

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

280

THE CALIFORNIA HORSE RACING BOARD
A COMPREHENSIVE REVIEW OF ITS OPERATIONS

SEPTEMBER 1976



Joint Legislative Audit Committee

OFFICE OF THE AUDITOR GENERAL

California Legislature



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September 27, 1976

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of
the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General Report on the California Horse Racing Board for the period ending June 30, 1976.

The Horse Racing Act of 1967 introduced night racing to California and provided for additional racing days. The unique partnership with the private sector increased the State's share of revenue from \$49.3 million in FY 1966-1967 to \$64.6 million in FY 1970-1971. The Horse Racing Act of 1971 resulted in a further increase rising to \$86.6 million in FY 1974-1975, and 96.1 million in FY 1975-1976.

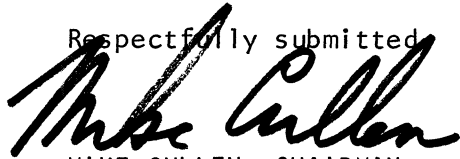
The independent audit of the Auditor General reveals significant slack in the administration of the racing industry by the Board. One finding discloses that 16.3 percent of the officers, directors and partners of horse racing associations, officials and veterinarians; 23.7 percent of jockeys; and 8.1 percent of trainers or harness drivers lied to the Board in the submission of 1975 license applications. Another finding discloses that the automated parimutuel equipment can be tampered with so that cash received at one betting window is not included in the closing tallies.

The Honorable Members of the Legislature
of California
September 27, 1976
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By copy of this letter, the Board is requested to advise the Joint Legislative Audit Committee within sixty days of the status of implementation of the recommendations of the Auditor General that are within the statutory authority of the Board. The Assembly Committee on Governmental Organization will conduct a public hearing on the report on October 5, 1976, in Los Angeles.

The auditors are Gerald A. Silva, Richard V. Alexander, Gilman K. Lee, and Cynthia N. Dirks.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Cullen". The signature is written in a cursive, flowing style with a large initial "M".

MIKE CULLEN, CHAIRMAN
Joint Legislative Audit Committee

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Our review of the CHRB also addressed specific information requested by the Legislature. We also performed a complete financial audit of the CHRB for the fiscal year ending June 30, 1976. Included in this report is our expression of an unqualified opinion on the fairness of presentation of the CHRB's financial records for that period.

SUMMARY

The California Horse Racing Board has jurisdiction over all horse race meetings in California and has a broad range of responsibilities to insure that horse race meetings are properly conducted. The CHRB considers itself a leader among the racing commissions of the states that authorize wagering on horse racing and initiated four new projects during 1975 to better serve the industry. One of the CHRB's primary responsibilities is to license every participant in horse racing. Our review of the CHRB's operations disclosed that sufficient personal background information is not being obtained by the CHRB prior to the issuance of licenses to those persons participating in horse racing.

The Horse Racing Law indicates that the CHRB should be a source of information and counsel to the Governor and the Legislature on horse racing issues. However, during the last 16 years the CHRB has not fulfilled this responsibility. The performance of the CHRB since 1960 is particularly deficient in view of (1) the number of recommendations the CHRB proposed to the Legislature prior to 1960, (2) the opportunities for increasing state revenues from horse racing, and (3) the need for change within the California horse racing industry.

Our review also disclosed that the CHRB exceeded the statutory limitation on racing weeks when it awarded racing dates to associations for the 1975, 1976 and 1977 racing seasons. In addition, the CHRB has not enforced the law for the proper distribution of purses to thoroughbred horse owners.

INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee, we have examined the financial records and operations of the California Horse Racing Board. This examination was conducted under the authority vested in the Auditor General by Section 10527 of the Government Code.

The California Horse Racing Board (CHRB) was established in 1933 when the people relegalized wagering on horse racing in California after a 24-year prohibition. The CHRB consists of three members who are appointed by the Governor, and it has jurisdiction over all horse race meetings in California at which parimutuel wagering is conducted. The CHRB is responsible for licensing racing associations, sanctioning every participant, designating racing days including charity days, collecting the State's share of horse racing revenue, acting as a quasi-judicial body in matters pertaining to horse racing, and enforcing California laws, rules and regulations on horse racing. This report addresses all of these responsibilities.

The CHRB's 1976-77 budget includes 28 full-time employees. This staff includes the Secretary (Executive Officer), a Manager of Administrative Programs, a Chief Investigator, nine investigators, and licensing, accounting, and clerical personnel.

During calendar year 1975, \$1.2 billion was wagered on horse racing in California. The CHRB collected \$91,451,532 from horse racing during this period. In addition, the CHRB issued 18,172 licenses, heard and rendered decisions on 131 disciplinary cases, and conducted over 400 investigations of such activities as the use of prohibited drugs on race horses, default of financial obligations, fraud in the sale of race horses, the use of counterfeit parimutuel tickets, compliance with fire ordinances and Labor Code requirements, and inhumane treatment of animals.

During 1975 the CHRB initiated the following four new projects to better serve the industry:

- the Open Claim Rules
- the NASRIS Licensing Information System
- Stewards Qualifications Appraisal Panels
- Multi-Year Allocation of Racing Dates.

The Open Claim Rules are designed to facilitate new horse owners' entry into the horse racing industry. The National Association of State Racing Information System (NASRIS) provides the CHRB with computerized access to licensing information on all individuals participating in or barred from racing in the United States, Canada, Mexico and Puerto Rico. The Stewards Qualifications Appraisal Panels are six-member panels composed of racing industry representatives that qualify and recommend candidates for track stewards to the CHRB. Stewards are

the senior racing judges and have broad jurisdiction to supervise horse race meetings. Under the Multi-Year Allocation of Racing Dates procedure, the CHRB allocates racing dates for more than one year. During 1975 the CHRB allocated racing dates for both the 1976 and 1977 racing calendar. This procedure reduces duplication of effort of both CHRB and industry personnel and facilitates planning and coordination within the industry.

The CHRB considers itself a leader among the racing commissions of the 30 states that authorize parimutuel wagering on horse racing. The recommendations in this report, if implemented, will increase state revenues from horse racing, improve the CHRB's responsiveness to legislative intent, and enhance the integrity of horse racing in California.

FINDINGS

CALIFORNIA HORSE RACING BOARD LICENSING PROCEDURES ARE INADEQUATE.

The California Horse Racing Board (CHRB) is not fulfilling its responsibility to protect the integrity of horse racing in California because the CHRB is not obtaining sufficient, yet available, personal background information prior to licensing those persons participating in horse racing.

Sections 19480 and 19510 of the Business and Professions Code govern the licensing of horse racing participants. All racing associations and every participant in horse racing are required to be licensed by the Board.

The CHRB's annual report to the Governor acknowledges that the licensing of racing associations and the sanctioning of all participants in horseracing are two of its principal activities. The CHRB report also stated that "...It is essential, in order to protect both the public and the industry, that the board be aware of every individual participating in horseracing. The licensing of each participant establishes such a control...."

The CHRB's licensing procedures are inadequate in that sufficient, reliable information is not being obtained on persons licensed by the CHRB, although such information is available.

A substantial percentage of persons licensed by the CHRB during 1975 did not truthfully respond to questions on their license applications regarding criminal arrests or disciplinary actions imposed on them by other horse racing jurisdictions. These misrepresentations were not detected by the CHRB.

The CHRB license application form contains the following two questions regarding an individual's background:

1. Have you ever been arrested, pled guilty, pled nolo contendere, been found guilty, been convicted, been fined or forfeited bail for any criminal offense, either felony or misdemeanor (except traffic violations other than driving under the influence of intoxicating liquor)? Include any offense which has been expunged. If so, give particulars concerning offense, arrest, plea, time, place and disposition thereof.*
2. Have you ever been under suspension, set down, ruled off, or otherwise debarred from participating in racing by any racing organization, association, commission or other recognized turf authority in the United States or elsewhere?

If so, state when, where and by whom the ruling or rulings were made, and the offense or offenses charged.*

To determine the adequacy of the CHRB's licensing procedures, we compared the answers on selected 1975 license applications against records of the Bureau of Identification of the Department of Justice and the National Association of State Racing Information System. The

*This question was amended so that beginning in 1976 the applicant need not list suspensions of five days or less or fines of less than \$100. In addition, the criminal arrest question was reworded in 1976 to exclude all traffic violations, request fingerprint information and state that a "yes" answer to the arrest question does not automatically disqualify the applicant.

CHRB has access to these sources of information. Following are the results:

1. 16.3 percent of the officers, directors, and partners of horse racing associations, officials, assistant officials and veterinarians, did not truthfully respond to the question regarding prior criminal arrests.
2. 23.7 percent of jockeys and 8.1 percent of trainers or harness drivers did not truthfully respond to the question regarding disciplinary actions imposed on them by other horse racing jurisdictions.

Although conviction of a crime or disciplinary action by a racing jurisdiction may be the basis of license denial, they are not sufficient grounds for the CHRB to automatically deny a license to an applicant. Licensee criminal offenses we noted were for drunken driving, possession of marijuana or dangerous drugs, disorderly conduct and soliciting for lewd acts. The CHRB should be aware of both the offenses and the false representations on the applications because both are grounds to deny a license.

Section 1489* of the Administrative Code establishes the criteria by which the CHRB may deny or refuse to issue a license to an applicant and states in part:

*Title 4, Chapter 4, Article 4.

1489. Grounds for Denial or Refusal of License. The Board, in addition to any other valid ground or reason, may refuse to issue a license or may deny a license to any person:

(a) Who has been convicted of a crime punishable by imprisonment in the state prison of this or any other state, or who has been convicted of a crime involving moral turpitude.

(b) Who has made any material misrepresentation or false statement to the Board or its agents in his application for license or otherwise, or who fails to answer any material question on an application for a license.

* * *

(f) Who has committed an act involving moral turpitude, or who is of bad moral character, intemperate habits, or has a bad reputation for truth, honesty and integrity.

(g) Who has unlawfully engaged in or who has been convicted of possession, use or sale of any narcotic, dangerous drug, or marijuana, whether such conviction was a felony or misdemeanor. (Emphasis added)

The above provisions impose a responsibility on the CHRБ to obtain adequate, reliable information on all license applicants. Without such information the CHRБ cannot effectively execute its licensing responsibilities.

The Secretary of the CHRБ acknowledges that the CHRБ does not have a formal procedure for obtaining independent information on criminal arrests. In prior years the CHRБ did process many applications through the Bureau of Identification of the Department of Justice; however, this procedure has for all intents and purposes been abandoned as shown in the following table.

