OHRIA

Ontario Horse Racing Industry Association

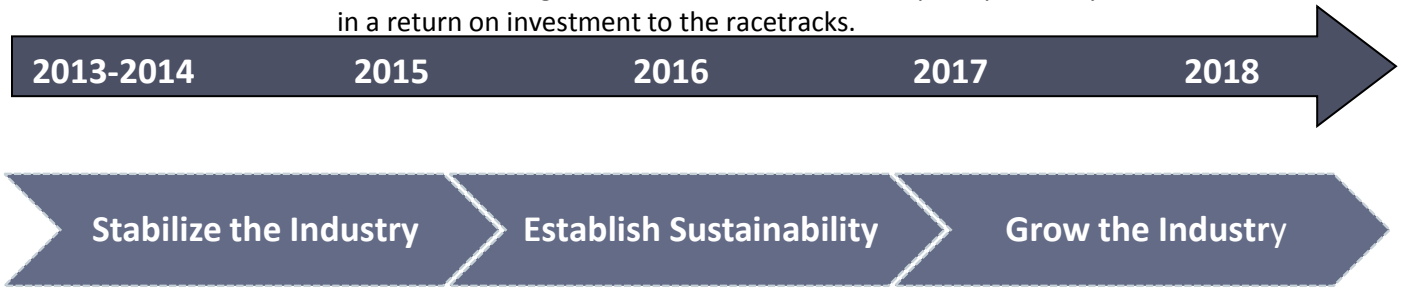
OHRIA Response to the Horse Racing Transition Panel's Draft

SUMMARY & HIGHLIGHTS:

- The manner and timeframe with which the *Slots At Racetracks Program* (SARP) was terminated has created a significant crisis in the Ontario horse racing industry, resulting in:
    - **An exodus of investment:** Since 2011, more than 3,000 owners have left the industry, representing approximately $1 billion in investment.
    - **Significant loss of jobs:** Since 2011, more than 9,000 jobs have left the industry, mostly jobs in rural Ontario.
    - **Substantial reduction in breeding production and breeding capacity:** Since 2011 Ontario mares bred are down by 60%, foals registered from Ontario mares are down by more than 60%. Stallions standing in Ontario are down 54% -- from 243 in 2011 to 138 in 2013. The very existence of a viable breeding production sector for Ontario race horses is now in jeopardy.
    - **Extreme lack of confidence in investment …** and paralysis of planning for the industry's future.

It is expected that recovery for the industry will be a multi-year process that will need to be addressed in three stages:

- Stabilizing the current crisis situation
- Creating structures for sustainability based on a strong pari-mutuel wagering marketplace, and
- Integrating horse-racing into Ontario's Gaming Strategy in a manner that takes advantages of the assets, infrastructure, community and market demand for enhanced Gaming at racetracks. A fundamental principle of any model should result in a return on investment to the racetracks.



- **Long-term sustainability and growth for horse-racing is built on,** and dependant on, **the strength of the industry's market for pari-mutuel wagering**. A "Customer-centric" approach to decision-making should be core to business development decisions for Horse Racing.

- **Horse racing should be integrated into – and contributing to – the overall gaming strategy for Ontario**, in a manner that …
    - Embeds horse-racing into decision-making moving forward (with a shared leadership role)

- Is in line with the needs of the OLG to modernize in a manner that takes advantages of the assets, infrastructure, community support and market demand for enhanced Gaming at racetracks.
- Maximizes benefits (and minimizes negative impacts) to horse racing coming from changes to Ontario's gaming industry
- Addresses the cannibalization of horse-racing's pari-mutuel wagering customer base from new gaming products launched in the Ontario marketplace

- With the ending of the *Slots-at-Racetracks Program* (SARP), **both the horse racing and gaming industries require a new governance and operations model** that enables industry restructuring for long-term sustainability and growth. A new governance and operations model for the horse racing industry should reflect the following Guiding Principles …

