the proposed amendment to subsection 1481(b)(2), the modification of subsection (b)(6) will update the regulation to add management personnel of ADW, mini-satellite and exchange wagering providers, which are “newer” venues through which the public may place pari-mutuel wagers. The amendment of subsection 1481(b)(6) is necessary to protect the integrity of horse racing and the public interest by ensuring that no person who is found to be unfit to hold a license is involved in an entity that provides pari-mutuel wagering opportunities in California.

Rule 2071 and Rule 2072 provide that every applicant that intends to accept ADW must file a completed application with the Board at least 90 days prior to its scheduled start date of operation. The applications CHRB-132 and CHRB-133 are respectively incorporated by reference in Rule 2071 and 2072. The proposed amendment to the CHRB-132, section 1.C., requires the applicant to identify management personnel directly involved in the management of ADW operations, and provide the CHRB license number of such persons. The proposed amendment to the CHRB-133, section 1.C., requires the applicant to identify managers, provide a license number, and identify which managers are responsible for the applicant’s California ADW operations. The CHRB-133 is used for out-of-state applicants. This means not all the applicant’s managers may be involved with its California operations. In both cases, the Board is interested in managers who are directly involved in ADW operations, as such persons may exercise control over other licensees or pari-mutuel wagering. It is necessary to identify and license the managers involved in California ADW to ensure the integrity of California’s ADW pari-mutuel providers, and to ensure that no person who would otherwise be found unfit to hold a CHRB-issued occupational license is involved with such an entity. The proposed changes to the CHRB-132 and CHRB-133 are consistent with the proposed amendment of Rule 1481, subsection (b)(6).

In addition to licensing requirements for management personnel, the proposed modifications of the forms CHRB-132 and CHRB-133 will change subsection 3.B.4. of each form to require that applicants enter the CHRB license number of all officers and directors of the ADW provider. The proposed amendment to subsection 3.B.4. of each form is necessary to clarify the requirement that officers and directors of an ADW provider hold CHRB licenses. The change is consistent with

the proposed amendment of Board Rule 1481, subsection (b)(2), which has been modified to require CHRB licensing of officers, directors and partners of ADW providers. The change is consistent with current practice regarding the officers and directors listed on the ADW provider's application for license or approval.

Subsection 3.B.5. of the CHRB-132 and CHRB-133 has been amended to require the ADW applicant to provide the CHRB license number of all persons who hold five percent or more of the outstanding shares in the ADW provider. The proposed change is necessary to provide clarity regarding the Board's licensing requirements for ADW providers. It is also consistent with the proposed amendment of Board Rule 1481, subsection (b)(2), which has been modified to require CHRB licensing of persons who hold five percent or more of the outstanding shares. The change is consistent with current practice regarding such persons listed on the ADW provider's application. Licensing persons with significant ownership will help ensure that no person who is found to be unfit to hold a license has a significant ownership interest in an entity that provides pari-mutuel wagering opportunities in California.

The CHRB-132 and CHRB-133 currently require applicant ADW providers to submit their most recent annual financial statements, including balance sheets and profit and loss statements, and all reports made in the preceding 12 months to shareholders, the Securities and Exchange Commission and the California Corporations Commission. The Board proposes to expand the time period covered by this requirement from the preceding 12 months to the preceding 24 months. The proposed amendment will change subsections 3.B.10. and 3.C.8. of both the CHRB-132 and CHRB-133, and add a new subsection 3.D.3. to both forms. Increasing the length of the financial history requirement to 24 months and collecting a copy of all reports issued during the preceding 24 month to shareholders is necessary to protect the financial interests of California's horse racing industry. A 24-month overview of the ADW applicant's financial statements and reports gives the Board a broader view of the entity's financial health; whether the applicant is able to meet its financial obligations and has the assets to maintain its business. The Board believes the proposed amendment is necessary, as it has an obligation to determine the applicant's financial viability prior to approving the provider to conduct ADW. The 24-month period is consistent with the term of license as stated in Rule 2071(b) and 2072(b), which is two years.