Table 1

Applicants Processed through the Bureau
of Identification of the Department of
Justice during the Years 1971 through 1975

<u>Year</u>	<u>Number of Applicants Processed through the Bureau of Identification of the Department of Justice</u>	<u>Total Number of Licenses Issued by the CHRB</u>
1971	2,693	15,260
1972	3,237	16,786
1973	1,748	17,313
1974	1,249	17,416
1975	15	18,172

The Secretary cites budget constraints as the reason for the dramatic curtailment in the number of applicants processed through the Bureau of Identification. It now costs the CHRB approximately \$6 to process each applicant. However, the CHRB need process an applicant through the Bureau of Identification only for the first application because the Bureau notifies the CHRB of any arrests that occur after an applicant is initially processed. Of the 18,172 licenses issued during 1975, 10,484 were issued to persons previously licensed by the CHRB. These applicants would not have required processing through the Bureau of Identification in 1975 if the applicants had been processed when they originally applied for a license.

With regard to the jockeys, trainers and harness drivers that did not answer truthfully to the questions about disciplinary actions imposed by other racing jurisdictions, the Secretary stated that in his opinion the CHRB's investigators invariably knew of the disciplinary actions but did not consider them significant enough to warrant the denial of a license. We cannot document what information, if any, the CHRB's investigators obtained prior to issuing licenses to the individuals in question. However, Section 1489 of the Administrative Code (described earlier) provides that the CHRB may deny or refuse a license to any person who makes any material misrepresentation or false statement in the application for license. In fact, the CHRB denied licenses to seven persons during 1975 because they made false representations on their applications. Had the CHRB fully and consistently applied this section of the regulations, 16.3 percent of the officers, directors, partners, officials, assistant officials and veterinarians, 23.7 percent of the jockeys and 8.1 percent of trainers or harness drivers that were licensed by the CHRB during 1975 would have been denied a license.

Currently, through the National Association of State Racing Information System, the CHRB has computer access to licensing information on all individuals participating in or barred from racing in the United States, Canada, Mexico and Puerto Rico. The CHRB does not, however, have a policy as to how this information is to be used or how such use is to be recorded.

CONCLUSION

It is essential that the CHRB establish formal policies to obtain and utilize adequate, reliable information on all participants in the California horse racing industry. Only in this way can the CHRB fulfill its licensing responsibility to protect the integrity of horse racing in California.

RECOMMENDATION

The CHRB should process all new applicants through the Bureau of Identification of the Department of Justice. The costs to process these applicants should be recovered through either an increase to the license fee charge, which is established and collected by the CHRB, or an augmentation to the CHRB's annual budget.* In addition, the CHRB should establish formal policies on which categories of applicants should be processed through the National Association of State Racing Information System. All license applications processed through NASRIS should be so identified along with the name of the CHRB employee who processed the application.

*In 1975 we estimate that the cost to process all first-time applicants through the Department of Justice would have been \$50,000.

BENEFITS

Implementation of this recommendation will help to insure that the CHRB is fulfilling its responsibility to protect the integrity of horse racing in California. In addition, CHRB management will be able to exercise better control over the entire licensing procedure.

THE CALIFORNIA HORSE RACING
BOARD HAS NOT SOUGHT NEEDED
CHANGE IN THE HORSE RACING
INDUSTRY IN RECENT YEARS.

From its inception in 1933 until 1960 the CHRB recommended numerous improvements in the California horse racing industry, many of which were implemented. However, since 1960 the CHRB has made only a few recommendations.*

Section 19441 of the Business and Professions Code provides that: (1) the CHRB should be a source of information and counsel to the Governor and the Legislature and (2) the CHRB's annual report should be the appropriate medium for transmitting such information.

In addition, Section 19530 of the Business and Professions Code provides that the CHRB shall specify racing days and dates for horse race meetings as will be in the public interest in maximizing revenue to the State. This section evidences that the Legislature considers maximizing revenue to the State from horse racing to be in the public interest. The CHRB in recent years has not addressed this provision of the Code.

Based on these criteria, the CHRB has been deficient since 1960 in recommending improvements in the California horse racing industry and in ways to maximize revenue to the State from horse racing. The performance of the CHRB since 1960 is particularly deficient in view of:

*The CHRB did make some recommendations to the Legislature with respect to exempt breakage, additional racing opportunities in Northern California and the use of the California State Fair and Exposition racing facility in a special report dated March 31, 1969.

1. The number of recommendations that the CHRB proposed to the Legislature prior to 1960 (explained in Appendix A)
2. The opportunities for increasing state revenues from horse racing (explained in Appendix B), and
3. The need for change within the California horse racing industry (explained in Appendix C).

Between its creation in 1933 and June 30, 1960, the CHRB made over 100 recommendations to strengthen and improve racing. Nearly 70 of these recommendations were either enacted or administratively implemented. Since the latter date the CHRB has made few recommendations for improvements (see page A-2).

Opportunities exist to improve racing as follows:

- The number of racing weeks can and should be expanded. State revenues from racing would thereby be increased substantially (see page B-2).
- Revision of the racing tax laws to bring the State more into conformity with other major racing states could produce up to \$38 million in additional annual state revenues (see page B-13).
- Reversion to the requirement that private racing associations make daily payment of the State's share of the wagered pool would increase state interest earnings by approximately \$44,000 (see page B-15).

- The license fee schedule in the Horse Racing Law needs to be amended because it is inequitable. Moreover, it discourages some racing associations from increasing their total parimutuel wagering, thereby avoiding additional state racing taxes.
- Elimination of obsolete and impracticable provisions of the statutes would facilitate more effective CHRB operations (see page C-3).
- By establishing more effective controls over the operations of racing associations and by restricting the discretion of the CHRB in regulating racing associations, the integrity of racing could be enhanced (page C-4).
- The integrity of racing would also be increased by restricting the control racing associations have over officials who represent the State (see page C-13).

CONCLUSION

By not incorporating recommendations in its reports to the Governor and the Legislature in the last 16 years, the CHRB has not fulfilled its responsibility to actively seek needed change in the horse racing industry.

RECOMMENDATION

The CHRB should resume incorporating recommendations as it deems desirable in its annual report to the Governor and the Legislature. These recommendations should address ways to control and increase state revenue from horse racing, and to enhance the integrity of horse racing in California.

BENEFITS

Implementation of this recommendation will improve the CHRB's responsiveness to legislative intent, increase state revenues from horse racing and enhance the integrity of horse racing in California.

THE CALIFORNIA HORSE RACING BOARD
IS NOT ADHERING TO THE LAW IN
ALLOCATING HORSE RACING DATES AND
ENFORCING THE PROPER PAYMENT OF
PURSES TO HORSE OWNERS.

The CHRB exceeded the statutory limitation on racing weeks when it awarded racing dates to associations for the 1975, 1976 and 1977 racing seasons. In addition, the CHRB has not enforced the law for proper distribution of purses to thoroughbred horse owners.

Allocation of Racing Dates

Section 19530 of the Horse Racing Law authorizes the CHRB to allocate racing weeks to associations subject to limitations imposed by applicable code sections (Appendix D). The CHRB exceeded the limitations imposed by the preceding sections when it allocated racing dates for the 1975, 1976 and 1977 racing seasons.

For example, the CHRB allocated excessive racing dates to five of the fourteen private racing associations conducting meetings during 1976. In addition, the CHRB exceeded the limitation on racing in the central and southern geographic zones for thoroughbred, harness and quarter horse racing, and in the northern zone for harness and quarter horse racing.

The CHRB exceeded the statutory limitations on horse racing weeks because the members interpreted Section 19414.5 as giving them the authority to do so.

Section 19414.5 provides for the allocation of fractional racing weeks as follows:

...Fractional racing weeks may be authorized by the board at the beginning and end of any horseracing meeting but shall not total more than one week....

According to the Legislative Counsel, Section 19414.5 does not allow the CHRB to approve fractional weeks of racing which result in a total allocation in excess of the limitations imposed by the other sections of the Horse Racing Law.

Distribution of Purses to Horse Owners

The CHRB is not enforcing the proper payment of purses to thoroughbred horse owners. Sections 19611(a), (b), and 19614* stipulate what portion of the money wagered at thoroughbred race meetings is to be distributed as purses to the horse owners.

Section 19613(b) provides for a one percent deduction from purses at thoroughbred meetings to be paid to the horsemen's association which contracts with the racing association as the representative of the horse owners. Section 19613(b) states in part:

*Section 19614 applies to only those thoroughbred meetings at the State Fair and Exposition and district or county fairs. Currently 10.25 percent of the money wagered at these meetings is divided between the horse owners as purses and the association as commissions based upon a negotiated agreement between the two groups.

Any association conducting a thoroughbred racing meeting...shall pay to the horsemen's organization contracting with the association with respect to the conduct of racing meetings...an amount equivalent to 1 percent of such portion...The remainder of such portion shall be distributed as purses.

The thoroughbred horse owners in California are represented by the Horsemen's Benevolent and Protective Association (HBPA). This organization receives two percent of the purses at thoroughbred meetings, half of which is for administrative expenses and services, and half is for use in a welfare fund.

The Legislative Counsel in an opinion dated July 12, 1976 stated that the one percent payment of purses to the HBPA for its welfare fund would be in violation of Section 19613(b).

The Secretary of the CHRB stated that they considered such payments to be improper, but that they have never taken action on these payments to the HBPA because they were made with the concurrence of the thoroughbred horse owners. The Secretary conceded, however, that the thoroughbred owners do not have any formal agreement with the HBPA for these payments.

CONCLUSION

The CHRB is not fulfilling its responsibilities to enforce the Horse Racing Law for the allocation of racing days and the payment of purses to horse owners.

RECOMMENDATION

The CHRB should enforce all of the provisions of the Horse Racing Law and recommend to the Legislature amendments to the law which they feel are in the best interest of the State.

BENEFITS

Implementation of this recommendation will insure compliance with legislative intent and further the best interests of the State for horse racing.

OTHER INFORMATION REQUESTED BY THE LEGISLATORS

RACING ATTENDANCE FIGURES IN
THE CHRB'S ANNUAL REPORT

The CHRB's annual report contains a statistical inconsistency because attendance at horse race meetings cannot be reconciled to the related city admission taxes shown in the annual report. The reasons for this inconsistency are:

- The racing associations interpret the meaning of the word "attendance" differently when submitting information to the CHRB, and
- Each local government has different admissions tax rates for various types of admission such as general admission, passes, group rates, etc.

The CHRB should develop a definition of "admissions" as it is used in their annual report. This would facilitate the presentation of comparable data in the annual report.

SUFFICIENCY OF
INVESTIGATIVE PERSONNEL

With the exception of Illinois, California allocates more resources for investigative functions than any other state that allows parimutuel wagering on horse racing.

