

State of California

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MEMORANDUM

Date: September 17, 2019

To: Board of Directors
California Exposition & State Fair

Via: Rick K. Pickering, Chief Executive Officer

From: Samantha Brown, Deputy General Manager, Administration

Subject: Watch & Wager Request for Contract Extension

HARNES RACING

Background

In August 2012, Cal Expo entered into a lease agreement with Watch and Wager.com, LLC to operate a harness meet at Cal Expo. The term of the executed lease agreement was August 2012 through May 2017. The contract term included an option for Cal Expo to extend the existing contract (no specific extension period spelled out in contract). In March 2016, Watch and Wager requested to exercise their option to extend the contract an additional five years. They made this request a little over a year before the current contract expired in an effort to show investment in the future of harness racing at Cal Expo. In May 2016, the Board unanimously voted to extend the contract term for Watch & Wager to May 2022.

Financial and Operational Contributions

Over the last seven years Watch and Wager.com, LLC has partnered with Cal Expo on several projects to improve the racetrack and the backstretch, some of these projects include:

- Track maintenance and improvement (grading, chemical testing)
- New inside racing rail
- Backstretch access control
- Backstretch increased surveillance and security

In addition to these operational improvements, Watch & Wager.com has also paid Cal Expo \$2,076,273 in rent, reimbursable and commissions. Watch & Wager's partnership also brings ancillary revenue to Cal Expo such as food and beverage commissions and horseman's trailer park rent. The revenue received from the horseman's trailer park over the last 7 years was \$1,073,804. Lastly, Watch & Wager has a \$100,000 deposit with Cal Expo that we have in a reserved interest bearing account.

Watch and Wager's partnership with Cal Expo is both financially and operationally valuable to Cal Expo.

Request

Currently Watch and Wager's contract ends on May 31, 2022. Watch and Wager is respectfully requesting an extension of their current contract term to a new end date of May 1, 2025. They are also requesting an option to further extend the contract at the expiration of the May 2025 term to May 1, 2030 by mutual agreement of the parties.

In consideration of this extension, Watch & Wager is proposing a new rent of \$1800 per racing day effective immediately if the extension is approved. Currently the rental rate is \$1650 per racing day. Rent would be renegotiated before exercising an additional 5-year extension.

Currently the contract provides for a 12-month cancellation clause, the language is as follows:

In the event that Cal Expo determines by official action of its Board that it no longer intends to use the Premises for horseracing, Cal Expo shall have the option to terminate the Agreement by delivery of a one-year written termination notice. Such notice shall be provided no later than the last race day of the harness meet ending in that calendar year, in which case the Agreement shall terminate on the last race day of the harness meet ending the following calendar year.

Watch and Wager is agreeable to changing the cancellation notification period to 6 months, if the Board feels that is operationally better for Cal Expo.

All other terms of the contract would remain the same.

Recommendation

Staff recommends consideration and approval of the extension at this time. The extension will maintain and secure an ongoing revenue stream at the racetrack for at least five more years.