1. A governing board that reflects investment by "shareholders" to the industry's activities
   - Industry investment (racetracks, race horse owners, breeding sector, etc.)
   - Government investment
   - Partner investments (such as with the OLG)
2. A key role for the industry in the governance and operations of horse racing moving forward. The role of the Ontario Racing Commission (ORC) should be focused on, and limited to, regulatory issues for horse racing.
3. A governance structure with a mechanism for both cooperative decision-making (between industry, government, the OLG and other partners) and conflict resolution between competing interests.
4. Priority should be given to creating efficiencies within breed sectors, and across horse racing in Ontario. Significant efficiencies could be realized through using the WEG Standardbred Division infrastructure (and experience) to form the basis of administration, market development and operations support moving forward.
5. Creating efficiencies across horse racing in Ontario is NOT achieved through a program for purse pooling and/or revenue redistribution between racetracks, unless agreed to by the racetracks.

The **Industry proposes the creation of a *New Governing Body*** for Ontario horse racing with:

- A *Governing Board* of seven members representing investment (Government, Industry, OLG)
- Three *Breed Divisions* (one each for Thoroughbred, Standardbred, and Quarter Horse)

- The mechanism for appointing representation to the *Governing Board* should ensure that the Board has the required expertise and skill set to be effective in policy development, government relations, partnering with the OLG, and the development of new products and distribution channels for pari-mutuel wagering.

- There should be clearly articulated terms of references that define the level (and limitations) of responsibilities for each group in the *New Governing Body*.

New Governing Body for Ontario Horse Racing

- The **integration of horse-racing into the overall Gaming Strategy for Ontario,** should reflect the following Guiding Principles …
    - Integration should be based on an *Integration Plan* that creates the environment for long-term sustainability and growth for both the horse-racing and gaming sectors.
    - An *Integration Plan* should recognize that the OLG has a need to enhance gaming revenues, and the best way to do so is through our industry's racetracks (proven performers as gaming sites). Decisions around how gaming is enhanced and expanded should reflect consideration of the impacts on live racing.
    - The integration of horse-racing into the overall Gaming Strategy, does NOT include OLG management of off-track pari-mutuel wagering. An effective *Integration Plan* would capitalize on developing both OLG and racing's distribution networks for each party's mutual benefit.
    - While cooperative marketing between horse racing and other Ontario gaming is ideal, the core responsibility for developing the brand and marketing for horse racing rests with the horse racing industry.

As Step 1 in the integration process, the existing racetrack gaming sites should be given *preferential consideration* as the operators of enhanced gaming at racetracks. Where a racetrack operator is selected as the operator of an expanded gaming site, there would be a requirement for a commitment to live racing at a level as defined by each Breed Division. A portion of revenues earned through the management of the gaming site would be allocated towards costs of live racing – significantly reducing the costs to government for support to the horse racing industry. Racetracks need to realize a return on their investment.

- **A new funding model for horse-racing in Ontario,** should reflect the following Guiding Principles:
    - Long-term sustainability and growth for horse-racing is dependant on a strong market for pari-mutuel wagering, and a stable business environment that provides confidence in investment. Sustainability and growth is achieved where revenues earned from pari-mutuel wagering belong to the organizations that earn them (i.e. not subject to pooling or re-distribution), unless agreed to by the racetracks.
    - The industry's funding requirements will shift over the five-year business cycle as we move through the stages to stabilize the existing crisis, achieve a level of sustainability, and build the foundation for future growth.
    - The level of funding allocated to breeding sector programs should be considered in the context of – but in addition to – funding for racing (purses and operations).
    - A model that ties government funding support to commissions earned for wagering on Ontario live racing will not provide the required funding to stabilize the current crisis in the industry in the short-term. The 50%+ reduction in racing in 2013 has created the situation where the industry has significantly less Ontario live racing product available for sale. With reduced Ontario racing in the short-term, it is expected that a higher percentage of wagering in Ontario will come from wagering on foreign product – a situation that is counter-productive to the intended goal to expand wagering on Ontario live racing.