As part of our review, we observed the activities of the CHRB's staff investigators who work at the various race tracks, and compared the CHRB's expenditures for investigative activities to that of other horse racing states.

In our opinion the CHRB investigators are performing their tasks adequately and are of sufficient number to enforce the provisions of the California Horse Racing Law. Our conclusion is based on a 1974 CHRB survey of the other horse racing states which showed California ranked second in the number of investigative personnel and in total budgeted expenditures for investigative operations.

FINANCIAL AUDIT OF THE CALIFORNIA
HORSE RACING BOARD FOR THE FISCAL
YEAR ENDING JUNE 30, 1976

Office of the Auditor General

Auditor's Opinion

Balance Sheet - General Fund, Fair and Exposition Fund,
Trust Fund Exhibit A

Statement of Changes in Operating Clearing Accounts -
General Fund, Fair and Exposition Fund Exhibit B

Statement of Changes in Fund Balance - Trust Fund Exhibit C

Statement of Changes in Financial Position - Trust Fund Exhibit D

Statement of Revenue - Fair and Exposition Fund, General
Fund, Wildlife Restoration Fund Schedule 1

Statement of Budgeted and Actual Expenditures -
Fair and Exposition Fund Schedule 2

Notes to Financial Statements

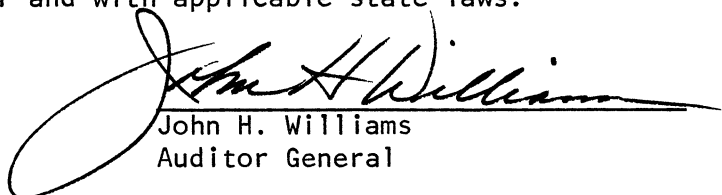
AUDITOR'S OPINION

The Joint Legislative Audit Committee
of the California State Legislature:

We have examined the Balance Sheet of the California Horse Racing Board as of June 30, 1976 and the related statements of operating clearing accounts, changes in fund balance, and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The statements relating to the General Fund, Fair and Exposition Fund, and the Wildlife Restoration Fund form only the California Horse Racing Board's portion of these funds. We are reporting and expressing our opinion only on the portion of these funds reflected in the accompanying statements.

In our opinion, subject to the matter discussed in the preceding paragraph, the accompanying financial statements present fairly the financial position of the California Horse Racing Board as of June 30, 1976 and the results of operations and the changes in financial position for the year then ended, in conformity with generally accepted accounting principles applicable to California governmental agencies applied on a basis consistent with that of the preceding year and with applicable state laws.


John H. Williams
Auditor General

September 22, 1976

Staff: Gerald A. Silva
Richard V. Alexander
Gilman K. Lee
Cynthia M. Dirks

CALIFORNIA HORSE RACING BOARD
BALANCE SHEET
JUNE 30, 1976

<u>Assets</u>	<u>General Fund</u>	<u>Fair and Exposition Fund</u>	<u>Trust Fund</u>
<u>Assets</u>			
General Cash	\$2,149,117	\$ (10)	\$395,150
Revolving Fund Cash	-	4,295	-
Accounts Receivable	-	971	-
Prepayments to Other Funds	-	6,005	-
Expense Advances to Employees	-	4,744	-
Equipment (Note 2)	<u>859</u>	<u>9,312</u>	<u>-</u>
Total Assets	<u>\$2,149,976</u>	<u>\$25,317</u>	<u>\$395,150</u>
 <u>Liabilities, Reserves, and Fund Balances</u>			
<u>Liabilities</u>			
Accounts Payable	\$ -	\$12,317	\$ -
Claims Filed (Note 5)	<u>-</u>	<u>13,852</u>	<u>19,569</u>
Total Liabilities	<u>\$ -0-</u>	<u>\$25,889</u>	<u>\$ 19,569</u>
 <u>Reserves</u>			
Reserve for Investment in Fixed Assets	<u>\$ 859</u>	<u>\$ 9,312</u>	<u>\$ -0-</u>
 <u>Fund Balances</u>			
Operating Clearing (Note 3 and Exhibit B)	\$2,149,117	\$(9,884)	\$ -
Fund Balance - Appropriated (Note 4 and Exhibit C)	<u>-</u>	<u>-</u>	<u>375,581</u>
Total Fund Balances	<u>\$2,149,117</u>	<u>\$(9,884)</u>	<u>\$375,581</u>
Total Liabilities, Reserves, and Fund Balances	<u>\$2,149,976</u>	<u>\$25,317</u>	<u>\$395,150</u>

The accompanying notes are an integral part of the financial statements.

CALIFORNIA HORSE RACING BOARD
 GENERAL FUND AND FAIR AND EXPOSITION FUND
 STATEMENT OF OPERATING CLEARING ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 1976

	<u>General Fund</u>	<u>Fair and Exposition Fund</u>
Operating clearing balance June 30, 1975	\$ 2,113,512	\$ (3,358)
Additions:		
Revenues (Schedule 1)	75,366,807	20,000,000
Prior year appropriation adjustments	<u>-</u>	<u>2,422</u>
Total	<u>\$77,480,319</u>	<u>\$19,999,064</u>
Deductions:		
Net disbursements from fund in State Treasury	75,331,202	19,370,003
Expenditures for the year ended June 30, 1976 (Schedule 2)	<u>-</u>	<u>638,945</u>
Total deductions	<u>75,331,202</u>	<u>20,008,948</u>
Operating clearing balance June 30, 1976 (to Exhibit A)	<u>\$ 2,149,117</u>	<u>\$ (9,884)</u>

The accompanying notes are an integral part of the financial statements.

CALIFORNIA HORSE RACING BOARD
TRUST FUND
STATEMENT OF CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 1976

	<u>Trust Fund</u>
Fund Balance - June 30, 1975	<u>\$382,894</u>
Additions:	
Receipts from Depositors	140,000
Receipts - Stallion Awards	<u>850,419</u>
Total Additions	<u>990,419</u>
Total	<u>1,373,313</u>
Deductions:	
Payment to and for Depositors	150,000
Payments - Stallion Awards	<u>847,732</u>
Total Deductions	<u>997,732</u>
Fund Balance - June 30, 1976 (to Exhibit A)	<u>\$375,581</u>

The accompanying notes are an integral part of the financial statements.

CALIFORNIA HORSE RACING BOARD
TRUST FUND
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED JUNE 30, 1976

June 30, 1976

Funds were provided by:	
Trust deposits from Racing Associations	\$ 140,000
Receipts for Stallion Awards	850,419
Decrease in Working Capital	<u>7,313</u>
Total Funds Provided	<u>\$ 997,732</u>

Funds were applied to:	
Refund of trust deposits	\$ 150,000
Payment of Stallion Awards	<u>847,732</u>
Total Funds Applied	<u>\$ 997,732</u>

Analysis of Changes in Working Capital at June 30, 1976	<u>1976</u>	<u>1975</u>	<u>Increase (Decrease)</u>
General Cash	\$ 10,000	\$ -	\$ 10,000
Cash in State Treasury	385,150	382,894	2,256
Claims Filed	<u>(19,569)</u>	<u>-</u>	<u>(19,569)</u>
Working Capital	<u>\$ 375,581</u>	<u>\$ 382,894</u>	
Decrease in Working Capital			\$ <u>(7,313)</u>

The accompanying notes are an integral part of the financial statements.

CALIFORNIA HORSE RACING BOARD
STATEMENT OF REVENUE
FOR THE YEAR ENDED JUNE 30, 1976

	<u>Fair and Exposition Fund</u>	<u>General Fund</u>	<u>Wildlife Restoration Fund</u>	<u>Total</u>
<u>Revenue</u>				
Parimutuel License Fees	\$ 19,919,575	\$ 67,387,504	\$ 750,000	\$ 88,057,079
Occupational License Fees	80,425	366,135	-0-	446,560
Breakage	-0-	6,674,968	-0-	6,674,968
Fines	-0-	29,320	-0-	29,320
Unclaimed parimutuel	-0-	908,880	-0-	908,880
Miscellaneous	-0-	-0-	-0-	-0-
Total Revenue	\$ <u>20,000,000</u>	\$ <u>75,366,807</u>	\$ <u>750,000</u>	\$ <u>96,116,807</u>

The accompanying notes are an integral part of the financial statements.

CALIFORNIA HORSE RACING BOARD
 FAIR AND EXPOSITION FUND
 STATEMENT OF BUDGETED AND ACTUAL EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 1976

	<u>Budget as Adjusted</u>	<u>Expenditures Current Year</u>	<u>Unexpended Balance</u>
Support: (Stats. 1975, Ch. 176, Item 73)			
Personal Services	\$ <u>475,025</u>	\$ <u>471,247</u>	\$ <u>3,778</u>
Operating Expense and Equipment:			
General Expense	\$ 18,800	\$ 18,693	\$ 107
Printing	8,500	8,453	47
Communications	12,100	12,059	41
Travel - In State	61,896	61,856	40
Rent on Building	7,800	7,783	17
Legal Hearings	5,500	5,294	206
Attorney General Charges	42,934	42,585	349
Services from Dept. of Justice	400	279	121
Interstate Information Service	9,100	8,726	374
Equipment	<u>1,970</u>	<u>1,970</u>	<u>-0-</u>
Total Operating Expense and Equipment	\$ <u>169,000</u>	\$ <u>167,698</u>	\$ <u>1,302</u>
Total Support Expenditures	\$ <u>644,025</u>	\$ <u>638,945</u>	\$ <u>5,080</u>

The accompanying notes are an integral part of the financial statements.

CALIFORNIA HORSE RACING BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1976

1. Summary of Significant Accounting Policies

The accounting policies of the California Horse Racing Board conform to generally accepted accounting principles as applicable to governmental units and as contained in the State Administrative Manual.

A. General Fund

The California Horse Racing Board accounts for only its portion of the State's General Fund. Central accounts for the General Fund are maintained by the State Controller's Office, and consolidated General Fund Statements are published by that office.

Income Throughout the fiscal year, revenue accounts are accounted for on a cash basis. At June 30, the accounts are adjusted to a modified accrual basis for all earned but uncollected revenues.

Expenditures The California Horse Racing Board's source of funding is the Fair and Exposition Fund. The California Horse Racing Board has no appropriation from the General Fund.

B. Fair and Exposition Fund

The Fair and Exposition Fund is funded in its entirety by the California Horse Racing Board with a levy on

parimutuel wagering. The Fund provides the resources for the California Horse Racing Board's operations and resources for the operations of local fairs and expositions. The statement presented reflects only the California Horse Racing Board's portion of the transactions. Central accounts are maintained by the State Controller's Office.