The CHRB-132 and CHRB-133 currently do not require an applicant for renewal of an ADW license/approval to differentiate between its in-state and out-of-state ADW operations when submitting profit and loss statements. This means the Board may not have an accurate understanding of the applicant's California operations. The proposed amendment will add sections 3.B.11., 3.C.9. and 3.D.4. to the CHRB-132 and the CHRB-133 to require applicants for renewal of license/approval to submit the prior two years profit and loss statements for the applicant's California operations only. The applicant must also include the methodology used to determine the cost allocation for the profit and loss statements. The requirement would not apply to applicants that have not previously been licensed or approved to conduct ADW in California. The proposed amendment is necessary to collect each applicant's financial information specific to California ADW, which will help the Board determine the applicant's financial sustainability in California. Requiring two years annual profit and loss statements for California ADW is necessary to give the Board a comparison from year to year to determine if an applicant is maintaining its California business. The Board receives a direct view of how an applicant's ADW business is performing in California. Cost allocation is the process of identifying and assigning costs to

different cost objects, which in this case would be California ADW. If costs are not accurately calculated, a business might not know if a specific service is profitable, or if resources are being wasted on an unprofitable service. There are numerous cost allocation methods that may be followed by an entity to produce financial information such as the profit and loss statement. The entity must determine the methodology that most accurately reflects its business operations. Requiring the ADW applicant to describe the methodology it used to determine the cost allocation is necessary for auditing purposes. An auditor must know how the entity allocated costs in order to make certain the entity followed generally accepted accounting principles and the costs are attributable to the service.

Proposed changes to form CHRB-132 include:

Section 1. C.: The section has been modified to capture information regarding management personnel directly involved in the management of ADW operations. The change narrows the focus of the section, and eliminates the listing of persons who have no direct involvement in the entity's ADW operations (e.g. a human resources manager would not be listed.) The applicant must provide the name, title and license number of management personnel directly involved in ADW operations. The section will help staff ensure California ADW managers have current occupational licenses.

(Note: All Section 3.B. references apply to ADW applicants with a corporate business structure.)

Section 3.B.4.: The section has been modified to collect the CHRB occupational license number of the ADW provider's officers and directors. The change is necessary for purposes of consistency and clarity, as the proposed amendment to Rule 1481 requires ADW officers and directors to be licensed by the CHRB.

Section 3.B.5.: The section has been modified to require that the ADW provider include the CHRB occupational license number of any persons holding five percent or more of outstanding shares of the entity. The change is necessary for purposes of consistency and clarity, as the proposed amendment to Rule 1481 requires licensing of any person holding five percent or more of outstanding shares of the entity.

Section 3. B. 10.: The section has been modified to require the applicant to provide the prior two years annual financial statements. The amendment is necessary to provide the Board with a broader fiscal view of the applicant's operations to help assess its financial viability.

Section 3. B. 11.: The new subsection requires an applicant that has previously been licensed by the Board to conduct ADW to attach the two prior years annual profit and loss statements for the applicant's California ADW operations only. The addition is necessary to help the Board determine the applicant's financial sustainability in California. Requiring two annual profit and loss statements for California ADW allows the Board to make a comparison from year to year to determine if an applicant is maintaining its California business. The addition will require applicants to include the methodology used to determine the cost allocation for the profit and loss statement, which is necessary for auditing purposes.

(Note: All Section 3.C. references apply to ADW applicants with an LLC business structure.)

Section 3.C.4.: The section has been modified to collect the CHRB occupational license number of the ADW provider's officers and directors. The change is necessary for purposes of consistency and clarity, as the proposed amendment to Rule 1481 requires ADW officers and directors to be licensed by the CHRB.

Section 3.C.5.: The section has been modified to require that the ADW provider include the CHRB occupational license number of any persons holding five percent or more of outstanding shares of the entity. The change is necessary for purposes of consistency and clarity, as the proposed amendment to Rule 1481 requires licensing of any person holding five percent or more of outstanding shares of the entity.

Section 3. C. 8.: The section has been modified to require the applicant to provide the prior two years annual financial statements. The amendment is necessary as it will give the Board a broader fiscal view of the applicant's operations to help assess its financial viability.

Section 3. C. 9.: The new subsection requires an applicant that has previously been licensed by the Board to conduct ADW to attach the two prior years annual profit and loss statements for the applicant's California ADW operations only. The addition is necessary to help the Board determine the applicant's financial sustainability in California. Requiring two annual profit and loss statements for California ADW provides the Board a comparison from year-to-year to help assess if an applicant is maintaining its California business. The addition will require applicants to include the methodology used to determine the cost allocation for the profit and loss statement, which is necessary for auditing purposes.

