

WHAT IS ACCOUNT WAGERING?

A.B. 1405

Traditionally, legal pari-mutuel account wagering is the practice by which a customer of a licensed wagering entity such as a racing association or off-track betting corporation establishes an account with the account wagering facility and causes wagers to be made from that account by sending instructions to the facility operator. After meeting the criteria for establishing the account (e.g., age, residence, etc.), opening the account and funding the account, the account holder may send instructions to the licensed facility to cause money from his or her account to be wagered on a horse race. The wager is then common pooled with the host track where each race wagered on is run.

The practice of account wagering is well established in the United States. For example, some of the OTBs (off-track betting organizations) in New York, that are municipally owned and operated under state authority, have been conducting account wagering since the early 1970's. In Pennsylvania, account wagering has been offered by licensees since the early 1980's. Businesses in New York and Pennsylvania have established accounts for people residing in other states, including California, for many years.

A GOLDEN OPPORTUNITY FOR CALIFORNIA RACING

Account wagering is the fastest growing source of wagering on horseracing in the United States, but the California racing industry currently does not participate in this growth. Through the use of account wagering systems established in other states and in offshore locations, Californians are wagering millions of dollars on horseracing. However, this phenomenon, which should help California's horseracing industry, is actually harming it due to a lack of state regulation. California horsemen, breeders, racetracks and fairs currently receive little from revenues generated by California residents who wager on horseracing through out-of-state or foreign offshore account wagering services, instead of wagering at the racetrack or at licensed satellite facilities.

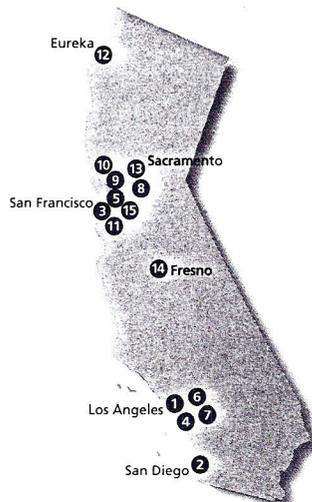
Wagering handle, the lifeblood of the racing industry, is leaving the state at an increasing rate and, in the long term, threatens California's position as a leader in horseracing. In 1998 and 1999 alone, California racetracks and horsemen lost \$30 million in revenues from account wagering, greatly offsetting the \$40 million in annual license fee relief contained in 1998 legislation intended to support the industry by allowing it to remain competitive with racing in other jurisdictions on the national scene.

Assembly Bill 1405 (which is similar to legislation already enacted in Kentucky, New York, Pennsylvania, Oregon, Maryland and Ohio among others) stops the flow of pari-mutuel wagering revenues out of the state and ensures that racing interests statewide benefit from legal account wagering. Through legislation and regulation, California can combat the activities of illegal bookmakers and out of state entities, thereby ensuring that an industry providing thousands of jobs to state residents and billions of dollars to the state's economy prospers from its own product in an increasingly competitive environment.

BACKGROUND

Pari-mutuel wagering on horseracing is important in California. In 1999, Californians wagered \$2.9 billion of the \$3.8 billion that was wagered overall on California horseracing—approximately 15% of the total pari-mutuel wagering handle in the United States.¹

15 California Racetracks



1. **Hollywood Park**
(Inglewood, CA)
2. **Del Mar**
(Del Mar, CA)
3. **Bay Meadows**
(San Mateo, CA)
4. **Los Alamitos**
(Los Alamitos, CA)
5. **Golden Gate Fields**
(Albany, CA)
6. **Santa Anita Park**
(Arcadia, CA)
7. **Fairplex Park**
(Pomona, CA)
8. **San Joaquin County Fair**
(Stockton, CA)

9. **Solano County Fair**
(Vallejo, CA)
10. **Sonoma County Fair**
(Santa Rosa, CA)
11. **San Mateo County Fair**
(San Mateo, CA)
12. **Humboldt County Fair**
(Ferndale, CA)
13. **California State Fair**
(Sacramento, CA)
14. **Big Fresno Fair**
(Fresno, CA)
15. **Alameda County Fair**
(Pleasanton, CA)

¹ Pari-Mutuel Racing 1998—A Statistical Summary Prepared By Association of Racing Commissioners International, Inc.

*Background
(Continued)*

In terms of its economic impact, a 1998 study determined that, directly or indirectly, the California racing industry provides jobs for 52,500 California residents and annually adds \$4 billion to the state's economy.² Fifteen licensed entities, ranging from large racetracks to county fair organizations, conduct live race meets in every region of the state—from the Humboldt County Fair at Ferndale in the north to Del Mar, the famous San Diego County track founded by Bing Crosby. The fifteen licensed organizations offer purses of \$165 million and fuel a breeding industry that produces 4,000 horses, is the backbone of local agribusiness and anchors one of the most significant private green space preservation efforts in the United States.