Income The Fair and Exposition Fund's revenues are provided by the first four percent (4%) of the State's tax levy on parimutuel wagering up to a maximum of twenty million dollars (\$20,000,000) as mandated by law. As of June 30, 1976 the Fund had received the maximum amount and no accruals existed.

Expenditures Throughout the fiscal year, expenditures are accounted for on a claims filed basis with the State Controller. At June 30, 1976, an estimate of the valid claims outstanding was made and accrued.

C. Trust Fund

The Trust Fund accounts for the ten-thousand dollar (\$10,000) horse racing association deposits and the Stallion Award Program for California Thoroughbred Sires. A horse racing association's deposit is required prior to a race meeting and is refunded at the meeting's conclusion upon receipt of all monies lawfully due the State. The California Horse Racing Board accounts for this fund in its entirety.

Receipts and disbursements are recorded on a cash basis with the appropriate accruals made at June 30.

D. Wildlife Restoration Fund

The California Horse Racing Board provides funding in the amount of seven-hundred-fifty-thousand dollars (\$750,000) per fiscal year. The California Horse Racing Board has no appropriations from this fund. The central accounts are maintained by the State Controller's Office and the financial statements are published by that office.

2. Equipment and Reserve for Investment in Fixed Assets

The equipment purchases are recorded as expenditures in the year of acquisition. The aggregate cost is capitalized and fully reserved on the financial statements.

3. Operating Clearing

This account is the connecting link between the California Horse Racing Board's portion of the General Fund, the Fair and Exposition Fund, and the central accounts of these funds maintained by the State Controller's Office.

4. Fund Balance - Appropriated

The balance represents the California Horse Racing Board's accountability to the association depositors and the owners of California thoroughbred sires entitled to Stallion Awards.

5. Claims Filed

This account represents the amount of expense claims in the process of payment filed with the State Controller's Office.

CALIFORNIA HORSE RACING BOARDLOS ANGELES, CALIFORNIA 90012
(213) 620-4160

September 17, 1976

Mr. John H. Williams
Auditor General
925 L Street, Suite 750
Sacramento, California 95814

Dear Mr. Williams:

The members of the California Horse Racing Board have reviewed the Report of the Office of the Auditor General to the Joint Legislative Audit Committee entitled, Report on the Financial Record of Operations of the California Horse Racing Board, September, 1976.*

With regard to the content of the report, the Board herewith provides its statements and opinions concerning specific sections of the report. Understandably, in some instances the Board does not share the opinion of the Auditor General as to a specific recommendation or specific conclusion, but recognizes that the complex issues within horse racing in California may require new or corrected regulatory policies and statutes and that the Report of the Auditor General will be of great assistance in this area.

* * *

CHRB LICENSING PROCEDURES ARE INADEQUATE

The California Horse Racing Board does not concede that the findings of the Auditor General as to the inadequacy of the Board's licensing procedures is correct.

The finding appears to be based solely on the issue that the Board did not process applicants for racing licenses through the Bureau of Identification of the Department of Justice. Independent sources of information concerning license applicants are many and include the national racing information system (N.A.S.R.I.S.), credit bureaus, police record bureaus, racing security firms and internal records, in addition to the criminal record information available through the Department of Justice by means other than the submission of fingerprints.

The Board licensing procedures have, since 1974, reduced the reliance on the Bureau of Identification in favor of less costly but readily available information upon which to base an intermediate decision regarding the applicant's qualifications. The current procedures were adopted in 1974 on the presumption that few applicants falsify a

*Report No. 280, The California Horse Racing Board -- A Comprehensive Review of Its Operations.

Mr. John H. Williams
Auditor General

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September 17, 1976

material fact on their applications and that the vast majority of the 8,000 new applicants, yearly, should not be subjected to delays of two to four weeks and excessive inconvenience in obtaining a license in order that the few individuals who answer an arrest question falsely be prevented from obtaining a temporary license privilege. The Board is also aware that recent Court decisions have held that applicants may not be denied a license due to convictions which are not reasonably connected with a function for which the license is sought.

While the Board is mindful of the budget constraints, it is not that factor alone which led to amendment of the pre-license investigative procedures. Of the stated 16.3% of certain classes who reportedly did not truthfully respond to the application question concerning arrests and convictions, it was noted that the omissions were for such offenses as drunk driving and disorderly conduct which in themselves are not sufficient and material grounds for denial of a license. Nor do we concede that the stated percentage of applicants deliberately misrepresented their records inasmuch as many applicants believe that such misdemeanor records are sealed or stricken after a period of time and that a negative answer to a question concerning such convictions is proper.

Since 1974 the Board has not experienced any dramatic reduction in the integrity of racing or its participants and is now able to utilize its resources to detect those individuals who have recent serious criminal convictions rather than the former fragmentation of resources in an attempt to act upon omissions of minor public offenses by a small number of applicants.

The interstate nationwide record system is a further effort by the Board to avoid duplication of efforts through the reciprocal interchange of license information among the racing States; and in so doing, reduce costs of operation and, more important, reduce the expense and inconvenience to the potential licensees who seek to participate in horse racing in California as well as in other racing jurisdictions.

Board directives concerning the licensing procedures are in effect and do provide formal policies for the processing of license applicants through the NASRIS system and through the microfiche records index. Such directives will be amplified in 1977 with the adoption of new application forms and with the microfiche viewers now available at field offices.

* * *

Mr. John H. Williams
Auditor General

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September 17, 1976

THE CALIFORNIA HORSE RACING BOARD HAS NOT ACTIVELY SOUGHT NEEDED CHANGE
IN THE HORSE RACING INDUSTRY IN RECENT YEARS.*

With respect to the finding of the Auditor General that the Board has not actively sought needed change in the horse racing industry in recent years, the Board concedes that it has not made use of its statutory prerogatives of Section 19441 of the Horse Racing Law. But the Board has, in fact, made a number of recommendations regarding the horse racing industry through other effective means, several of which are commented on, favorably, by the Auditor General. Among these have been the Special Reports as required by the Legislature in its enactment of AB 1082 of 1967 and other reports and recommendations submitted to the Executive Branch.

The Board is mindful of its responsibility and has recently announced the creation of the California Horse Racing Board Advisory Committee on the Review of the Horse Racing Law for the purpose of a comprehensive review of the present law and proposed revision of existing statutes governing horse racing in California.

* * *

THE CHRB IS NOT ADHERING TO THE LETTER OF THE LAW WITH REGARD TO ALLOCAT-
ING HORSE RACING DAYS AND ENFORCING THE PAYMENT OF PURSES TO HORSE OWNERS.*

The California Horse Racing Board must respectfully disagree with the finding of the Auditor General that the Board is not adhering to the letter of the law in its allocation of horse racing days.

By Legislative enactment in 1967, the methods and limitations for the allocation of racing periods were significantly revised. New terms of "Racing Week" and "Fractional Racing Week" were added to the statutes, along with "Zone" date assignment limitations and allocations by racing days was, in the main, discarded. As the same legislative enactment expressed the intent to maximize State revenues, it was apparent that the Board's duty was to interpret and implement the statutes in conformance with the expressed intent. In so doing the Board interpreted "Fractional Racing Weeks" (four racing days or less within six calendar days or less) to mean and to authorize extra days at the beginning or end of a period of "Racing Weeks" in order that a race meeting did not necessarily start on the first day of the calendar week, Sunday. This interpretation avoided conflicts with the labor-management agreements covering racing employees, provided a more orderly sequence of race meetings, and maximized the productivity and revenues from the race meetings. As the Board's legal counsel has not objected to such

*Caption amended in final report.

Mr. John H. Williams
Auditor General

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September 17, 1976

interpretation it has been presumed that the Board's action in this regard is not in conflict with the Horse Racing Law.

Should the statutes be interpreted as requiring that "Fractional Racing Weeks" allocated by the Board be totalled for any Zone and the total of "Fractional Racing Weeks" thereafter computed as "Racing Weeks" it is true that the maximum number of weeks of racing for the respective Zones would be exceeded. For this reason the Board may suggest clarification through Legislative amendment of the respective definitions of "Racing Week", "Fractional Racing Week" and "weeks of racing."

+ + + + +

The Board is not unaware of the problems attendant to distribution of purses and has recently accepted a staff study report on this matter. The Board has, in the past, elected not to intervene in the distribution of purse awards made pursuant to an agreement between the organization representing the horsemen at the race meeting and the management of that meeting. These agreements, which direct the payment of 2% of purses to the horsemen's organization (in the case of thoroughbred race meetings handling in excess of \$20 million), may be contrary to the provisions of Sections 19611 - 19613 and 19618 of the Horse Racing Law. This issue is now before the Board and further public hearings are to be held on the resolution of proper and legal purse distribution.

* * *

The report of the Auditor General advances several propositions for increasing state revenues from horse racing. The propositions set forth are, however, subjects requiring Legislative authorization. The Board is not prepared at this time to make formal recommendations as to the opportunities suggested in the report.

* * *

The issue of labor disputes in horse racing in California, is not a unique problem to racing alone. Collective bargaining between labor and management, and contractual negotiations between horsemen's organizations and racing associations, are difficult areas for intrusion by a State agency and are rendered more difficult by racing's exclusion from the National Labor Relations Act. The quadripartite racing structure - management, labor, horsemen and State - is not amenable to crisis proposals to constrain two or more partners in racing while permitting the other partners to benefit. Regretfully, only economic pressure on all parties in the structure appears to provide the impetus for conclusive agreements.

* * *

Mr. John H. Williams
Auditor General

5.

September 17, 1976


Far from finding fault with the Report of the Auditor General, the California Horse Racing Board respects the thoroughness of the presentation. While disagreeing in part with the opinions advanced by the Auditor General, the Board nevertheless recognizes the validity of the data from which the conclusions were drawn. To the extent possible the Board intends to implement several of the recommendations made in the report through budgetary proposals and amendments to Board procedures.

In the main, however, the recommendations proposed by the Auditor General will require an amendment to existing statutes and in that regard the Board intends to formulate its recommendations and present those recommendations in accordance with the provisions of the Horse Racing Law and within the guidelines established by the Executive Branch. Pursuant to Section 19441 of the Horse Racing Law, the California Horse Racing Board will present its next Annual Report to the Governor and the Legislature on or before January 31, 1977.

Yours very truly,

CALIFORNIA HORSE RACING BOARD

By:


Leonard Foote
Secretary

LF:tm

CHRB RECOMMENDATIONS SUBMITTED
TO THE LEGISLATURE PRIOR TO 1960

Between 1933 and 1960, the CHRB issued 14 biennial reports incorporating more than 100 recommendations. Nearly 70 of the CHRB's recommendations were enacted or administratively implemented.

