

CALIFORNIA HORSE RACING BOARD  
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## **NOTICE OF PARI-MUTUEL OPERATIONS COMMITTEE MEETING**

Notice is hereby given that a meeting of the **California Horse Racing Board's Pari-mutuel Operations Committee** will be held on **Thursday, August 22, 2002**, commencing at **9:30 a.m.**, at the **Del Mar Satellite Wagering Facility, (2<sup>nd</sup> Floor – Saddle Club)** 2260 Jimmy Durante Blvd., **Del Mar, California**. Non-committee members attending the Board's committee meeting may participate in the public discussion, but shall not participate in any official committee vote or committee executive session.

### **A G E N D A**

1. Report by the Thoroughbred Owners of California on the **benefits that accrue to California thoroughbred racing from membership in the National Thoroughbred Racing Association.**
2. Discussion and action regarding the **current arrangement between Youbet and ESPN.**
3. Report and discussion by **TVG and Youbet on the progress of their efforts to establish California hubs for their Advance Deposit Wagering operations.**
4. Discussion and action regarding the **television coverage currently available to ExpressBet.**
5. Discussion and action regarding a **proposal for a new wager – Beat the Favorite.**

Further information regarding the committee meeting may be obtained from John Reagan, Senior Management Auditor, at the CHRB Administrative Office, 1010 Hurley Way, Suite 300, Sacramento, California, 95825; telephone (916) 263-6000 or fax (916) 263-6042. A copy of this notice can be located on the CHRB website at [www.chrb.ca.gov](http://www.chrb.ca.gov)

### **PARI-MUTUEL OPERATIONS COMMITTEE**

Vice-Chairman Roger H. Licht, Committee Chairman  
Chairman Alan W. Landsburg, Member

**Date of Notice:** August 9, 2002

**STAFF ANALYSIS  
TOC REPORT ON THE NTRA**

**PARI-MUTUEL OPERATIONS COMMITTEE MEETING  
AUGUST 22, 2002**

**Background:**

This item is a continuation of the discussion this Committee had initiated at its April meeting and continued at its June meeting regarding the National Thoroughbred Racing Association (the NTRA). Mr. John Van de Kamp of the TOC has presented information regarding the NTRA including, but not limited to, their Executive Summary, Strategic Goals, and a breakdown of the California industry's contributions to the NTRA to date.

In order to keep all of us on the same page some of those items have been included in this package. It must be noted that the schedule titled "TOC - NTRA membership dues" provides the amount of dues from each of the California race tracks. This amount is matched by the TOC. Thus the column of yearly race track totals is only half of the dues paid to the NTRA.

**Recommendation:**

This item is for information and discussion.

THOROUGHBRED OWNERS OF CALIFORNIA  
NTRA MEMBERSHIP DUES

PAID BY TRACKS: 1998 - 2001

TRACK	LATC	HPOC	DM	CARF	FAIRPLEX	OAKTREE	GG	BM	TOTAL
1998	\$ 300,361	\$ 312,320	\$ 154,376	\$ 66,625	\$ 36,525	\$ 89,323	\$ 131,432	\$ 143,301	\$ 1,234,263
1999	\$ 373,485	\$ 389,943	\$ 207,830	\$ 91,782	\$ 54,344	\$ 131,572	\$ 176,846	\$ 193,598	\$ 1,619,400
2000	\$ 347,517	\$ 360,690	\$ 191,791	\$ 86,463	\$ 50,154	\$ 121,427	\$ 162,027	\$ 176,618	\$ 1,496,687
2001	\$ 313,472	\$ 463,197	\$ 246,299	\$ 103,228	\$ 64,408	\$ 109,970	\$ 156,054	\$ 226,814	\$ 1,683,442
Sub total	\$ 1,334,835	\$ 1,526,150	\$ 800,296	\$ 348,098	\$ 205,431	\$ 452,292	\$ 626,359	\$ 740,331	\$ 6,033,792