Although it is a large industry, the future of horseracing in California is tenuous because competition for a finite amount of wagering dollars is increasingly fierce.

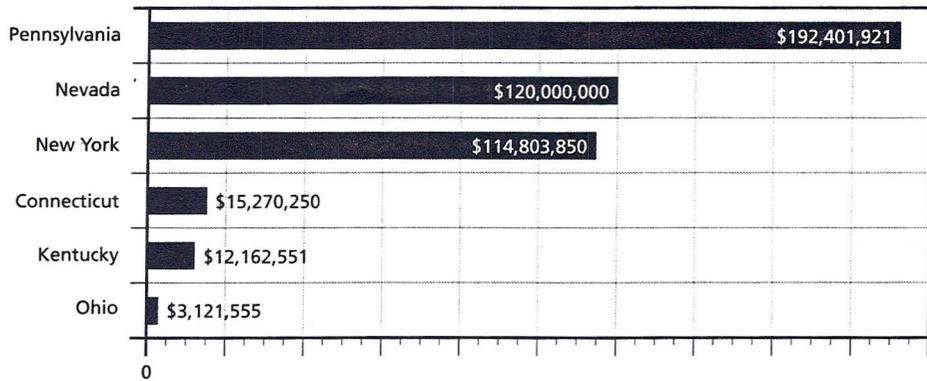
In recognition of the industry's importance to the state, the California Legislature passed license fee relief legislation that allows it to compete with alternative forms of entertainment and remain the nationwide leader in year-around horseracing.³

The boost provided to California racing from license fee relief, however, has been jeopardized by increasing losses in wagering revenues to out-of-state or foreign offshore businesses. These companies already offer wagering on horseracing to California residents and take increasing amounts of wagering handle out of the state without compensation to support local racing interests or the State of California.

GROWTH OF ACCOUNT
WAGERING

Domestically, entities in eight states legally offer interstate account wagering services to customers in a majority of the 43 states where pari-mutuel wagering is legal—including California—and have done so for over twenty years. Those services handled \$457 million on horseracing in 1998 and over \$500 million in 1999.

1998 Domestic Pari-Mutuel Account Wagering Handle by State



Source: Association of Racing Commissioners International

² Barents Group Ltd., 1998.

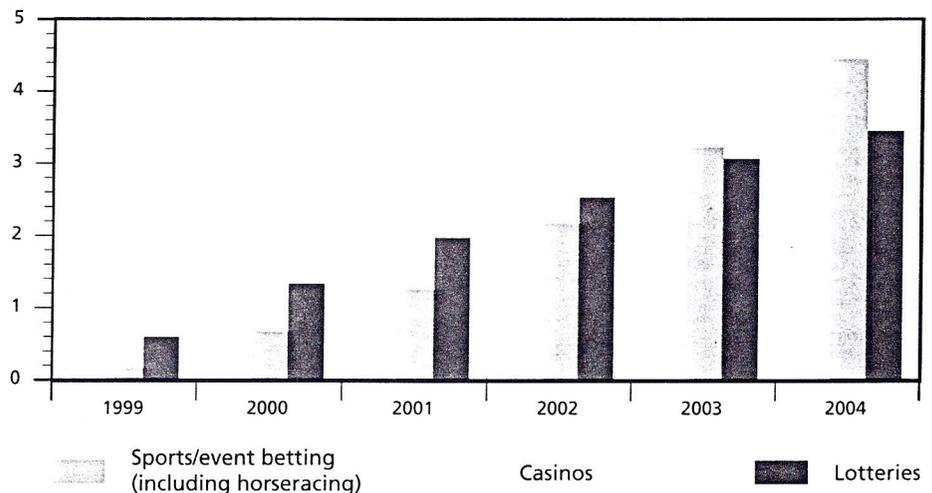
³ Cal Bus and Prof Code §§19610-19619.6.

*Growth of Account Wagering
(Continued)*

In recent years, account wagering activity has steadily moved offshore, where foreign operators escape United States regulation, taxes and mandated revenue sharing provisions with state and local businesses. Traditionally, these operations were limited to a cumbersome process of wagering by telephone. The Internet, however, knows no boundaries and allows foreign services to easily and efficiently offer wagering in the United States. The result is that wagering revenues that traditionally fund purses for horsemen and breeders and provide operating revenues for racetracks are diverted out of the country.

