

From the President

A Recurring Theme

Last month, when it appeared that Magna Entertainment Corporation (“MEC”) – the owner of California’s Santa Anita and Golden Gate Fields racetracks – had exhausted its efforts to restructure massive debt obligations, TOC insisted MEC’s track operating subsidiaries immediately transfer funds held in their purse/paymasters’ accounts to this organization. Fortunately, track management and the CHRB intervened in support of the TOC request after corporate parent MEC initially expressed reluctance.

Those monies are now *held in trust* by TOC, not in the “restricted cash accounts” that showed up as “assets” on the balance sheets of our track partners, as was previously the case.

Yet the impact of MEC’s bankruptcy – an attempt to “reorganize” its debt really – has been much broader and severe than first thought. It has made more urgent an already *urgent* situation, and placed in jeopardy several longstanding California industry racing infrastructure programs including Stabling & Vanning and the network of off-track satellite wagering facilities. The bankruptcy, an unprecedented weak economy, and a significant, ever-increasing shift in wagering handle from the network – which directly supports such programs – to Advance Deposit Wagering (“ADW”) providers – which do not – have combined to cause a decline in program revenues for these and several other industry programs including the California Horse Racing Information Management System (“CHRIMS”), the California Marketing Committee (“CMC”), Jockey Health and Welfare programs, etc.

The aggregate impact of these factors has created operating shortfalls on the order of millions of dollars for which the industry must find means to fund. Absent some immediate cooperative efforts among all industry stakeholders, a crisis looms. In the near-term, industry representatives are focused on potential temporary sources of funding. Long term, the industry needs to re-evaluate each program, combine for efficiency their operations where warranted, and wean itself of those programs and subsidies whose utility have past.

The MEC bankruptcy has also raised key questions about by whom and in what form California’s racetracks should be operated going forward. Based on estimated earnings data for Golden Gate and Santa Anita, the operating value of each would account for but a fraction of what their rumored sales prices might be. If that is true, then one must surmise that the difference in value is attributable to the eventual development potential for each property, as seen by a willing purchaser.

What that means to all of us is that racing operations revenues alone will be insufficient to cover the debt load for any new owner of either racetrack; i.e., earnings from track operations will not cover the loan payments. The pressure resulting from one’s inability to meet those obligations will eventually lead to the tracks’ new owners looking either to develop the properties, or filing for bankruptcy as MEC has done.

Obviously concerned by both scenarios, TOC has begun exploring means to craft a model that facilitates not-for-profit ownership of racing operations at these facilities in partnership with others seeking to develop alternative uses on non-racing portions of the property. While ambitious in intent, TOC is convinced that the best and most likely successful structure for California racing going forward is one dependent on continual reinvestment by track ownership that is not obligated to turn a profit for disinterested shareholders, but for the industry itself.



Drew J. Couto

A stylized, handwritten signature in black ink, consisting of several fluid, overlapping strokes.