PROPOSED DUES: 2002 - 2005

TRACK	LATC	HPOC	DM	CARF	FAIRPLEX	OAKTREE	GG	BM	TOTAL
2002	\$ 446,284	\$ 463,197	\$ 246,299	\$ 78,605	\$ 64,408	\$ 109,971	\$ 208,076	\$ 226,814	\$ 1,843,654
2003	\$ 446,284	\$ 463,197	\$ 246,299	\$ 78,605	\$ 64,408	\$ 109,971	\$ 208,076	\$ 226,814	\$ 1,843,654
2004	\$ 446,284	\$ 463,197	\$ 246,299	\$ 78,605	\$ 64,408	\$ 109,971	\$ 208,076	\$ 226,814	\$ 1,843,654
2005	\$ 446,284	\$ 463,197	\$ 246,299	\$ 78,605	\$ 64,408	\$ 109,971	\$ 208,076	\$ 226,814	\$ 1,843,654
Sub total	\$ 1,785,136	\$ 1,852,788	\$ 985,196	\$ 314,420	\$ 257,632	\$ 439,884	\$ 832,304	\$ 907,256	\$ 7,374,616

<b>TOTAL</b>	<b>\$ 3,119,971</b>	<b>\$ 3,378,938</b>	<b>\$ 1,785,492</b>	<b>\$ 662,518</b>	<b>\$ 463,063</b>	<b>\$ 892,176</b>	<b>\$ 1,458,663</b>	<b>\$ 1,647,587</b>	<b>\$ 13,408,408</b>
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May 21, 2002

Mr. Alan W. Landsburg, Chairman  
California Horse Racing Board  
1010 Hurley Way, Suite 300  
Sacramento, CA 95825

Dear Chairman Landsburg:

This letter is to provide you with information you requested recently on benefits the NTRA provides to the California horseracing industry and, specifically, to the state's Thoroughbred owners.

The NTRA, as its founding members intended, represents numerous and diverse segments of the racing industry. The NTRA Board of Directors provides equal representation (seven seats each on a 15-member board) for racetrack representatives and horsemen's organizations, including a seat designated for the Thoroughbred Owners of California (TOC) now held by its President John Van de Kamp.

The NTRA is funded through a variety of sources, including member dues. Currently, horsemen's organization dues account for approximately 11% of the combined NTRA/Breeders' Cup operating budget. (For more detail on this, see the enclosed *NTRA Annual Report to the Membership, 2001-2002*.) Regarding specific NTRA programs and policies that benefit the California racing industry, either directly or indirectly, we respectfully submit the following:

1) Television

The NTRA funds and produces substantially all Thoroughbred horseracing telecasts on national television (including NBC, ESPN, CBS and CNBC racing series and specials). In 2002, the NTRA will produce more than 184 hours of national network and cable racing coverage, a 60 percent increase in TV hours over 1997 (excluding TVG).

Major California races televised by the NTRA in the past three years include the Santa Anita Derby, Santa Anita Handicap, Strub Stakes, San Felipe Stakes, Hollywood Gold Cup, Swaps Stakes, Californian, Shoemaker Breeders' Cup Mile, Beverly Hills Handicap, Hollywood Park Turf Festival races, Pacific Classic, Del Mar Futurity, Clement Hirsch Handicap, Norfolk Stakes, Goodwood Breeders' Cup, Oak Tree Breeders' Cup Mile, California Cup Day races and the El Camino Real.



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In 2002, NTRA Productions has budgeted slightly more than \$1.1 million to telecast nationally nine races from California. In 2003, we anticipate even greater coverage of California stakes races leading up to the Breeders' Cup World Thoroughbred Championships at Oak Tree. Longer-term, we have finalized multi-year network contracts for major racing events and series (e.g., Breeders' Cup World Thoroughbred Championships and Preview Shows on NBC through 2005, "Racing to the Kentucky Derby" and "Road to the World Thoroughbred Championships" series on ESPN through 2008).

## 2) Advertising

The NTRA has created television, print, radio and outdoor advertisements using leading national agencies to produce the first nationally-branded campaign for horseracing. Under the NTRA's co-op advertising program (which has since been expanded to include consumer promotions, market research and other marketing initiatives), these ads are available without charge to California NTRA member racetracks, with a percentage of racetrack dues reimbursed by the NTRA based on member usage. Through December 31, 2001, estimated usage of the campaign by California tracks and the California Marketing Committee was \$35.4 million and total reimbursement paid by the NTRA to member tracks was \$3.7 million.

