INITIAL STATEMENT OF REASONS

RULE 2049. DESIGNATION AND APPROVAL OF HORSEMEN'S WELFARE FUND

SPECIFIC PURPOSE OF THE REGULATION

Rule 2049, Designation and Approval of Horsemen's Welfare Fund, provides that the charitable corporation organized by the horsemen's organization shall have a minimum of five and maximum of nine directors or trustees subject to Board approval. The proposed amendment to Rule 2049 will increase the maximum allowable number of directors or trustees appointed to the horsemen's charitable corporation board from nine to eleven. The proposed amendment will also eliminate the requirement that at least forty percent of the directors have no financial interest in horse racing as a licensed horse owner, trainer, or assistant trainer and not be current members of the horsemen's organization responsible for establishing the Horsemen's Welfare Fund. Finally, the proposed amendment will increase the term length for a director or trustee from two years to three years.

PROBLEM

Presently, Rule 2049, Designation and Approval of Horsemen's Welfare Fund, requires that the charitable corporation have a minimum of five and a maximum of nine directors or trustees, who are subject to two-year terms. The California Thoroughbred Horsemen's Foundation, Inc. (CTHF), which is the recognized charitable corporation of the horsemen's organization, has determined that a slightly larger board is needed to acquire the outside experience necessary to fulfill its activities. Additionally, a two-year term is disruptive to the nomination process and does not provide sufficient time for incumbent directors to determine a new director's merit.

Rule 2049 also requires that at least forty percent of the directors or trustees have no financial interest in horse racing as a licensed horse owner, trainer, or assistant trainer and not be current members of the horsemen's organization. CTHF has found this provision to be too restrictive, as individuals with a genuine interest in the welfare of backstretch workers are already licensed owners, trainers, or assistant trainers or serve as directors for the horsemen's organization.

NECESSITY

The proposed amendment to Rule 2049 will allow the charitable corporation, or CTHF, to expand its board of directors. Currently, the maximum number of directors allowed under Rule 2049 is nine. The proposed amendment will authorize the CTHF to have a minimum of five and a maximum of eleven directors. CTHF is an operating foundation that does not exist by an endowment. Fund raising activities are an important part of CTHF's success. Allowing CTHF to expand its board of directors will provide it with the opportunity to appoint directors who would bring both financial means and a network of contacts to potentially assist the CTHF. Additional directors will also provide the

opportunity for existing directors to educate and cultivate new directors without the need to replace the existing directors. This will allow for continuity in CTHF activities and decision-making.

The current CTHF board of directors is composed of nine persons. Rule 2049 requires that forty percent of the current directors have no financial interest in horse racing as licensees and not be members of the horsemen's organization. The proposed amendment to Rule 2049 will eliminate this requirement. This will allow CTHF to recruit qualified individuals who have a keen interest in CTHF'S activities and responsibilities. CHTF has found that the present rule is too restrictive, as such qualified individuals are already licensed owners, trainers, or assistant trainers or serve as directors for the horsemen's organizations.

Directors on the CTHF board currently serve two-year terms and may serve succeeding terms. The proposed amendment to Rule 2049 would increase the term length for a director from two years to three years. The increased term length would provide stability and consistency with most other non-profit organizations within the horse racing industry that serve employees and workers, whose board members serve three-year terms. Additionally, three-year terms would allow the CTHF board to hold an election process whereby only one third of its directors would be up for reelection, instead of one half, which would be less disruptive to the nomination process. Three-year terms would also provide a longer period of time for incumbent directors to determine the merit of a new director.

BENEFITS ANTICIPATED FROM THE REGULATORY ACTION

The proposed amendment of Rule 2049 will contribute to the well-being of backstretch workers by allowing the charitable corporation that administers the welfare fund for the benefit of the horsemen to expand its board and recruit potential members from a larger pool of candidates from within the industry, and by providing the board with more time to evaluate the merit of new members. CTHF, the recognized charitable corporation of the horsemen's organization, recently began a healthcare initiative offering programs and activities that provide recreational, cultural, educational, and other benefits to the backstretch workers. CTHF has determined that additional directors are needed to carry out its objectives, and individuals with a genuine interest in the welfare of backstretch workers are already licensed owners, trainers, or assistant trainers or serve as directors for the horsemen's organization. Additionally, the two-year term limit for directors has been disruptive to the nomination process and insufficient for the determination of a director's merit. The proposed amendment of Rule 2049 will address these regulatory limitations and allow CTHF to carry out its objective of improving the well-being of backstretch workers.