The projected growth rate of foreign offshore Internet-based wagering services is staggering. Only 40 Internet gambling Web sites existed in 1997. Today, it is estimated that there are nearly 650 e-gaming Web sites in operation with more sites opening online daily.⁴ In 1998 and 1999 respectively, it is estimated that Americans bet \$406 million and \$570 million on gaming of all types with foreign Internet wagering services.⁵ By 2002, projections for Internet gaming handle range from \$3 billion⁶ to over \$3.5 billion.⁷ The translated five-year projections for online gaming call for a compounded annual growth rate of 76% for wagering by gamblers residing in the United States.

US online gambling handle by source, in \$ billions



Source: *Datamonitor*

⁴ Internet Gaming, "E-Gaming—Endangered Species or Rising Star?" *Bear Stearns*, January 2000.

⁵ On-line Games and Gambling, 3rd ed., *Datamonitor*, November 1999.

⁶ *Bear Stearns*, pg. 5.

⁷ *Datamonitor*, pg. 90.

*Growth of Account Wagering
(Continued)*

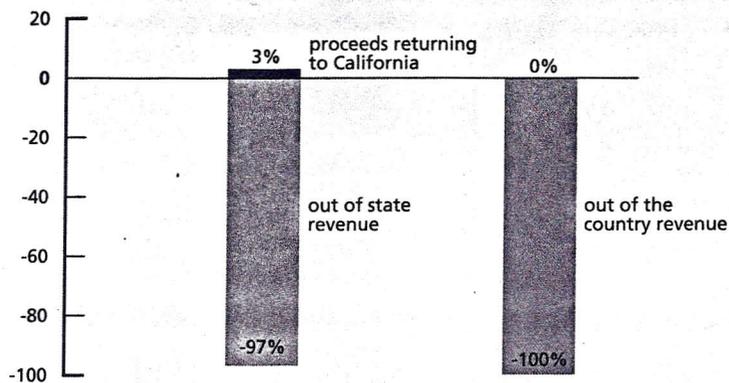
Total US online gambling handle, by source, 1999-2004

\$m	1999	2000	2001	2002	2003	2004	CAGR
Casinos	185	600	930	1,170	1,400	1,520	69%
Lotteries	85	340	630	1,090	1,620	2,230	126%
Sports/event betting (including Horseracing)	300	670	990	1,270	1,540	1,750	55%
Total	570	1,610	2,550	3,530	4,560	5,500	76%
Growth	n/a	182%	58%	38%	29%	21%	

Note: rounding errors may occur
Source: *Datamonitor*

Interstate and international account wagering have already negatively impacted California racing. In 1998 and 1999 alone, it is estimated that Californians wagered in excess of \$174 million via the telephone or the Internet through out-of-state or foreign offshore wagering services instead of placing those wagers at licensed state pari-mutuel wagering facilities, where wagering revenues exclusively return to benefit state businesses.⁸ That translates into over thirty million dollars in lost wagering revenues for the California racing industry in two years, substantially offsetting the \$40 million in annual license fee relief granted by the legislature in 1998. With account wagering handle projected to grow exponentially over the next three to five years, the continued revenue loss from that handle could be devastating to horseracing in California and completely wipe out the \$40 million in annual license fee relief.

**Total Handle domestic and offshore—where the money goes—
who benefits and lost revenue.**



⁸ California is home to over 15% of the U.S. population and produces 15% of the pari-mutuel wagering on horseracing each year. The figures are a product of taking 15% of the total estimated domestic pari-mutuel and foreign offshore wagering handle on horseracing in 1998 and 1999.

**ASSEMBLY BILL 1405—A
REGULATED SYSTEM OF
ACCOUNT WAGERING THAT
BENEFITS CALIFORNIA
RACETRACKS AND HORSEMEN**

Presently, there is no mechanism in place to ensure that account wagering dollars from California residents return to support state businesses, racetracks, breeders and horsemen. The California racing industry receives little, if any, revenue from wagers made by California residents over domestic or foreign offshore account wagering systems. If a California racing fan stays home and places a wager on a New York race, California racetracks and horsemen do not share in the revenue resulting from that wager.

Since the distribution of pari-mutuel wagering revenue among racing organizations has traditionally been determined by legislation in California, the California racing industry is united in its support of A.B. 1405, which sets forth a clear regulatory structure and complete revenue sharing plan for pari-mutuel account wagering.