- **Our industry plan proposes a funding model that establishes the following timelines** for restructured industry revenue streams:
    - During the ***Stabilization Period***
        - Government funding should be provided to create a *Breeding Sector Stabilization Fund*, sufficient to stabilize the breeding sector and instil confidence in buyers of Ontario horses. The fund would set a floor to the existing breeding support programs (HIP and QHRIDP), at the level of Program funding in place in 2011.
        - Funding to Racing (operations and purses) that guarantees a purse value threshold per day, and racing opportunities that reflect available horse supply for each breed.
        - Government funding for a *Horse Racing Transition Program* — that recognizes the unique needs of those in the horse racing sector — to provide support to those who have lost employment or suffered significant investment losses, and addresses the equine welfare needs for horses that are now surplus to racing and breeding.
        - Establish and entrench agreements for revenue to Ontario racing from expanded gaming at racetracks
    - During the ***Building Sustainability Period***
        - Revenues to horse racing from new products and improved distribution channels
        - On-going government funding to racetracks with limited pari-mutuel wagering

The OHRIA Plan outlines details of these proposed recommendations.

INTRODUCTION:

With this Plan, OHRIA has responded to the proposals put forward by the Transition Panel's *Plan for Horse Racing in Ontario* with a more workable approach to moving the Industry forward. The crisis in our industry is urgent, deep, and requires rapid decision-making to stabilize losses of jobs and investment. It should be noted that there is broad consensus within the industry that the most expedient, simple and profitable solution (for both the horse racing industry and the Government of Ontario), would be to establish expanded gaming at existing racetrack sites, with transparency, accountability and performance benchmarks established for revenue sharing between the horse racing and breeding industry and the OLG.

Formed in 1994, the Ontario Horse Racing Industry Association (OHRIA) is a non-profit organization currently representing 21 paying Member associations and tracks. The OHRIA Board consists of eight representatives, representing one vote each on the OHRIA Board: --

- Thoroughbred Horsemen (HBPA),
- Standardbred Horsemen (COSA),
- Quarter Horse Horsemen (QROOI),
- Thoroughbred Breeders (CTHS),
- Standardbred Breeders (SBOA),
- Not-For Profit Race Tracks,
- For-Profit Race Tracks, and
- Woodbine Entertainment Group

The member horsemen groups and breeder groups are represented by their elected group Presidents. The three Standardbred horsemen groups who are members of OHRIA, annually nominate and elect a Director to represent them on the OHRIA Board. The Not-for Profit racetracks who are members of OHRIA and the For-Profit Racetracks each nominate and elect a Director annually who represents them on the OHRIA Board. Current Directors of the OHRIA Board include:

Sue Leslie (Chair) – Thoroughbred Horse (HBPA)	**Glen Sikura –** Thoroughbred Breeders (CTHS)	**Walter Parkinson –** Standardbred Breeders (SBOA)
Bill O'Donnell – Standardbred Horsemen (COSA)	**Bob Broadstock –** Quarter Horse Horsemen (QROOI)	**Nick Eaves –** Woodbine Entertainment Group
Ted Clarke – Not-For-Profit Race Tracks	**Bruce Barbour** – For-Profit racetracks	

This Plan was developed through a two-stage process. The first stage included a facilitated consultative session with a cross-section of industry stakeholder interests. This consultative process resulted in a set of recommendations to the OHRIA Board, which were in turn endorsed by the Board for presentation as Industry's Plan for the future.