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

The Board did not rely upon any technical, theoretical, or empirical studies, reports, or documents in proposing the amendment of this 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 promoting the well-being of backstretch workers and will not increase worker safety or benefit the State's environment.

The Board has made the initial determination that the proposed amendment of Rule 2049 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, as the proposed amendment merely affects the composition of the CTHF board and, therefore, will not have any financial implications. The amendment of Rule 2049 will benefit the health and welfare of California residents by contributing to the well-being of backstretch workers. By allowing the charitable corporation that administers the welfare fund for the benefit of the horsemen to expand its board and recruit potential members from a larger pool of candidates from within the industry, and by providing the board with more time to evaluate the merit of new members, the proposed amendment will enable CTHF, the recognized charitable corporation of the horsemen's organization, to implement its healthcare initiative that offers programs and activities providing recreational, cultural, educational, and other benefits to the backstretch workers.

PURPOSE

Rule 2049 provides that the charitable corporation organized by the horsemen's organization shall have a minimum of five and maximum of nine directors or trustees subject to Board approval. The proposed amendment to Rule 2049 will increase the maximum allowable number of directors or trustees appointed to the horsemen's charitable corporation board from nine to eleven. The proposed amendment will also eliminate the requirement that at least forty percent of the directors have no financial interest in horse racing as a licensed horse owner, trainer, or assistant trainer and not be current members of the horsemen's organization responsible for establishing the

Horsemen's Welfare Fund. Finally, the proposed amendment will increase the term length for a director or trustee from two years to three years.

THE CREATION OR ELIMINATION OF JOBS WITHIN THE STATE OF CALIFORNIA

The proposed amendment of Rule 2049 will increase the maximum allowable number of directors or trustees for the charitable organization that administers the welfare fund for the benefit of horsemen, increase the term length for a director or trustee, and eliminate the requirement that at least forty percent of the directors or trustees have no financial interest in horse racing as licensees and not be current members of the horsemen's organization responsible for establishing the charitable corporation. As such, this regulation has an effect on only horseracing and not any other type of California business. Therefore, CHRB has determined that this regulatory proposal will not have a significant impact on the creation or elimination of jobs within the State of California.

THE CREATION OF NEW BUSINESSES OR THE ELIMINATION OF EXISTING BUSINESSES WITHIN THE STATE OF CALIFORNIA

The proposed amendment of Rule 2049 will increase the maximum allowable number of directors or trustees for the charitable organization that administers the welfare fund for the benefit of horsemen, increase the term length for a director or trustee, and eliminate the requirement that at least forty percent of the directors or trustees have no financial interest in horse racing as licensees and not be current members of the horsemen's organization responsible for establishing the charitable corporation. As such, this regulation has an effect on only horse racing 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 of Rule 2049 will increase the maximum allowable number of directors or trustees for the charitable organization that administers the welfare fund for the benefit of horsemen, increase the term length for a director or trustee, and eliminate the requirement that at least forty percent of the directors or trustees have no financial interest in horse racing as licensees and not be current members of the horsemen's organization responsible for establishing the charitable corporation. As such, this regulation has an effect on only horse racing 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 of Rule 2049 will benefit the health and welfare of California residents by contributing to the well-being of backstretch workers. By allowing the charitable corporation that administers the welfare fund for the benefit of the horsemen to expand its board and recruit potential members from a larger pool of candidates from within the industry, and by providing the board with more time to evaluate the merit of new members, the proposed amendment will enable CTHF, the recognized charitable corporation of the horsemen's organization, to implement its healthcare initiative that offers programs and activities providing recreational, cultural, educational, and other benefits to the backstretch workers. The regulation does not increase worker safety or 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, 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 of Rule 2049 was discussed at the August 22, 2019 Regular Board meeting. No alternatives to the recommendation were proposed by the Board or by any other individual or entity at the meeting. The Board invites any interested party to submit comments that offer any alternative proposal.

CALIFORNIA HORSE RACING BOARD
November 29, 2019