

CALIFORNIA HORSE RACING BOARD
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SECURITY AND LICENSING COMMITTEE MEETING

of the **California Horse Racing Board Security and Licensing Committee** will be held on, **Friday, July 20, 2007**, commencing at **9:00 a.m.**, at the **Del Mar Surfside Race Place, Saddle Club Room, 2260 Jimmy Durante Blvd., Del Mar, California**. Non-committee Board members attending the committee meeting may not participate in the public discussion, official committee vote or committee closed session.

Agenda

The agenda for the meeting will consist of the following matter:

Action Items

1. Discussion and action regarding the **feasibility of amending the CHRB rules to permit the licensing of "stable name groups" which would allow multiple entities, each owning multiple horses with different sets of owners under one stable name.**

Additional information regarding this meeting may be obtained from Jacqueline Wagner at the CHRB Administrative Office, 1010 Hurley Way, Suite 300, Sacramento, CA 95825; telephone (916) 263-6000; fax (916) 263-6042. A copy of this notice can be located on the CHRB website at www.chrb.ca.gov. *Information for requesting disability related accommodation for persons with a disability who require aids or services in order to participate in this public meeting, should contact Jacqueline Wagner.

SECURITY AND LICENSING COMMITTEE

Commissioner John W. Andreini, Chairman
Commissioner Jesse H. Choper, Member
Commissioner Jerry Moss, Member
Ingrid Fermin, Executive Director

STAFF ANALYSIS
FEASIBILITY OF AMENDING CHRB RULES
TO PERMIT LICENSING OF
STABLE NAME GROUPS

Security and Licensing Committee Meeting
July 20, 2007

BACKGROUND

Business and Professions (B&P) 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 Chapter 4, B&P Code. Responsibilities of the Board shall include licensing of each racing association and all persons, other than the public at large, who participate in a horse racing meeting with pari-mutuel wagering. B&P Code Section 19520 provides that every person not required to be licensed under Article 4 (commencing with Section 19480) who participates in, or has anything to do with, the racing of horses shall be licensed by the Board pursuant to rules and regulations that the Board may adopt. No person required to be licensed may participate in any capacity in any horse race meeting without a valid and unrevoked license authorizing the participation. The CHRB has multiple regulations governing the occupational licensing of individuals who participate in horse racing, as well as regulations governing the registration of stable names, partnerships, corporations and limited liability companies (LLC). These regulations fit well with individuals, small partnerships and persons or single entities wishing to run under a stable name; however, this is not necessarily the case with larger groups, especially groups that sell many shares in one or more horses. Little Red Feather Racing (LRFR) is an example of one such group that does not fit the norm with regards to licensing. LRFR is a registered stable name that buys thoroughbred horses, which it then markets as a LLC in ownership units of 5 percent to 10 percent. Each horse owned by LRFR is a separate entity with distinct ownership.

In 2006 LRFR contacted staff with a number of licensing issues it felt needed to be addressed. LRFR contended the Board's regulations were "*not practical to modern day partnership groups*," and made suggestions regarding changes to rules governing stable name registrations. LRFR's main complaint was the manner in which it was listed in the program. Staff worked with LRFR, and it was determined that LRFR would run as "LRFR, et. all." This arrangement worked for approximately 18 months, but in May 2007 LRFR again contacted staff with the same concerns. LRFR wished to be listed in the program under its stable name, without the "et. all." LRFR stated it wanted its statistics accounted in that manner, as it was a "*critical sales tool.*"

To accommodate the LRFR model, and to allow it to run only under its stable name, staff has proposed amending Rule 1783, Registration of Stable Names, and Rule 1784, Registration to Disclose All Partners.