(Note: All Section 3.D. references apply to ADW applicants with a business structure other than a corporation or an LLC.)

Section 3. D. 3.: This new subsection requires an applicant with any business structure other than a corporation or LLC to attach the prior two years annual financial statements. This addition is necessary, as it will give the Board a broader fiscal view of the entity to determine its financial viability. The new subsection will provide consistency by ensuring that all ADW applicants will be required to submit the same financial information.

Section 3. D. 4.: The new subsection requires an applicant with a business structure other than a corporation or LLC, that has previously been licensed by the Board to conduct ADW, to attach the two prior years annual profit and loss statements for the California ADW operations only. The addition is necessary to aid the Board in understanding the applicant's financial sustainability in California. Requiring two annual profit and loss statements for California ADW will provide a year-to-year comparison to determine if an applicant is maintaining its California business. The amendment will require applicants to include the methodology used to establish the cost allocation for the profit and loss statement, which is necessary for auditing purposes.

Proposed changes to form CHRB-133 include:

Section 1. B.: The section has been amended to require that the applicant identify which of its management personnel are responsible for California operations. The applicant must indicate the jurisdiction in which its management personnel are licensed, and if the managers are responsible for California operations. The amendment will ensure the ADW provider's management staff responsible for California operations have current CHRB-issued occupational licenses.

(Note: All Section 3.B. references apply to ADW applicants with a corporate business structure.)

Section 3.B.4.: The section has been modified to collect the CHRB occupational license number of the ADW provider's officers and directors. The change is necessary for purposes of consistency and clarity, as the proposed amendment to Rule 1481 requires ADW officers and directors to be licensed by the CHRB.

Section 3.B.5.: The section has been modified to require that the ADW provider include the CHRB occupational license number of any persons holding five percent or more of outstanding shares of the entity.

Section 3. B. 10.: The section has been modified to require the applicant to provide the prior two years annual financial statements. The amendment will give the Board a broader fiscal view of the applicant's operations to determine its financial viability.

Section 3. B. 11.: The new subsection requires an applicant that has previously been licensed by the Board to conduct ADW to attach the two prior years annual profit and loss statements for the applicant's California ADW operations only. The addition will help the Board make a judgement regarding the applicant's financial sustainability in California. Requiring two annual profit and loss statements for California ADW is necessary to give the Board a comparison from year-to-year to determine if an applicant is maintaining its California business. The addition will require applicants to include the methodology used to determine the cost allocation for the profit and loss statement, which is necessary for auditing purposes.

(Note: All Section 3.C. references apply to ADW applicants with an LLC business structure.)

Section 3.C.4.: The section has been modified to collect the CHRB occupational license number of the ADW provider's officers and directors.

Section 3.C.5.: The section has been modified to require that the ADW provider include the CHRB occupational license number of any persons holding five percent or more of outstanding shares of the entity. The change is necessary for purposes of consistency and clarity, as the proposed amendment to Rule 1481 requires licensing of any person holding five percent or more of outstanding shares of the entity.

Section 3. C. 8.: The section has been modified to capture the prior two years of annual financial statement information from an applicant with a LLC business structure. This amendment is

necessary, as it will give the Board a broader fiscal view of the entity to determine its financial viability prior to approving the provider to conduct ADW.

Section 3. C. 9.: The new subsection requires an applicant with a LLC business structure that has previously been licensed by the Board to conduct ADW to attach the two prior years annual profit and loss statements for the California ADW operations only. This addition will help the Board make a judgement regarding the applicant's financial sustainability in California. Requiring two annual profit and loss statements for California ADW is necessary to give the Board a year-to-year comparison to determine if an applicant is maintaining its California business. The applicant must include the methodology used to determine the profit and loss statement cost allocation, which is necessary for auditing purposes.

(Note: All Section 3.D. references apply to ADW applicants with a business structure other than a corporation or an LLC.)

Section 3. D. 3.: The new subsection requires an applicant with any business structure other than a corporation or LLC to attach the prior two years of annual financial statements. The addition is necessary to provide the Board with a broader fiscal view of the entity to determine its viability prior to approving the ADW application. The new subsection will provide consistency by ensuring that all ADW applicants will be required to submit the same financial information.