The CHRB's recommendations that were adopted have contributed significantly to the steady growth of horse racing in California. For example, the CHRB recommended that:

- a uniform system of horse identification be adopted
- the use of motion pictures, photo finish cameras and electric starting gates be mandatory
- legislation be enacted to increase breeders' fees for California bred horses
- the CHRB's jurisdiction be expanded to all persons licensed to operate a race track and to any person attending any race meeting
- new sections be added to the Penal Code regarding bribery and corruption of any participant in horse racing
- the Penal Code be strengthened, expanded or clarified to deal with persons who either conspire to or who stimulate or depress a horse to influence the outcome of a horse race

- the State's share of parimutuel wagering be increased
- insurance be provided for jockeys and exercise boys
- the Civil Code be amended to prevent jockeys who are minors from disaffirming an otherwise valid contract to perform or render services
- the CHRB's subpoena power be strengthened and expanded
- the Horse Racing Law be amended to provide stricter control over charitable foundations or corporations that distribute charity day proceeds.

We conclude that these recommendations, along with others proposed prior to 1960 have operated to improve the horse racing industry in California and to protect the patrons of horse racing. The philosophy of the Board is aptly expressed in its 1960 biennial report:

...We members of this Board, in rendering this report and making the recommendations herein contained, do so with a sincere desire and purpose of fully meeting its duty and obligation of furthering and preserving the sport and business of racing that it believes has been of great benefit to the people of the State of California...(Emphasis added)

Since 1960 the CHRB's reports have been void of recommendations. The Secretary of the CHRB acknowledges that during the last 16 years the CHRB has neglected to comply with legislative intent to incorporate recommendations in reports to the Governor and the Legislature. The Secretary also stated,

however, that the CHRB will be much more active in incorporating recommendations in its annual reports in the future.

THE OPPORTUNITIES FOR INCREASING
STATE REVENUES FROM HORSE RACING

There are opportunities to increase the State's revenue from horse racing. For example:

- The number of racing weeks in the current horse racing season can be increased.
- Recent wagering and attendance trends indicate that horse racing has not reached the saturation point in California.
- When compared with the other major horse racing states, it appears that the number of horse racing weeks in California should be increased.
- The State would have received as much as \$38 million in additional revenue during 1975 if the racing tax laws of other states had been in effect in California.
- An estimated \$44 thousand per year in additional interest income would be earned if horse racing associations paid their parimutuel license fees daily instead of weekly.

Following is a discussion of these opportunities.

- The Number of Racing Weeks in the Current Horse Racing Season Can Be Expanded

Opportunities exist to significantly increase the number of weeks in the horse racing season in California. The maximum number of horse racing weeks per year in California and the maximum number of weeks a racing association may be allowed to conduct a race meeting are statutorily established in Business and Professions Code Sections 19531(a), (b),(c), 19532(a),(b),(c),(d), 19534.5, 19549.7 (Appendix D).

Under the present law, California is divided into three geographic zones: (1) the "southern zone" which consists of Imperial, Orange, Riverside and San Diego Counties, (2) the "central zone" which consists of Kern, Los Angeles, San Bernardino, San Luis Obispo, Santa Barbara, and Ventura Counties, and (3) the "northern zone" which consists of the remaining counties.

Table 2 shows the maximum number of horse racing weeks in the three geographic zones.

Table 2

Authorized
Horse Racing Weeks

Maximum Number of Weeks by Geographic Zone

	<u>Southern</u>	<u>Central</u>	<u>Northern</u>
Type of Horse Racing			
Thoroughbred	*	*	33
Harness	9	15	11**
Quarter Horse	22	0	11**
Each Association Licensed to Conduct			
Thoroughbred	15	15	11
Harness	9	15	11
Quarter Horse	13	0	11

*41 weeks per year are to be allocated between the southern and central zones.

**An additional 8 weeks are available for allocation to a private association conducting either a harness or quarter horse meeting at the California Exposition and State Fair.

Opportunities to increase the number of racing weeks to a year-round basis are:

- Thoroughbred racing by 11 weeks in the southern and central zones, and 19 weeks in the northern zone
- Harness racing by 43 weeks in the southern zone, 37 weeks in the central zone, and 41 weeks in the northern zone

- Quarter horse racing by 30 weeks in the southern zone, 52 weeks in the central zone, and 41 weeks in the northern zone.

All of these additions would require legislation.

These figures are the maximums the current horse racing season could be expanded. The number of racing weeks the current season can realistically be expanded is somewhat less because of the following considerations:

1. Horse race meetings at the California State Fair and Exposition and county and district fairs are in addition to the maximum weeks per Table 2.
2. The availability, physical location, and capability (i.e., lighting for night racing) of racing facilities.
3. Conflicting or overlapping schedules between tracks located in the same geographic area.

In spite of these limitations the following analysis evidences that the number of racing weeks should be increased to some degree.

- Trends in Wagering and Attendance

Wagering and attendance trends indicate that horse racing has not reached the saturation point in California. During the past eight

years the number of horse racing days has increased while both the average daily attendance and average amount wagered have increased. These trends indicate that there is adequate public demand to support an increase in the number of horse racing days. Table 3 summarizes the effects of increased horse racing days on average daily wagering and average daily attendance from 1968 to 1975.

Table 3

Percentages Increase/(Decrease) Compared to the
Base Year, 1967, in Number of Racing Days,
Average Daily Wager, and Average Daily Attendance

	<u>Percentage Increase/(Decrease) Compared to 1967**</u>								
	<u>Base Year</u> 1967	1968	1969	1970	1971	1972	1973	1974	1975
Number of Racing Days	633 days	8%	12%	6%*	22%	31%	40%	42%	43%
Average Daily Wagering	\$1,043,219	8	14	16	12	10	12	19	32
Average Daily Attendance	11,678	6	3	5	3	(5)	(5)	(5)	1

*52 days of racing were lost as a result of work stoppages during 1970 at Los Angeles Turf Club and California Horse Racing Association meets.

**Minor fluctuations between years are a result of both internal factors (strikes, number of racing days, overlap of meets, etc.) and external factors (state of the economy, weather conditions, etc.).

1967 was selected as the base year because the number of horse racing days increased substantially during the succeeding eight years as a result of new legislation. For example, legislation was enacted in 1967 which introduced a new formula for allocation of racing weeks and the maximum number of horse racing days allowed beginning with the 1968 racing season. Additional legislation was enacted in 1971 which further increased the number of racing days and was instrumental in creating two new horse racing associations. These statutory changes had no apparent adverse effect on average daily parimutuel wagering or average daily attendance from 1968 to 1975.

The number of horse racing days increased from 633 in 1967 to 906 in 1975 -- a 43 percent increase. This increase in racing days was accompanied by a 32 percent increase in average daily parimutuel wagering while the average daily attendance remained relatively constant. From this, it may be concluded that the saturation point for horse racing would only be reached when an increase in the number of racing days resulted in a decline in average daily amount of parimutuel wagering or average daily attendance. Based on available information, California has not as yet reached the saturation point for racing, and public interest would probably support an increase in the actual number of racing days.

- In Comparison to Other Major Horse Racing States, It Appears that the Number of Horse Racing Days Could Be Increased.

Comparative statistics for 1975 indicate that California is among the leading horse racing states in all categories except the number of horse racing days.

In a 1975 comparison between California and the other 29 racing states, California ranked second in the following categories: (1) total amount of dollars wagered, (2) total attendance, (3) average amount of dollars wagered per attendance at race meetings, (4) average amount of dollars wagered per racing day, and (5) average daily revenue to the State.

California, however, ranked fifth behind New York, Ohio, Pennsylvania and Illinois in the number of racing days and number of races. Table 4 is a statistical summary of the 1975 horse racing season for the 30 racing states.

Table 4

Summary of the Results of the 1975
Horse Racing Season for the 30 States
That Permit Parimutuel Wagering on Horse Racing

State	Total Dollars Wagered	Total Revenue to State	Parimutuel Taxes	Breakage	Attendance	Average Daily Attendance	Average Dollars Wagered per Attendee	Racing Days	Number of Races	Average Dollars Wagered per Racing Day	Average State Revenue per Racing Day
Arizona	\$ 38,329,866	\$ 2,015,506	\$ 1,991,878	\$ 289,815	554,955	2,582	\$ 69	215	2,149	\$ 178,278	\$ 9,374
Arkansas	86,855,262	5,632,697	5,211,316	421,381	855,338	17,107	102	50	462	1,737,105	112,653
California	1,245,937,471	91,451,533	83,883,535	7,568,000	10,718,694	11,831	116	906	8,449	1,375,207	100,939
Colorado	37,942,111	1,671,252	1,628,982	42,270	569,054	2,552	67	223	2,144	170,143	7,494
Delaware	153,605,048	7,958,434	7,073,637	533,404	2,174,572	6,126	71	355	3,568	432,690	22,418
Florida	316,879,279	25,490,447	22,643,627	1,796,222	2,962,529	5,198	107	570	6,116	555,929	44,720
Idaho	7,376,737	166,515	163,665	2,852	226,928	1,733	33	131	1,402	56,310	1,271
Illinois	788,094,440	66,103,391	58,790,862	3,727,728	7,219,615	7,673	109	914	9,614	837,507	70,248
Kentucky	285,201,353	11,235,494	10,500,795	734,699	2,843,686	4,355	79	653	7,835	344,872	17,205
Louisiana	185,291,329	10,257,865	9,787,250	470,615	2,138,490	4,580	87	467	4,212	396,769	21,965
Maine	22,774,550	1,154,755	1,138,728	16,027	**	**	**	316	**	**	3,654
Maryland	301,662,647	20,400,106	18,652,854	328,433	3,406,789	7,054	89	483	4,347	624,560	42,236
Massachusetts	223,558,305	18,641,646	17,504,062	781,902	2,854,841	7,155	78	399	3,871	560,296	46,720
Michigan	394,925,495	28,484,037	26,273,896	1,736,707	3,830,260	6,492	103	590	5,848	669,365	48,278
Minnesota	4,514,035	**	**	**	**	**	**	98	903	46,061	**
Montana	107,096,403	5,265,865	5,087,010	178,853	1,192,696	6,180	90	193	1,678	554,903	27,284
Nebraska	295,000	8,000	2,950	5,050	16,000	1,728	18	9	85	32,728	889
Nevada	109,509,829	8,105,286	7,531,453	447,748	1,449,753	4,662	76	311	3,193	353,408	26,062
New Hampshire	468,912,691	31,869,096	31,266,864	602,232	3,977,888	6,630	118	600	5,975	781,521	53,115
New Jersey	78,518,070	2,124,443	1,840,140	284,303	1,148,925	3,922	68	293	2,228	267,980	7,250
New Mexico	1,640,911,224*	162,546,662	151,113,220	8,559,879	14,210,037	8,783	115	1,618	15,327	1,014,160	100,461
New York	340,243,664	24,263,114	23,376,459	728,467	4,323,638	3,913	79	1,105	11,050	307,913	21,957
Ohio	40,167,844	1,859,875	1,761,288	98,586	565,475	7,103	71	127	1,390	316,282	14,644
Oregon	568,405,155	27,265,644	23,348,065	2,154,133	6,222,632	5,678	91	1,096	10,860	518,618	24,877
Pennsylvania	101,063,534	7,041,726	6,511,937	427,415	967,873	4,360	104	222	2,004	455,241	31,719
Rhode Island	4,473,696	139,908	129,430	10,468	80,746	1,282	55	63	571	71,011	2,173
South Dakota	46,200,277	2,630,141	2,373,305	172,634	638,787	2,766	72	231	2,246	200,001	11,385
Vermont	99,046,534	4,985,010	4,950,645	34,365	1,186,361	5,623	83	206	2,096	469,415	23,625
Washington	223,570,905	12,880,190	12,729,590	150,600	2,316,020	9,653	96	618	6,480	361,765	20,841
West Virginia	421,953	**	**	**	9,800	613	43	16	80	26,372	**
Wyoming	**	**	**	**	**	**	**	**	**	**	**