A.B. 1405 would do the following:

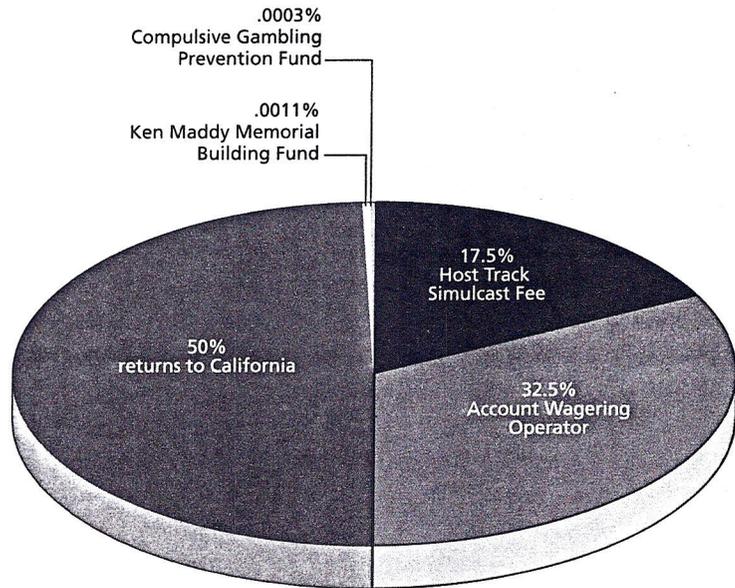
1. Similar to New York, Pennsylvania, Oregon, and others, it would specifically authorize the California Horseracing Board to license wagering hubs to accept ONLY pari-mutuel horseracing wagers from California residents on races conducted both in California and at other racetracks around the country.
2. Allow those wagers to be accepted over telephone lines or other electronic media, once a patron has established a wagering account with the wagering hub.
3. Require the wagering hub to use security technology approved by the Board to assure that access to the betting system is limited to adults only.
4. Establish a formula for the distribution of revenues received from the wagers. The formula provides that:
 - A percentage of each wager would go to the Kenneth L. Maddy Building Fund at the UC Davis Center for Equine Health
 - A percentage of each wager would go to funding chronic gambling assistance programs
 - No more than 6.5% would be retained by the wagering hub to cover expenses of operating the hub
 - County fairs currently operating as satellite wagering facilities as well as other satellite facilities would receive 2.0% of the first \$250 million wagered through the hubs, 1.5% of those wagers between \$250 and \$500 million and 1.0% of wagers in excess of \$500 million
 - Between 8% and 11% would be divided among California horsemen, racetracks and breeders, under the same formula used to distribute revenue from races currently conducted in California.

Assembly Bill 1405
(Continued)

In short, the bill means that every racetrack, fair organization, satellite wagering facility, horseman, breeder, agricultural worker and municipal government associated with the California racing industry will participate in account wagering on horseracing. A.B. 1405 would ensure that at least 50% to 67.5% of account wagering revenues originating in California return to the state's economy. Compare that to the 0% to 15% that is returned to the state from account wagering by Californians today.

This plan has drawn widespread support from within the California racing industry. The Thoroughbred Owners of California, the California Thoroughbred Trainers Association, the Pacific Coast Quarter Horse Racing Association, the California Thoroughbred Breeders' Association, the California Authority of Racing Fairs and all California racetracks have endorsed the formula and would like to utilize it to benefit from account wagering by California residents.

Revenue Sharing Pie Chart Under A.B. 1405



LEGAL ANALYSIS OF
ACCOUNT WAGERING IN
CALIFORNIA

Like a majority of the 43 states where pari-mutuel wagering on horseracing is legal, California's laws are silent on the issue of in-home account wagering on horseracing. Most account wagering services have established wagering accounts for California residents for several years without interference from law enforcement authorities until very recently:

The most recent public comment from a state governmental agency on account wagering was issued by the California Legislative Counsel in June of 1999. The Legislative Counsel opined that a multi-jurisdictional simulcasting and interactive wagering totalizator hub located in Oregon that is duly licensed by the Oregon Racing Commission and operating in accordance with both the federal Interstate Horseracing Act and Oregon law may lawfully receive telephone account wagering instructions from California residents of legal age who have previously established accounts in Oregon with that hub.⁹