In addition, the NTRA has placed national advertising (ESPN, *USA Today*, etc.) to promote viewership of California races televised by NTRA Productions. This national advertising supplements the "free media" (PR and placement) efforts of NTRA Communications, which also enhance the exposure and image of racing on an ongoing basis.

## 3) National Consumer Promotions

The NTRA has introduced a number of national consumer promotions. These include the NTRA Million Dollar Mystery Mutuel Voucher Promotion (there will be a total of four in 2002), the *Daily Racing Form*/NTRA National Handicapping Championship (50 qualifying tournaments held in 2001), and other NTRA-subsidized promotions designed to increase attendance and pari-mutuel handle on specific dates. All NTRA California member facilities have participated in these promotions. For example, three tracks participated in our most recent Million Dollar Mystery Mutuel Voucher promotion on April 13, with redemption rates ranging from 5 percent at Los Alamitos to 19 percent at Bay Meadows to 29 percent at Santa Anita. The NTRA also has successfully launched a monthly, customized e-newsletter program utilized by more than 25 member associations, including five tracks in California and the Golden State Rewards Network. Since the start of this program, the e-mail databases at participating entities have increased 347 percent.

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4) Player Development (ADW Support)

We have created a new NTRA/Breeders' Cup Web site (NTRA.com) that is principally devoted to player development, e.g., handicapping education through interactive games. This initiative is based on consumer research indicating that a key inhibitor to more frequent participation and attendance by casual fans is intimidation about the pari-mutuel wagering and handicapping process. When new fans are ready to play for real, on-line links are provided both to track members (such as Santa Anita) for information on how to play from home and also to legal account wagering operators such as TVG.

5) Group Purchasing

Earlier this year, the NTRA acquired EquiSource and established NTRA Purchasing to offer members substantial savings on products from nationally known companies including John Deere, Sherwin-Williams, IKON Office Solutions and others. First quarter 2002 sales were just over \$3 million; estimated savings to members from the NTRA's group purchasing program since inception are in excess of \$4 million.

NTRA Purchasing has an agreement with the Thoroughbred Owners of California and the California Thoroughbred Breeders Association to expand further the John Deere program in California by allowing joint TOC/CTBA members to be eligible to receive discounts on John Deere agricultural equipment of as much as 23 percent (which can amount to thousands of dollars on a single piece of farm equipment).

6) Legislative

The NTRA also has considerably strengthened the industry's legislative and lobbying capabilities at the federal level raising awareness in Washington of the racing and breeding industries and their issues. For example, the NTRA was instrumental in passing the amendment to the Interstate Horseracing Act in 2000. This legislation helped overcome the United States Justice Department's attacks on the legality of interstate simulcasting and commingled pools. As you will recall, the 2000 IHA amendment was cited by Governor Davis as a main reason for his decision to sign the California's Advance Deposit Wagering law after vetoing similar legislation the year prior.

More recently we have targeted our efforts in Washington on removal of the current provision in the IRS code requiring US tracks to withhold 30% on *all* international wagers on U.S. races. This withholding requirement has effectively precluded any significant betting from abroad into U.S. pools. If our legislation passes, we believe it will be a catalyst for exporting US racing to the international marketplace that currently accounts for \$85 billion of wagering on horseracing each year (compared with approximately \$15 billion wagered annually in the U.S.).

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7) Other

Other programs undertaken by the NTRA that benefit California racing include national consumer research (which also is segmented by market and made available to members free of charge); the new Great State Challenge, a state-bred championship for which Cal-breds are eligible, offering \$1.5 million in purses; the NTRA Racing Integrity and Drug Testing Task Force; and The Greatest Game, a development program to identify and recruit new owner prospects.

8) Breeders' Cup World Thoroughbred Championships

As you know, the NTRA and Breeders' Cup, Ltd. were combined as of January 1, 2001. We are particularly pleased that the Breeders' Cup World Thoroughbred Championships are returning to California in 2003, and believe that this move presents numerous opportunities to provide even more promotion and focus to California racing and breeding in the coming 18 months. We look forward to working with Oak Tree, the TOC and others to take advantage of these special opportunities.