* Off Track Betting Gross Handle of \$906,858,411 not included
** Information not available

Source - Parimutuel Racing 1975 prepared by the National Association of State Racing Commissioners

During 1975 California was second to New York in total dollars wagered, total state revenue, total parimutuel taxes paid to the state, total state share of breakage,* total miscellaneous revenue to the state,** and total attendance. California was also second to Arkansas in average daily attendance, average dollars wagered per racing day, and average state revenue per racing day.*** California generated more revenue from occupational license fees than any other state during 1975 but did not generate any revenue via track licenses or admission taxes**** as several other states do.

In all statistical categories but two -- total horse racing days and total horse races -- California consistently ranked in the top two positions.

*In parimutuel betting on horse races, the winning ticket holders divide 84.25 percent of the money wagered; however, winning tickets are not paid in odd cents. For example, on a \$2.00 wager the winning ticket may be worth \$4.66; however, the payment will only be \$4.60 with the extra \$.06 (called "breakage") being either retained by the track, or paid as purses to the horse owners, or to the State. The distribution of the breakage is mandated by state law. Effective January 1, 1977, 83.25 percent of the money wagered at harness and fair horse race meetings will be distributed to winning ticket holders.

**Miscellaneous revenue in California is primarily unclaimed winning parimutuel tickets.

***It should be noted, however, that Arkansas had only 50 days of horse racing during 1975.

****In California admission taxes are imposed on horse racing associations by city governments.

New York had 1,618 days of horse racing during 1975, while Ohio, Pennsylvania and Illinois had 1,105, 1,096 and 941 days of horse racing, respectively. California had 906 days of horse racing during the same period, or only 56 percent of the horse racing days in New York.

While not conclusive, these statistics present a strong case for increasing the number of horse racing days in California. Theoretically, California should rank higher in the number of horse racing days because:

- the 1975 statistics indicate the high level of the popular appeal of horse racing in California
- the advantage California holds over other states, such as New York, Ohio, Pennsylvania and Illinois, with regard to year-round weather conditions.

California would increase revenues from horse racing if the number of horse racing days per year were increased.

In parimutuel wagering on horse races in California, winning ticket holders divide 84.25* percent of the money wagered. The remaining 15.75 percent is divided among the State, the sponsoring racing associations, the horse owners and horse breeders. The amount of revenue the State receives from racing depends on the total dollars wagered at each race meeting. The share of state revenues increases as the amount of parimutuel wagering increases.

*Effective January 1, 1977, 83.25 percent of the money wagered at harness and fair horse race meetings will be distributed to winning ticket holders.

Table 5 shows the average revenue generated per horse racing day during 1975 by the 14 private horse racing associations operating in California.

Table 5

Average State Revenue Generated per Racing
Day by Private Racing Associations during 1975*

<u>Horse Racing Association</u>	<u>Average State Revenue Generated per Horse Racing Day during 1975</u>
Thoroughbred Races	
Los Angeles Turf Club	\$257,145
Pacific Racing Association	82,601
Hollywood Turf Club	306,754
Tanforan Racing Association	85,830
Del Mar Thoroughbred Club	133,329
Oak Tree Racing Association	172,319
California Jockey Club	94,425
Harness Horse Meetings	
California Horse Racing Association	25,372
Southern California Racing Association	41,009
Golden Bear Raceway	13,541
Western Harness Racing, Inc.	90,414
Quarter Horse Meetings	
Horsemen's Quarter Horse Racing Association	41,221
Peninsula Horse Racing Association	24,126
Los Alamitos Race Course	53,401

*The California State Fair and Exposition and county fairs not included.

An increase in the number of annual horse racing days should result in an increase in state revenues. How much state revenues would increase is primarily dependent upon the following factors: the actual number of days added to the horse racing season, and which horse racing associations are granted the additional racing days.

To illustrate the potential impact on state revenues, we hypothetically increased the racing days of two major associations for the 1975 season a total of 30 days or five weeks each of racing. We estimate that such an increase would generate more than \$17 million in additional revenue if prior experience were repeated.

- The State Would Have Received As Much As \$38 Million in Additional Revenue from Racing During 1975 If the Horse Racing Tax and License Laws of Other Major Horse Racing States Had Been Applied in California.

Four other major racing states levy taxes at a higher rate than California. Higher revenues would result from the application of the racing tax laws of four of the largest (in terms of parimutuel wagering) racing states to the California racing industry.*

Table 6 summarizes the fiscal effects of applying other state's racing tax laws to California in 1975.

*Florida was not included because of the high degree of specificity in the Florida horse racing tax laws, making a valid comparison between Florida and California impractical.

Table 6

Schedule of Fiscal Effect of Applying
Other States' Horse Racing Laws to the
California Horse Racing Industry for 1975

<u>Applicable State Racing Law Applied to California*</u>	<u>Fiscal Effect to California Increase/(Decrease)</u>
Illinois	\$ 38,595,212
New York**	37,199,834
New Jersey	10,218,496
Ohio	7,241,391
Michigan	(4,383,830)
Maryland	(20,269,473)
West Virginia	(21,216,798)
Pennsylvania	(24,221,331)
Kentucky	(30,696,225)

*Each state promulgates laws designed to accommodate its own particular horse racing industry. Therefore, direct comparisons between states are difficult to make. However, the above table represents a fair approximation of the revenue that would be generated in California if the tax laws of the other states were applied to the California horse racing industry.

**The New York horse racing tax law contains many variables not consistent with the California horse racing industry. For example, New York Racing Association (NYRA) tracks are run on a nonprofit basis through a state franchise. In addition, New York recently enacted legislation, effective 1976 through 1986, which gives financial relief to the NYRA.

In 1975 California received \$91 million in revenue from horse racing. As shown in Table 6 the horse racing tax laws for Illinois, New York, New Jersey, and Ohio would have generated approximately \$38 million, \$37 million, \$10 million, and \$7 million respectively in additional revenue to the State of California.

The State Would Earn An Additional
\$44,000 Per Year If Horse Racing
Associations Were Required To Pay
Their Parimutuel License Fees
Daily Instead of Weekly.

If the State required private horse racing associations to remit parimutuel license fees daily instead of weekly, the State could earn additional interest income of approximately \$44,000 per year.*

From 1933 to 1971 racing associations paid their parimutuel license fees on a daily basis. Beginning in 1971, the code was amended to permit weekly payments.

The Secretary and Manager of Administrative Programs of the CHRB concur with the concept of daily payment of parimutuel license fees and do not anticipate any major problems or additional costs to process daily remittances.

*This estimate is based on an assumed conservative rate of return of six percent per year. The actual rate of return earned by the State of California as reported by the Investments Unit of the State Treasurer's Office for the fiscal year 1975-76 was 6.36 percent, and for fiscal year 1976-77 it is estimated to be 6.36 percent or more.

THE NEED FOR CHANGE WITHIN
THE CALIFORNIA HORSE RACING INDUSTRY

The Horse Racing Law needs to be amended to accomplish the following:

- Eliminate the inequity in the present license fee schedule
- Eliminate obsolete or impracticable provisions of the Horse Racing Law
- Place additional controls over the horse racing industry and the activities of the CHRB
- Enhance public confidence in the integrity of horse racing in California.

Eliminate the Inequity in the
Present License Fee Schedule

The license fee schedule in the Horse Racing Law needs to be amended because it is inequitable. Moreover, it discourages some racing associations from increasing their total parimutuel wagering, thereby avoiding additional state racing taxes.

During 1975 California received approximately \$91.5 million in revenues from horse racing, of which 92 percent was parimutuel license fees.

Since 1971, state revenue from parimutuel license fees increase at a constant rate as the wagered amount increases, until the amount reaches plateaus at \$20-, 25-, 40-, 75-, 120- and 180- million. At those points the license fee rates increase significantly. If the total wagering for a race meeting exceeds these plateaus by only one dollar, that one additional dollar of wagering would cause the racing association to pay additional license fees of up to \$480,000 depending upon the level of wagering.

This feature of the license fee schedules discourages some racing associations from increasing their total parimutuel wagering beyond the next higher plateau. For example, one California track reduced its racing season from 50 to 43 days to prevent the total wagers from exceeding \$20 million, and hence an additional \$120,000 in license fees.

The Department of Finance stated in a recent report "...it seems inequitable that if the handle (total parimutuel wagered) rises slightly above a bracket the entire handle over \$20 million should be taxed at a higher rate...." The Department proposed two alternate license fee schedules. Both of these schedules are graduated schedules, and the tax rate applies to only the parimutuel wagering within each tax bracket, instead of the entire amount in excess of \$20 million. Another approach mentioned by the Department was to tax racing associations on their daily parimutuel wagering -- the rationale being that an association that handles \$50 million in 20 days is probably more profitable than an association that handles \$50 million in 40 days. A graduated tax on daily parimutuel wagering would compensate for this disparity.

Eliminate Obsolete or Impractical Provisions of the Horse Racing Law

Chapter 4, Division 8, of the Business and Professions Code is the Horse Racing Law for the State of California.