Section 3. D. 4.: The new subsection requires an applicant with a business structure other than a corporation or LLC, that has previously been licensed by the Board to conduct ADW, to attach the two prior years annual profit and loss statements for the California ADW operations only. The addition will help the Board make a judgement regarding the applicant's financial sustainability in California. Requiring two annual profit and loss statements for California ADW is necessary to give the Board a year-to-year comparison to determine if an applicant is maintaining its California business. The new section will require applicants to include the methodology used to determine the cost allocation for the profit and loss statement, which is necessary for auditing purposes.

All other changes to the CHRB-132 and CHRB-133 forms are for the purposes of consistency and renumbering.

INCORPORATION BY REFERENCE

The form Application for License to Conduct Advance Deposit Wagering CHRB-132 (Rev. 10/18), is incorporated by reference in Rule 2071 and the form Application for Approval to Conduct Advance Deposit Wagering CHRB-133 (Rev. 10/18), is incorporated by reference in Rule 2072, as it would be cumbersome, unduly expensive or otherwise impractical to publish the documents in the California Code of Regulations. Both forms are at least five pages in length, and involve questions the applicants may expand upon with addendums and exhibits.

BENEFITS ANTICIPATED FROM THE REGULATORY ACTION

The proposed amendment will revise subsection (b)(2) of Rule 1481 to require officers, directors, partners and any individual who holds five percent or more of the outstanding share of an ADW,

mini-satellite, or exchange wagering provider to procure a CHRB occupational license. The proposed amendment to Rule 1481 also requires the licensing of ADW, mini-satellite and exchange wagering managerial personnel who exercise control over other licensees or simulcast operations, or who have access to the restricted areas of the inclosure. The proposed changes to Rule 1481 will have the benefit of creating consistency in licensing requirements between entities licensed by the Board. The proposed amendment is beneficial to California's horse racing industry, as it ensures individuals with influence and control over the operations and policies of pari-mutuel wagering entities are fit for licensing. The amendment to Rule 1481 will protect the public's interest in the integrity of horse racing, as it will help to ensure that persons who are unfit to hold a license are not involved in the operation of an entity offering pari-mutuel wagering opportunities.

The CHRB-132 and CHRB-133 will be amended to collect specific information regarding the individuals required to be licensed under the amended Rule 1481. The forms will also be amended to increase the period of time that financial documents submitted by the ADW applicant must cover. Rather than a period of 12 months, the documents will be required to cover the preceding 24 months. Additional changes to the CHRB-132 and CHRB-133 deal with the submission of financial information and profit and loss statements by applicants. The proposed amendments to the CHRB-132 and the CHRB-133 will have the benefit of ensuring ADW managers, officers, directors and partners procure the proper occupational license, and undergo a background check. The licensing requirement will provide a safeguard to help ensure that no person who is unqualified to hold a CHRB occupational license manages, or holds an ownership interest in a pari-mutuel wagering provider. A 24-month overview of the ADW applicant's financial statements and reports gives the Board a broader view of the entity's financial health; whether the applicant is able to meet its financial obligations and has the assets to maintain its business. The Board believes the proposed amendment is necessary, as it has an obligation to determine the applicant's financial viability prior to approving the provider to conduct ADW. Ensuring managers of California ADW operations, and officers, directors and partners procure the proper occupational license, helps to foster transparency in the operation of California ADW providers. The applicant must name such persons on the ADW application. The ADW applications are public documents available for viewing on the Board's website.

TECHNICAL, THEORETICAL, AND/OR EMPIRICAL STUDY, REPORTS OR DOCUMENTS

The Board did not rely on any technical, theoretical, and/or empirical study, reports or documents in proposing the amendment of the regulation.

RESULTS OF ECONOMIC IMPACT ASSESSMENT

The results of the Board's Economic Impact Assessment as required by Government Code Section 11346.3(b) are as follows:

- The proposed regulation will not impact the creation or elimination of jobs within the State of California.

- The proposed regulation will not have an impact on the creation of new businesses or the elimination of existing businesses in the State of California.
- The proposed regulation will not have an impact on the expansion of existing businesses in the State of California.
- The proposed regulation will benefit California by gathering more business structure information including additional management and financial information from advance deposit wagering applicants and will not benefit the State's environment.