In addition to the Annual Report, I have enclosed the NTRA's Revised Business Plan (2002-2005) and various marketing materials, including consumer research conducted prior to our most recent advertising campaign. It includes video of focus groups conducted in California that I thought would be of particular interest to you.

Please call me if you have any questions regarding the enclosed materials and please pass along my appreciation to the California Horse Racing Board for their ongoing support of the NTRA. I look forward to seeing you again soon.

Sincerely,



Timothy G. Smith  
Commissioner & CEO

TGS/shr  
Enclosures

cc: Jack Owens  
John Van de Kamp  
Craig Fravel

**STAFF ANALYSIS  
REPORT BY YUBET REGARDING ESPN**

**PARI-MUTUEL OPERATIONS COMMITTEE MEETING  
AUGUST 22, 2002**

**Background:**

At the July Board meeting it was mentioned in passing that Youbet had experienced some difficulties in maintaining a working relationship with the ESPN network. Time did not allow a discussion regarding that issue during the Board meeting. However, this Committee wishes to take the time to receive an update on the relationship between ESPN and Youbet and how that relationship positively (or negatively) affects the California ADW account holder.

**Recommendation:**

Staff recommends that the Committee hear from representatives of Youbet regarding this matter.



**STAFF ANALYSIS  
REPORT ON THE CREATION OF CALIFORNIA WAGERING HUBS**

**PARI-MUTUEL OPERATIONS COMMITTEE MEETING  
AUGUST 22, 2002**

**Background:**

Since the Board approved the first licenses for Advance Deposit Wagering, the commissioners have made known their desire to see all ADW hubs doing business in California located in California. This item is a report from TVG and Youbet on their efforts to move toward the goal expressed by the Board.

**Recommendation:**

Staff recommends that the Committee hear from representatives of TVG and Youbet regarding this matter.

**STAFF ANALYSIS  
REPORT BY EXPRESSBET ON THEIR CURRENT TV COVERAGE**

**PARI-MUTUEL OPERATIONS COMMITTEE MEETING  
AUGUST 22, 2002**

**Background:**

ExpressBet maintains the Racing Network for coverage of its racing events and offers subscriptions to its ADW account holders in California for approximately \$99 per month after the installation of a satellite dish. The Committee is interested in hearing from ExpressBet as to the status of its efforts to provide broader television coverage of its racing programs to its account holders.

**Recommendation:**

Staff recommends that the Committee hear from representatives of ExpressBet regarding this matter.

**STAFF ANALYSIS  
BEAT THE FAVORITE**

**PARI-MUTUEL OPERATIONS COMMITTEE MEETING  
AUGUST 22, 2002**

**Background:**

Mr. James Quinn, a noted Southern California horse player, has developed an idea for a new wager. He has named the wager "Beat the Favorite" because the concept of the wager is to select at least three winning runners (in at least three consecutive or non-consecutive races on a card) in which the winning runner was not the "betting" (post time) favorite.

Details for the proposed wager have been submitted to Board staff and are included here as a starting point for a discussion on the merits of the wager as well as suggestions for possible amendments for a draft regulation. If the Committee feels there is enough interest in the wager by race tracks and/or racing fans, then it may direct staff to bring back to a future Committee meeting a draft regulation for further review.

**Recommendation:**

This item is for information and discussion.

## BEAT the FAVORITE

BEAT the FAVORITE was developed by James Quinn, Ph.D., a noted Southern California horse player and author of ten books on handicapping. In addition to his writing and wagering abilities, he serves as a consultant to Santa Anita Park in player development and customer education.

This wager is a culmination of Jim's thoughts and personal experience regarding the development of a wager that combines a simple concept (beating the favorite) with multiple complex wagering strategies and opportunities, resulting in a daily potential winning payoff greater than all but the largest pick six carryovers.

### BEAT the FAVORITE Rules and Regulations

1.0 BEAT the FAVORITE is not a parlay and has no connection with or relation to any other par-mutuel pool, nor to any win, place and show pool shown on the totalisator, nor to the rules governing the distribution of those other pools.