Obsolete Provisions

Associations conducting horse racing are required to deposit \$10,000 with the State Treasurer to secure the payment of their parimutuel license fee. This \$10,000 deposit requirement has been part of the Horse Racing Law since its enactment in 1933, and is obsolete in terms of today's billion dollar horse racing industry. Currently, associations are required to remit their parimutuel license fees on a weekly basis. These weekly deposits for some associations exceed \$1 million, which means a \$10,000 deposit to secure the payment of these fees is totally inadequate. Clearly, the \$10,000 deposit has outlived its usefulness.

The Secretary of the CHRB believes that the CHRB should have discretionary authority over license fee payment deposits or guarantees. The Secretary also favors a performance bond requirement over the current cash deposit. In our opinion, the amount of the performance bond should, at a minimum, be equal to 15 days' worth of license fees, which is the minimum notice time an association is required to give the CHRB before prematurely terminating a race meeting.

Impracticable Provisions

Section 19513 of the Horse Racing Law provides that "...No license shall be issued by the board to any person who is eligible to vote in this State but has not registered as a voter in this State...."

Currently the CHRB disregards Section 19513 in issuing licenses. According to the Secretary this provision is not enforceable. Until 1972 the CHRB questioned applicants about their voter status. However, the CHRB discontinued this practice when its Legal Counsel advised against denying a license based upon a negative response.

The current Horse Racing Law needs to be thoroughly reviewed with the objective of proposing legislative changes which will make the law technically correct and more administrable. In our opinion the CHRB is the logical entity to perform such a review as it has the responsibility for the enforcement of the Horse Racing Law in California.

Place Additional Controls Over
the Horse Racing Industry and
the Activities of the CHRB

There is a need to impose additional controls over certain segments of the California horse racing industry and the activities of the CHRB. The additional controls, which are described below, are needed to insure that the State receives its lawful share of revenue from horse racing and that there is compliance with legislative intent.

Additional Control Over Totalizator Operations

The CHRB does not have the necessary personnel nor expertise to insure that the State is receiving its lawful share of all money wagered at horse race meetings. All of the dollars wagered at horse race meetings in California are recorded on mechanical equipment known as totalizators. It is possible to program the totalizator to understate the dollars wagered at horse race meetings with resulting loss of state revenue. This activity would require collusion between two or more individuals, one of whom must be a totalizator company representative. While such collusion may appear unlikely, the daily handling of as much as \$5 million in currency presents a substantial temptation.

Currently, the internal controls on the totalizator operations can be circumvented. For example, the accounting phase of the totalizator operations could be programmed so that all or some of the tickets sold at a particular window would not be included in the total parimutuel pool. These receipts could be removed with the cash count and computer records being in agreement. Each racing association prints its own parimutuel tickets from rolls of blank paper. The parimutuel tickets sold at each window are counted by a mechanical advance on each ticket selling machine. This system safeguard can be defeated. Shortages in cash from improper activities could be concealed by adjusting the computer calculated payout or it could be absorbed in the unclaimed winning parimutuel tickets.

This hypothetical example is designed to show how "skimming" might occur at a horse race meeting. Other opportunities exist for fraud at horse race meetings. For example, the computer could be programmed to create bogus winning tickets or to understate the total dollars wagered. Recent statements by the State Attorney General indicate that organized crime has shown an increasing interest in California in general. The billion dollar California horse industry, which deals in cash, could become a prime target. This potential should induce implementation of maximum control measures.

In our opinion an additional CHRB investigative position should be created to protect the State and patrons against potentially improper computer activities. This investigator would be responsible for supervising the parimutuel operations at horse race meetings, should have complete access to all computer and financial records, and should, at a minimum, possess the technical skills necessary to analyze the computer operations.

The Secretary of the CHRB agrees that the opportunity for fraud does exist at horse race meetings. However, the CHRB is presently not equipped to protect against such activities. Current CHRB investigators do not possess technical skills necessary to analyze totalizator operations at horse race meetings; therefore, the Secretary will request budget authorization for such a position in fiscal year 1977-78.

Control Over Labor Disputes

Labor disputes have caused meets to be shorter than authorized with a resultant loss of employee wages, association revenue and revenue to the State. It would be in the best interests of all if a method could be devised which would facilitate the continuation of racing during these labor disputes.

During the last seven horse racing seasons, there have been two labor disputes which significantly reduced the number of horse racing days and, as a result, reduced state revenues. In 1970, a labor dispute shut down racing for 52 days and reduced state revenues by approximately \$6 million. Again in 1976, a strike eliminated 40 days of racing at a loss of approximately \$3 million to the State.

During the 1970 strike, the Chairman of the CHRB publicly proposed a plan to mitigate the impact of labor disputes on state revenues. The plan proposed the following actions:

1. A notification to the Board prior to the race meeting that all contracts necessary to conduct said meetings are signed and, if such is not the case, that the Board be so notified at least seven (7) days before the commencement of the meeting.
2. At that time a trusteeship shall be created by the Board to assure the continuance of racing until the negotiations have been successfully concluded.

3. The racing association and the personnel will not enjoy any economic advantage during the period of said negotiations and trusteeship; i.e., all previous contracts of employment and agreement to race shall continue in effect, the racing association shall not make a profit during this trusteeship, nor will the terms of the agreement be retroactive.
4. Failure to cooperate with the establishment of such trusteeship on the part of any parties involved shall result in the revocation of their license or their registration.
5. The trusteeship will be discontinued when an agreement is reached.
6. If no agreement can be reached within a reasonable time, this trusteeship will continue racing operations at all race plants in the State of California and all profits thereof shall revert to the General Fund.

The labor dispute which inspired the above proposal was eventually settled and the proposal lost its momentum once the crisis had passed. In our opinion, it is in the best interests of the State to develop a mechanism, perhaps similar to the one described above, by which the adverse impact of labor disputes on state revenues can be mitigated.

Additional Control Needed Over
the Activities of the CHRB

The Horse Racing Law currently provides the CHRB with sufficient discretionary authority to place horse racing in California virtually under the control of one private organization. The law should be amended to impose additional legislative controls over the exercise of this broad discretionary authority by the CHRB.

The CHRB may disregard legislative prohibitions against granting a license to conduct a horse race meeting to any person who has a financial interest in any other person similarly licensed. Sections 19483 and 19484 of the Horse Racing Law prohibit interlocking financial interests among horse racing associations.

Section 19483 states:

Unless the board finds that the purpose of this chapter will be better served thereby, no license to conduct a horseracing meeting at any track shall be issued to any person or held by any person having any financial interest in the conduct of any horseracing meeting by any other person at any other track in this State.

Ownership of stock in one corporation by another corporation constitutes a financial interest within the meaning of this section.

Section 19484 states:

Unless the board finds that the purpose of this chapter will be better served thereby, no person licensed under this article to conduct a horse-racing meeting at any place, track or inclosure shall own or acquire any stock or hold or obtain any other financial interest in any other track of another such licensee or in the operation thereof, or in the operation of authorized wagering on the results of horseraces at any such other track.

The above sections also give the CHRB the authority to ignore the restrictions on interlocking financial interests if the CHRB finds that by so doing the purpose of the Horse Racing Law would be better served.

According to the Legislative Counsel, this use of "finds" means a simple decision-making power and requires no specific statements by the CHRB to justify or support their decision. Therefore, the CHRB has unlimited authority to issue licenses to financially related persons or entities.

The CHRB has exercised this discretionary authority to allow one organization to control a majority of the thoroughbred racing days in Northern California*, and another organization to control a majority of the quarter horse racing days in California.

Bay Area Sports Enterprises (BASE) is a California corporation that currently holds controlling shareholdings in Tanforan Racing Association and Pacific Racing Association. Both of these associations are separately licensed by the CHRB to conduct thoroughbred racing. Pacific Racing Association conducts its meeting at Golden Gate Fields in Albany, California, and Tanforan Racing Association splits its meeting between Golden Gate Fields and Bay Meadows Race Track in San Mateo, California. The CHRB awarded these associations a total of 21 weeks and 5 days of thoroughbred racing for the 1976 racing season, or nearly two-thirds of the maximum total available weeks under state law.

Quarter Horse Racing, Inc., is a California corporation that currently holds controlling shareholdings in Horsemen's Quarter Horse Racing Association and Peninsula Horse Racing Association. These

*Exclusive of thoroughbred racing at the State Fair and Exposition, district and county fairs.

associations are separately licensed by the CHRB to conduct quarter horse racing. Horsemen's Quarter Horse Racing Association conducts its meeting at Los Alamitos Race Course in Los Alamitos, California, and Peninsula Horse Racing Association conducts its meeting at Bay Meadows Race Track in San Mateo, California. The CHRB awarded these associations a total of 21 weeks and 2 days of quarter horse racing for the 1976 racing season, or nearly two-thirds of the total available weeks under state law.*

The Legislative Counsel stated that when a holding company, such as Bay Area Sports Enterprises and Quarter Horse Racing, Inc., owns and controls two licensed racing associations, the two subsidiary licensed racing associations would be deemed to have a financial interest in each other. Under this interpretation Pacific Racing Association and Tanforan Racing Association have a financial interest in each other, as do Horsemen's Quarter Horse Racing Association and Peninsula Horse Racing Association.

The CHRB exercised its discretionary authority when it issued separate licenses to these financially related associations. The CHRB implicitly found that the formation of these holding companies better served the purpose of the Horse Racing Law, in spite of the fact that the holding companies would be able to control a total number of horse racing days that exceeded the statutory restrictions.

*Exclusive of 8 weeks allocated to a meeting to be held at the California State Fair and Exposition.

Sections 19532(a), (b), (c) and (d) of the Horse Racing Law restrict the maximum number of weeks any licensed racing association may conduct horse racing in California to 15 weeks. However, there are no legal restrictions on the number of weeks within the racing season an organization, such as a holding company, can technically control. Both Bay Area Sports Enterprises and Quarter Horse Racing Inc. each control more than 21 weeks of racing during the current horse racing season.

According to the Legislative Counsel, Section 19532 of the Horse Racing Law does not prohibit two separately licensed but financially related horse racing associations from being given the maximum allowable weeks of racing each. Therefore, the current law makes it possible for the CHRB to circumvent restrictions against horse racing monopolies. As a result, it is theoretically possible for one organization to control virtually all of horse racing in California, provided the CHRB found this arrangement better served the purpose of the Horse Racing Law.