ANALYSIS

The CHRB has received recommendations from LRFR and West Point Thoroughbreds (WPT) for regulatory and procedural changes that would benefit partnership groups such as theirs and, in their opinions, lead to increased horse ownership and revenue to the sport of horse racing. Their suggestions fall into two broad categories. One pertains to the keeping and reporting of statistics on horse ownership (e.g. earnings and wins). This is largely an industry issue and falls outside the Board's rules and regulations. It involves the two major databases utilized by racetracks: the InCompass system and Equibase.

The second category involves suggested rule changes, which are more directly in the purview of the Board. Some of these changes would facilitate the record-keeping changes under consideration by the industry. Specifically, the proposals involve amendments to CHRB Rules 1506, 1783, and 1784, and would result in three significant changes:

- 1) Under Rule 1783 and Rule 1784 the Board would create a separate license classification for partnership groups, which would be based on the LRFR business model and allow for multiple entities to own multiple horses with different sets of investors. These revisions are incorporated in the proposed amendment to Rule 1783 and Rule 1784.
- 2) The practice of restricting a licensed owner, who registered a stable name, to running only under the stable name, would be eliminated to allow for a licensed horse owner to invest in a separate stable name or partnership group managed by another licensed owner without having to be listed separately on the program or with the paymaster. (This is not a staff proposal)
- 3) LRFR wishes to allow investors in partnership groups to have the choice of being licensed or not licensed by the CHRB. This is allowable if the investor is a limited partner, as limited partners are not licensed. However, if the investor is NOT a limited partner, this is contrary to B&P Code Section 19520, which states that every person who participates in, or has anything to do with, the racing of horses shall be licensed by the Board.

A number of underlying regulatory and integrity issues involved in these proposals need to be addressed. These include but are not limited to: questions about hidden ownership; the difficulty of determining which horses would need to be coupled when there are a myriad of ownership interests; how the CHRB would go about checking for criminal histories on owners not licensed by the Board; and the capabilities of the InCompass system. In addition, the proposal to allow for partnership groups will affect the CHRB's own database. At this time it is not known how long it will take to manage some of the required changes.

RECOMMENDATION

This item is presented for discussion and action.

CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
ARTICLE 12. COLORS, STABLE NAMES, AGENTS
PROPOSED AMENDMENT OF
RULE 1783. REGISTRATION OF STABLE NAMES

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1783. Registration of Stable Names.

(a) A licensed owner may register a stable name with the Board by filing an application and paying the fee for such stable name. A stable name is subject to the approval of the Board. No person may register more than one stable name at the same time. No person may use the real name of any owner of ~~raee horses~~ racehorses as his stable name. No stable name registration may be used for advertising purposes. A stable name ~~which~~ that has already been registered may not be registered by another owner.

(b) A licensed owner who registers a stable name with the Board may form a stable name group for the purpose of establishing multiple entities that shall run under such owner's registered stable name. Each entity shall be registered, as applicable, in accordance with Rule 1506; Rule 1507; Rule 1508 and Rule 1784 of this division. The entity shall name the horse(s) it owns, and such horse(s) shall be owned separately from the other entities within the stable name group. Each entity shall possess a unique roster of owners. A licensed owner may participate in the horse ownership of one or more entities that run under a stable name group; however, no licensed owner may participate in more than one stable name group.

(bc) The granting of a stable name registration by the Board shall not relieve any person from his obligation to file or register a fictitious name as provided by the laws of the State of California.

Authority: Sections 19440 and 19460,
Business and Professions Code.

Reference: Sections 19460 and 19520,
Business and Professions Code.

CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
ARTICLE 12. COLORS, STABLE NAMES, AGENTS
PROPOSED AMENDMENT OF
RULE 1784. REGISTERED STABLE NAMES

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1784. Registration to Disclose All Partners.

(a) An application to register a stable name shall disclose the real names of all partnership or ownership interests participating in the stable and the percentage of ownership interest of each, including the interest owned by any corporation, limited liability company (Corporations Code section 17000 et seq.), general partnership, limited partnership, trust, estate, person or individual.