2.0 The BEAT the FAVORITE pool consists of selections to win only in three or more races, consecutive or non-consecutive, on a racing program. The base cost of a ticket is \$1 for the selection of one horse in three or more races. The cost of a ticket containing multiple selections is calculated by multiplying the number of horses selected in each race, which is equal to the number of combinations selected.

3.0 The BEAT the FAVORITE ticket shall designate the winning horse in each of the three or more races. The winning horse in any of the races must not be the betting favorite. If the betting favorite wins any of the races on the ticket, the ticket is eliminated for consideration of the net pool to be distributed pursuant to 5.0.

4.0 Horses constituting an entry or the field of coupled horses in a race involving the BEAT the FAVORITE pool shall race as a single wagering interest. However, if any part of either an entry or field is scratched from the race, the remaining part of the entry or the field shall remain as the designated selection to win and the selection shall not be deemed a scratch.

5.0 The BEAT the FAVORITE pool shall be calculated as follows:

5.1 The takeout for the BEAT the FAVORITE pool is <sup>20.18</sup>~~21.00~~%.

5.2 One hundred percent (100%) of the net pari-mutuel pool shall be distributed to the bettor(s) having the highest win mutuel totals when the non-favorites on a ticket that are winners are totalled. If no BEAT the FAVORITE ticket has a non-favorite that wins and thereby provides ticket holders with a pari-mutuel score, the pool shall not be distributed and instead shall be carried over to the next racing date of the association. In the event the pool is carried over on the final racing date of an association's meeting, the BEAT the FAVORITE carryover pool shall be distributed on the first racing date of the association's next meeting.

5.3 If more than one winning ticket has the same pari-mutuel score, the number of winning tickets is divided into the net BEAT the FAVORITE pool, such that ties shall share equally in the payoffs.

6.0 In the event of a dead-heat where both horses are the favorites as evidenced by an equal amount of money wagered to win on them in the win pool, all tickets that include the race are eliminated. If neither horse is the favorite, all tickets that have selected either horse shall obtain a score equal to the win payoff of such dead-heated selected horse, or if both dead-heated horses are selected, a total of both win payoffs. If one of the horses in a dead-heat is the favorite and the other is a non-favorite, the tickets that have selected the non-favorite horse shall obtain a score equal to the win payoff of that horse and all other tickets that included the race are eliminated.

7.0 If the favorite wins, but is disqualified, the wager remains in play and all tickets in the BEAT the FAVORITE pool that have selected the horse that is awarded the victory shall obtain that horse's win payoff as a score. If a non-favorite wins, but is disqualified and the favorite is awarded the victory, all tickets that have included the race are eliminated.

8.0 If a player has selected only three races and a late scratch eliminates one of those races because of a single selection in that race, the bet is nullified and the player obtains a refund in the amount of the wager.

9.0 If a player has selected more than one horse in a race having a late scratch, all combinations encompassing the scratched horse will be refunded. The other horses will represent the player's selections in the race. If the favorite wins, all tickets that include the race are eliminated, except those containing the combinations with the scratched horse, which are refunded.

For example, if the player's BEAT the FAVORITE ticket is a 2 x 2 x 4 and one selection in the race having four selections is scratched, the player's refund is \$4.00 (2 x 2 x 1). The ticket in play is now a 2 x 2 x 3 or 12 combinations. If the favorite wins the race having three selections, the 12 combinations are eliminated from the pool and the player obtains a \$4.00 refund.

10.0 If a player has selected four or more races and a late scratch occurs in a race having a single selection, the number of races represented on the BEAT the FAVORITE ticket is reduced by one, N-1. No refunds are distributed.

For example, if the player's ticket encompasses five races,  $3 \times 2 \times 1 \times 2 \times 3$  or 36 combinations and the single selection is a late scratch, the ticket is now  $3 \times 2 \times 2 \times 3$  or the same 36 combinations.

11.0 If fewer than three races have been run and the remainder of the racing program is cancelled, the BEAT the FAVORITE pool is refunded to all holders of BEAT the FAVORITE tickets in the amount of the respective wagers.

12.0 If three or more races have been run and the remainder of the racing program is cancelled, BEAT the FAVORITE tickets encompassing the cancelled races shall be refunded. Winning tickets encompassing races that have been completed shall be paid from the net BEAT the FAVORITE pool according to 5.0.