Whether or not the CHRB would allow such a situation to occur is problematical. However, past CHRB decisions show that it could happen. For example, the CHRB not only approved the formation of the two holding companies discussed above, but in March 1968 gave Hollywood Turf Club permission to acquire Pacific Racing Association and Tanforan Racing Association. Hollywood Turf Club conducts the largest thoroughbred meeting in California, and if the proposed acquisition had been consummated, Hollywood Turf Club would have controlled three of the seven major

thoroughbred meetings in California. Hollywood Turf Club subsequently withdrew its offer to acquire the other two associations. However, the fact remains that the CHRB found this proposed arrangement better served the purpose of the Horse Racing Law.

In our opinion, the Legislature should impose additional controls over the discretionary authority of the CHRB. When the CHRB exercises its discretionary authority it should be required to report to appropriate legislative committees and to submit evidence to justify or support the actions.

Enhance Public Confidence in
the Integrity of Horse Racing

Horse racing associations currently pay the salaries of key racing officials who represent the State and the CHRB at horse race meetings. In addition, racing association owners are permitted to race their own horses at their own race meetings. Public confidence in the integrity of horse racing would be enhanced if these practices were discontinued.

The Position of Steward, Veterinarian, and
Horse Identifier Should Be Placed on the
State Payroll to Enhance Their Independence.

Perhaps the most significant contribution that could be made to enhance public confidence in the integrity of horse racing in California would be to place key racing officials on the state payroll.

Currently, individuals in the important positions of steward, veterinarian, and horse identifier are placed in the incongruous situation of having to supervise, as a representative of the State, the activities of their employer, the racing association. The contribution that these positions make toward the fair and honest conduct of horse racing in California cannot be overemphasized.

The position of steward is of paramount importance in horse racing. The duties delegated to the stewards are critical in that they have the same powers to enforce the horse racing law as those given the CHRB.

The Business and Professions Code, Section 19440, states:

The board shall have all powers necessary and proper to enable it to carry out fully and effectually the purposes of this chapter.

The board may delegate to stewards such of its powers and duties as is necessary to carry out fully and effectuate the purpose of this chapter. Any decision or action of the stewards may be reviewed or reconsidered by the board at its option. (Emphasis added)

The positions of veterinarian and horse identifier are also vital to horse racing. The official veterinarian and the horse identifier's duties are defined as follows:

1554. Duties of Horse Identifier. The horse identifier shall make an inspection of each horse prior to its departure for the post. He

shall immediately report to the stewards and the paddock judge any horse which is not properly identified or has any irregularities from the official identification record of the Board. The horse identifier shall inspect, identify, and prepare identification records and photographs of all horses within the inclosure not previously identified in California. He shall inspect documents of ownership, eligibility, registration, or breeding, as may be necessary to insure proper identification of each horse eligible to compete at the race meeting. He shall supervise the tattooing or branding for identification of any horse within the inclosure. (Emphasis added)

1560. Duties of the Official Veterinarian. The official veterinarian shall be responsible to the stewards for the conduct of horses and their attendants in the receiving and detention barn. He shall have authority and jurisdiction to supervise the practicing licensed veterinarians and shall enforce the Board's rules and regulations relating to veterinary practices. The official veterinarian shall recommend discipline for the licensed veterinarians who fail to comply with the rules and regulations and accepted veterinary practices. He shall report to the Board the names of all horses humanely destroyed or which otherwise expire at the meeting and the reasons therefor. He shall maintain a list of all infirm horses on the grounds. No official veterinarian, during his term of appointment, shall directly treat or prescribe for any horse registered to race at any recognized meeting except in emergency, the details of which shall be immediately reported to the stewards. (Emphasis added)

In the interest of public confidence in the fairness of horse racing it is essential that stewards, veterinarians and horse identifiers be independent and impartial, both in fact and in appearance. The current practice of these officials being paid by the association conducting the meeting challenges the independence of these officials.

The regulations regarding the selection of stewards, veterinarians and horse identifiers are found in Article 5, Title 4, Chapter 4 of the California Administrative Code.

1525. Racing Officials Appointed by the Board. The Board shall appoint the following racing officials for a race meeting: One steward, one official veterinarian, and one horse identifier. The official veterinarian so appointed may appoint his necessary lay assistants.

1526. Selection of Stewards. The Board shall maintain a listing of the licensed racing officials who have been qualified for the position of steward by the Board, and the selection of stewards shall be made from such listing. The Board shall name one steward and the association shall name one steward. The stewards so named shall name their associate. The three stewards so selected comprise the Board of Stewards. The selection of stewards for a race meeting shall be made as soon as possible after the allocation of dates for a race meeting, but in no event later than 90 days prior to the commencement of the race meeting. Should the association fail to name its steward selection prior to 30 days before the race meeting, or should the steward named by the Board and the steward named by the association fail to agree upon the selection of their associate, the Board may name and appoint the stewards for the meeting or may appoint the associate steward. (Emphasis added)

Under this selection procedure the racing association is able to exert a high degree of influence over the selection of the third steward. Considering the powers given to the stewards, the responsibility of selecting these stewards should rest solely with the Board.

Recommendations proposing that the Legislature place the position of steward and other key officials on the state payroll have appeared in the CHRB's biennial reports for the years 1938-40, 1944-46, 1946-48, 1948-50, 1954-56, and 1958-60. The following appeared in the CHRB's eighth biennial report for 1938-40:

4. The board respectfully urges that consideration be given Section 19437. Historically, the actual conduct of the races whether they be running or harness, is under the supervision of stewards. These men are trained and experienced in all phases relating to the running of races. It is incongruous that the racing laws and the rules and regulations of the board should be enforced by stewards being paid by the racing associations running the meetings over which they preside.

We have been extremely fortunate, in the State of California, in the high type of racing officials serving on the racing circuit, but the board feels that the present restrictive feature of the Civil Service Law that prevents it from freely engaging and paying - hiring and firing - the necessary stewards and other officials required for the proper supervision of the turf, prevents the racing board from obtaining the loyalty that always exists, or should exist, between the person employed and the one who pays the bill. We therefore urge and recommend that Section 19437, together with any other laws required to be, should be amended so as to permit the board to directly employ and pay, without recourse to any established lists, the necessary stewards, veterinarians and other key officials so indispensable to conducting racing on a high plane. (Emphasis added)

New York and Washington currently require that the selection and payment of stewards and other officials be made by the state. In addition, New York and Washington assess the racing associations to reimburse the state for providing this supervision at race meets.

The Secretary of the CHRB and the Manager of Administrative Programs concurred that placing the positions of key racing officials on the state payroll would minimize questions as to the integrity of officials' decisions. They cited the State of Washington as an excellent model for California. The Secretary added that the racing associations should be assessed a fee to cover the cost of these positions to the State.

The Secretary agrees that under the current procedure the racing associations are, in effect, selecting the stewards.

It is our opinion that in the best interest of horse racing the positions of stewards, veterinarians and horse identifiers should be placed on the state payroll and the responsibility for selecting and maintaining these positions should rest with the CHRB.

Association Owners Should Not Be
Allowed to Race Their Own Horse
at Their Own Meeting.

The practice of permitting association owners to race their own horses at their own meetings should be discontinued because the associations pay the salaries of the racing secretaries and track stewards who supervise races. The elimination of this practice would, in our opinion, be in the best interests of horse racing.

Currently, association owners are in a position to exert influence over the stewards who supervise the races and the racing secretaries who prepare the condition books for each meet. The condition books prepared by the racing secretaries contain the specific qualifications, i.e., age, track record, etc., that a horse must meet before it can be entered in a particular race.

The Secretary of the CHRB stated that under present practices racing secretaries could design races to specifically accommodate an association owner and that such accommodations have been known to occur. He further stated that a restriction on owners racing their horses at their own meetings would reduce allegations that officials and racing secretaries are subservient to owners and directors of racing associations.

HORSE RACING LAW
CHAPTER 4, DIVISION 8, BUSINESS
AND PROFESSIONS CODE

SECTIONS 19531(a), (b), (c),
 19532(a), (b), (c), (d),
 19549.6, and 19549.7

Article 6. Racing Days and Weeks

19530. The board shall have the authority to allocate racing weeks to an applicant or applicants pursuant to the provisions of this article and Article 6.5 (commencing with Section 19540) and to specify such racing days and dates for horseracing meetings as will be in the public interest in maximizing revenue to the state and providing uniformity of regulation for each type of horseracing, and will subserve the purposes of this chapter. The decision of the board as to such racing days and dates shall be subject to change, limitation or restriction only by the board and no municipality or county shall adopt or enforce any ordinance or regulation which has or may have the effect of directly or indirectly regulating, limiting or restricting the racing days and dates of horseracing meetings.

19530.5. For the purposes of this article there shall be three geographical zones which shall be designated (a) the "southern zone," which shall consist of the Counties of Imperial, Orange, Riverside, and San Diego; (b) the "central zone," which shall consist of the Counties of Kern, Los Angeles, San Bernardino, San Luis Obispo, Santa Barbara, and Ventura; and (c) the "northern zone," which shall consist of the remaining counties in the state.

19531. The maximum number of racing weeks which may be allocated for horseracing other than at the California State Fair and Exposition or the California State Exposition and Fair, county or district agricultural association fairs shall be as follows:

(a) For thoroughbred racing: 33 weeks per year in the northern zone; and 41 weeks per year in the central and southern zones, to be allocated between the two zones.

(b) For harness racing: 11 weeks per year in the northern zone; 13 weeks per year in the central zone in 1971, 1972, and 1973, and 15 weeks per year in 1974 and thereafter; and 9 weeks per year in the southern zone.

(c) For quarter horse racing: 11 weeks per year in the northern zone; and 22 weeks per year in the southern zone.

19532. (a) Any association licensed to conduct thoroughbred racing in the northern zone may receive no more than 11 weeks of such racing.

(b) Any association licensed to conduct thoroughbred racing in the southern or central zone may receive no more than 15 weeks of such racing.

(c) Any association licensed to conduct quarter horse racing in the southern zone may receive no more than 13 weeks of such racing.

(d) Subject to the maximum number of racing weeks which may be allocated in the northern, central, and southern zones to harness racing under subdivision (b) of Section 19531, the board shall not allocate more than 15 weeks of racing to any association racing in California.

19549.6. Notwithstanding subdivision (b) of Section 19531 and Section 19534, the maximum number of harness racing days which may be allocated to the California State Exposition and Fair shall be eight weeks, in addition to the days allocated pursuant to Section 19534. Such harness racing shall be conducted by a person other than the California State Exposition and Fair.

19549.7. Notwithstanding Section 19549 or any other provision of this chapter, the maximum number of quarter horse racing days which may be allocated to the California Exposition and State Fair shall be eight weeks, in addition to the days allocated pursuant to Section 19549. Such quarter horse racing shall be conducted by a person other than the California Exposition and State Fair.

Office of the Auditor General

cc: Members of the Legislature
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Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
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