The Board has made the initial determination that the proposed amendment to Rule 1481, Rule 2071 and Rule 2072 will not have a significant statewide adverse economic impact directly affecting business including the ability of California businesses to compete with businesses in other states. The Board proposes to amend Rule 1481, Rule 2071, and Rule 2072. The proposed amendment to Rule 1481 will modify subsection 1481(b)(2) to add officers, directors, partners and any individuals who hold five percent or more of the outstanding shares of ADW providers, mini-satellite wagering or exchange wagering providers as persons who must obtain a valid license issued by the Board. In addition, the proposed amendment will change subsection 1481(b)(6) to require ADW, mini-satellite wagering and exchange wagering managerial personnel who exercise control over other licensees to obtain an occupational license. The proposed amendment to Rule 2071 will modify the CHRB-132. The proposed amendment to Rule 2072 will modify the CHRB-133. The CHRB-132 and CHRB-133 will be amended to collect specific information regarding the individuals required to be licensed under the amended Rule 1481. The forms will also be amended to increase the period of time that financial documents submitted by the ADW applicant must cover. Rather than a period of 12 months, the documents will be required to cover the preceding 24 months. Additional changes to the forms CHRB-132 and CHRB-133 deal with the submission of financial information and profit and loss statements by applicants.

Purpose:

The proposed amendment to Rule 1481 will ensure officers, directors, partners and persons who own five percent or more of the outstanding shares, as well as management staff who exercise control over other licensees, pari-mutuel wagering, or whose duties require access to restricted areas of the inclosure procure the appropriate occupational license. The purpose of the proposed amendment to Rule 1481 is update the regulation to include "newer" venues for pari-mutuel wagering on California's horse races, and to create consistency in the occupational licensing requirements for the various pari-mutuel wagering entities licensed by the Board. The proposed amendment to Rule 2071 will modify the CHRB-132. The proposed amendment to Rule 2072 will modify the CHRB-133. The CHRB-132 and CHRB-133 will be amended to collect specific information regarding the individuals required to be licensed under the amended Rule 1481. The forms will also be amended to increase the period of time that financial documents submitted by the ADW applicant must cover. Rather than a period of 12 months, the documents will be required to cover the preceding 24 months. Additional changes to the forms CHRB-132 and CHRB-133 deal with the submission of financial information and profit and loss statements by applicants. The purpose of the proposed amendment to Rule 2071 and Rule 2072 is to ensure the ADW provider's officers, directors, partners and persons who own five percent or more of the outstanding shares hold CHRB occupational licenses. In addition, the proposed amendments will identify management personnel directly involved in the applicant's California ADW operations and ensure

such persons are licensed. The regulation will create consistency in the Board's licensing requirements for pari-mutuel wagering providers, and will advance the integrity of California's horse racing industry by ensuring only persons qualified to hold a CHRB occupational license are involved in the ADW provider's operations.

The Creation or Elimination of Jobs Within the State of California

The proposed amendment to Rule 1481 will modify subsection 1481(b)(2) to add officers, directors, partners and any individuals who hold five percent or more of the outstanding shares of ADW providers, mini-satellite wagering or exchange wagering providers as persons who must obtain a valid license issued by the Board. In addition, the proposed amendment will change subsection 1481(b)(6) to require ADW, mini-satellite wagering and exchange wagering managerial personnel who exercise control over other licensees to obtain an occupational license. The proposed amendment to Rule 2071 will modify the CHRB-132. The proposed amendment to Rule 2072 will modify the CHRB-133. The CHRB-132 and CHRB-133 will be amended to collect specific information regarding the individuals required to be licensed under the amended Rule 1481. The forms will also be amended to increase period of time that financial documents submitted by the ADW applicant must cover. Rather than a period of 12 months, the documents will be required to cover the preceding 24 months. Additional changes to the forms CHRB-132 and CHRB-133 deal with the submission of financial information and profit and loss statements by applicants. The proposed regulations will have an effect on ADW applicants and their officers, directors, partners and persons who own five percent or more of the outstanding shares, as well as management personnel directly involved in the ADW provider's operations. The proposed regulations will also impact persons involved in mini-satellite wagering and exchange wagering. The proposed regulations will not have an effect on any other type of California business. Therefore, CHRB has determined that this regulatory action will not have a significant impact on the creation or elimination of jobs in the State of California.