Oregon statutes enacted in 1997 expressly authorize account wagering and the operation of a Multi-Jurisdictional Simulcasting and Interactive Wagering Totalizator Hub. Oregon's Hub regulation allows account wagering providers licensed by the Oregon Racing Commission to establish accounts for people whose residence is outside of the state. The four key provisions in the Oregon regulation are: (1) licensed account wagering operators may not take accounts from residents in states where pari-mutuel wagering on racing is illegal; (2) licensees must comply with all provisions of the Interstate Horseracing Act requiring appropriate agreements with horsemen, racetracks and racing authorities from each jurisdiction where they conduct wagering or simulcast races; (3) licensees must maintain all wagering accounts, accept wagering instructions and place wagers through on-site totalizator equipment in Oregon.¹⁰ Importantly, the regulations permit only the transmission of information assisting in the placing of wagers to the Oregon hub operator only from residents of states where pari-mutuel wagering on racing is legal in compliance with federal law.¹¹

The language of A.B. 1405 clarifies this issue. The bill would allow the California Horse Racing Board to authorize "advance deposit wagering" by California residents through licensees, approved betting systems or approved multijurisdictional wagering hubs located within or outside of the state.¹² An "advance deposit wager" is defined as a method of taking a pari-mutuel wager in which a person in California establishes an account and authorizes the entity holding the account to place wagers on his or her behalf.¹³ The bill would provide that wagering instructions could be communicated by telephone or other forms of electronic media in compliance with federal law.

⁹ California Legislative Counsel, June 1999.

¹⁰ Or. Admin. R. 462-060-0000.

¹¹ 15 U.S.C. §§3001 to 3007. 18 U.S.C. §1084.

¹² A.B.1405 (Wesson).

¹³ A.B.1405 (Wesson).

THE BENEFITS OF REGULATION

Through regulation, California can take a proactive approach to shape the future growth of horseracing and the impact that new technology will have on society. A.B. 1405 will stop the exodus of pari-mutuel wagering revenues out of California and allow the horseracing industry, which provides thousands of jobs and billions of dollars to the state, to create new fans for the sport and survive in the future without a further expansion of gaming in California.

The benefits of A.B. 1405, if adopted, will not be isolated to the California racing industry. The bill will positively impact government, civic organizations, educational institutions, labor and law enforcement. The policies behind the measure include:

Law Enforcement

Through state government regulation of account wagering, A.B. 1405 would allow law enforcement to crackdown on illegal bookmaking locally and keep unregulated foreign entities from operating in the state. The California Horse Racing Board would have the authority to develop and adopt rules to license and regulate all phases of operation for advance deposit wagering in California. Presently, the board has no clearly defined authority in this area and no means to track account wagering activity.

Security/Youth Access

The bill authorizes the California Horseracing Board to require the use of technologies to assure that only adults can utilize advance deposit wagering services including age and residency verification systems and third party information systems. Advance deposit wagering will only be available to pre-registered account holders after age and residency verification. In addition, the Board, at any time, can audit account wagering systems for a full accounting of wagering and require that each system has the ability to determine the source of each wager.

Consumer Protection

Increasing numbers of California residents wager from home on horseracing through unknown out-of-state or foreign entities operating beyond the reach of California law. A.B. 1405 would give the California Horse Racing Board and other state law enforcement agencies the ability to monitor the activities of account wagering providers on a regular basis and form rules to protect the rights of consumers. It would also give consumers the option to do business with licensed entities that are easily identifiable and operating within the law.

Education

A.B. 1405 stipulates that a percentage of advance deposit wagering revenues from California residents will be set-aside for the "Kenneth L. Maddy Building Fund." The fund named for the late California legislator would be distributed to the California Center for Equine Health for the benefit of the School of Veterinary Medicine at the University of California at Davis.

*The Benefits of Regulation
(Continued)*

Compulsive Gambling Prevention

The bill sets aside wagering revenues for the purpose of augmenting compulsive gambling prevention programs statewide—the largest commitment for this purpose by any segment of the gaming industry.

Labor

A.B. 1405 ensures that revenues from wagering by California residents return to the state to support businesses and create jobs for state residents. The bill mandates that betting systems and multijurisdictional wagering hubs operating in the state must enter into written contractual agreements with bona fide labor organizations that have historically represented the same or similar classifications of employees at the nearest horseracing facilities.

Agribusiness and Green Space Preservation

The California racing industry is the backbone of state agribusiness and private green space preservation efforts in increasingly scarce rural areas. The growth of the industry through account wagering would impact the price of horses and agricultural goods and services as well as property values in rural areas of the state—increasing the size of the state's economy and providing jobs to thousands of residents.

SUMMARY

A.B. 1405 allows California to shape the future of an emerging technology, enhance law enforcement's ability to halt illegal gambling activities, provide new sources of revenue for education and civic organizations, increase agribusiness, support green space preservation and, most importantly, sustain a racing industry that provides thousands of jobs for state residents and adds billions of dollars to the state economy.