(b) A registered stable name operating as a stable name group shall comply with the provisions of Subparagraph (a) of this regulation for each entity within the stable name group.

Authority: Sections 19440 and 19460,
Business and Professions Code.

Reference: Sections 19460 and 19520,
Business and Professions Code.

Law: Division 8, Chapter 4, Business and Professions (B&P) Code.

B&P 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. Responsibilities of the Board shall include licensing of each racing association and all persons, other than the public at large, who participate in a horse racing meeting with pari-mutuel wagering.

B&P Code Section 19460 provides that all licenses granted under this chapter shall be in writing and are subject to all rules, regulations, and conditions from time to time prescribed by the Board.

B&P Code Section 19520 states that every person...who participates in, or has anything to do with, the racing of horses...shall be licensed by the Board pursuant to rules and regulations that the Board may adopt, and upon payment of a license fee fixed and determined by the Board.

Regulations: Title 4, Division 4, California Code of Regulations.

1506. Horse Ownership by Corporation or Limited Liability Company.

If the legal owner of any race horse is a corporation or a limited liability company (Corporations Code section 17000 et seq.), the corporation or limited liability company shall appoint one or more responsible managing employee(s) who, if qualified, may be granted a license as Horse Owner. Such employee accepts and assumes all responsibilities of an owner.

1507. Partnerships.

All general partners in the partnership owning a race horse assume equal responsibilities of ownership, and all such general partners are required to be licensed, irrespective of the percentage of partnership held. No limited partner may be granted a license as horse owner.

1508. Statements of Partnerships.

(a) All statements of partnerships and the relative proportion of ownership interest, the terms of sales with contingencies, arrangements, or leases, shall be filed with the paymaster of purses of the association and with the Board, and shall declare:

- (1) to whom winnings are payable,
- (2) in whose names the horse is run if more than three persons comprise the partnership, and
- (3) with whom rests the power of entry.

(b) The part owner of any horse may not assign his share or any part of it without the written consent of the other partners. The consent shall be filed with the paymaster of purses.

(c) No part owner or lessee of a racehorse is qualified for a license as horse owner until he has complied with this rule.

1606. Coupling of Horses.

- (a) Two or more horses shall be coupled as a single wagering interest and as an entry when such horses are owned in whole or in part by the same person or persons.
- (b) Quarter horse races are exempt from subsection (a) of this regulation.

1783. Registration of Stable Names.

- (a) A licensed owner may register a stable name with the Board by filing an application and paying the fee for such stable name. A stable name is subject to the approval of the Board. No person may register more than one stable name at the same time. No person may use the real name of any owner of racehorses as his stable name. No stable name registration may be used for advertising purposes. A stable name which has already been registered may not be registered by another owner.
- (b) The granting of a stable name registration by the Board shall not relieve any person from his obligation to file or register a fictitious name as provided by the laws of the State of California.

1784. Registration to Disclose All Partners.

An application to register a stable name shall disclose the real names of all partnership or ownership interests participating in the stable and the percentage of ownership interest of each, including the interest owned by any corporation, limited liability company (Corporations Code section 17000 et seq.), general partnership, limited partnership, trust, estate, person or individual.

1786. Change of Stable Name Registration or Ownership of Stable.

- (a) A stable name may be changed at any time by registering a new stable name and paying the fee as set by the Board.
- (b) A stable name registration may be abandoned, or an expired stable name registration may be transferred to a new owner by giving written notice to the Board and to the stewards. A stable name registration that has expired, and has remained unregistered for at least three consecutive years, shall be considered abandoned.
- (c) Any change in ownership, in whole or in part, of a currently registered stable name shall be immediately reported in writing to the Board and to the stewards. If the stable consists of multiple owners, the notification must be signed by at least the designated person responsible for the stable's conduct as listed on the stable name registration form and the person whose name is being removed, or added. A signature must be notarized if the person who signs is not present when the notification is presented to the Board.