The Creation of New Businesses or the Elimination of Existing Businesses within the State of California

The proposed amendment to Rule 1481 will modify subsection 1481(b)(2) to add officers, directors, partners and any individuals who hold five percent or more of the outstanding shares of ADW providers, mini-satellite wagering or exchange wagering providers as persons who must obtain a valid license issued by the Board. In addition, the proposed amendment will change subsection 1481(b)(6) to require ADW, mini-satellite wagering and exchange wagering managerial personnel who exercise control over other licensees to obtain an occupational license. The proposed amendment to Rule 2071 will modify the CHRB-132. The proposed amendment to Rule 2072 will modify the CHRB-133. The CHRB-132 and CHRB-133 will be amended to collect specific information regarding the individuals required to be licensed under the amended Rule 1481. The forms will also be amended to increase period of time that financial documents submitted by the ADW applicant must cover. Rather than a period of 12 months, the documents will be required to cover the preceding 24 months. Additional changes to the forms CHRB-132 and CHRB-133 deal with the submission of financial information and profit and loss statements by applicants. The proposed regulations will have an effect on ADW applicants and their officers, directors, partners and persons who own five percent or more of the outstanding shares, as well as

management personnel directly involved in the ADW provider's operations. The proposed regulations will also affect persons involved in mini-satellite wagering and exchange wagering, and as such only has an effect on horseracing and not any other type of California business. Therefore, CHRB has determined this regulatory proposal will not have an impact on the creation of new businesses or the elimination of existing businesses in the State of California.

The Expansion of Businesses Currently Doing Business Within the State of California

The proposed amendment to Rule 1481 will modify subsection 1481(b)(2) to add officers, directors, partners and any individuals who hold five percent or more of the outstanding shares of ADW providers, mini-satellite wagering or exchange wagering providers as persons who must obtain a valid license issued by the Board. In addition, the proposed amendment will change subsection 1481(b)(6) to require ADW, mini-satellite wagering and exchange wagering managerial personnel who exercise control over other licensees to obtain an occupational license. The proposed amendment to Rule 2071 will modify the CHRB-132. The proposed amendment to Rule 2072 will modify the CHRB-133. The CHRB-132 and CHRB-133 will be amended to collect specific information regarding the individuals required to be licensed under the amended Rule 1481. The forms will also be amended to increase period of time that financial documents submitted by the ADW applicant must cover. Rather than a period of 12 months, the documents will be required to cover the preceding 24 months. Additional changes to the forms CHRB-132 and CHRB-133 deal with the submission of financial information and profit and loss statements by applicants. The proposed regulations will have an effect on ADW applicants and their officers, directors, partners and persons who own five percent or more of the outstanding shares, as well as management personnel directly involved in the ADW provider's operations. The proposed regulations will also affect persons involved in mini-satellite wagering and exchange wagering, and as such only has an effect on horseracing and not any other type of California business. Therefore, CHRB has determined that the proposed regulatory action is not relevant to the expansion of businesses currently doing business in the State of California.

Benefits of the Regulations to the Health and Welfare of California Residents, Worker Safety, and the State's Environment

The proposed amendment to Rule 1481, Rule 2071 and Rule 2072 will protect the public's interest in the integrity of horse racing, as it will help to ensure that persons who are unfit to hold a license are not involved in the operation of an entity offering pari-mutuel wagering opportunities. The proposed regulations will not protect worker safety. These regulations do not benefit the state's environment.

ALTERNATIVE TO THE PROPOSED REGULATORY ACTION THAT WOULD LESSEN ANY ADVERSE IMPACT ON AFFECTED PRIVATE PERSONS OR BUSINESSES

The Board has determined that no reasonable alternative it considered or that has otherwise been identified and brought to its attention would be more effective in carrying out the purpose for which the action is proposed or would be as effective and less burdensome to affected private persons than the proposed action, or would be more cost-effective to affected private persons and equally effective in implementing the statutory policy or other provision of law.

REASONABLE ALTERNATIVES TO THE PROPOSED REGULATORY ACTION

The proposed amendment to Rule 2071 and Rule 2072 was discussed at the April 21, 2016 Regular Board Meeting. No alternatives to the recommendation were proposed by the Board or by any other individual or entity at the meeting. No subsequent alternative recommendations were made prior to the notice. The Board invites any interested party to submit comments which offer any alternative proposal.

California Horse Racing Board
March 1, 2019