The following industry members participated in the consultative process:

Glen Bechtal -- Standardbred Breeder & Owner	**Dave Briggs –** Publiser, Editor Canadian Sportsman, Horse racing columnist Guelph Mercury	**Bob Broadstock –** President QROOI, Director OHRIA, Quarter Horse Breeder, Owner & Trainer,	**Jim Bullock –** Standardbred Breeder, Owner, Member: SBOA, Standardbred Canada, COSA,
Mark Casse – Thoroughbred Trainer & Owner, Director HBPA	**Ted Clarke –** CEO Grand River Raceway, Director OHRIA	**Jack Darling –** Standardbred Owner, Trainer and Breeder	**Frank Digiulio –** Thoroughbred Breeder, Trainer & Owner, Director CTHS
Nick Eaves – CEO Woodbine Entertainment Group	**Rob Fellows** -- Standardbred Breeder & Owner, Member: COSA, Standardbred Canada	**Pam Frostad –** Thoroughbred Owner, former ORC Governing Board Member	**Ian Howard –** Thoroughbred Breeder & Owner& Trainer
Sue Leslie -- Thoroughbred Owner Trainer, President OHRIA, President HBPA, Chair FELRC	**Hugh Mitchell –** CEO Western Fair, past President Harness Tracks of America (HTA)	**Bill O'Donnell –** Standardbred Driver & Trainer, Director OHRIA, President COSA	**Walter Parkinson –** Standardbred Breeder & Owner, President SBOA, Assiostant Farm Manager Seelster Farms, Member: Standardbred Canada, COSA
Glen Sikura – Thoroughbred Breeder & Owner, President CTHS, Director OHRIA	**Ted Smith –** Standardbred Owner, Breeder, Member: SBOA, COSA, , Past President & CEO Standardbred Canada, Horse Improvement Committee, Sires Stakes Committee, Hall of Fame	**Ann Straatman** -- Standardbred Breeder & Owner, Chair Standardbred Canada Beeeders Committee, President Forest City Standardbred Sales, Member: Standardbred Canada (Director), SBOA, COSA	**John Unger –** Thoroughbred Breeder, Tax Specialist / Lawyer, Steward Jockey Club Canada
Jim Wellwood -- Standardbred Breeder & Owner, Member: COSA, Standardbred Canada	**Mike Wilson –** Standardbred Breeder, Owner, Warralee Farms, Member: Standardbred Canada, COSA		

Recommendations from the consultative sessions, endorsed by participants, were presented to the OHRIA Board as the foundation for this Plan. The Plan was, in turn, approved by the OHRIA Board.

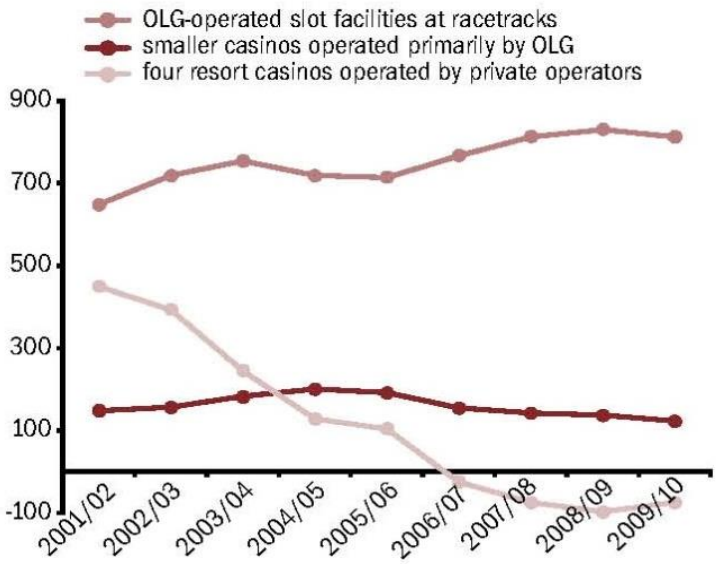
The Current Business Environment for Racing

For more than 10 years, the *Slots at Racetracks Program* has been a highly successful partnership between the horse racing industry, the Government of Ontario (through OLG) and the local municipalities in racetrack communities. In the past ten years alone (since 2001), SARP has delivered in excess of $9 billion to the Province of Ontario – net of OLG expenses and all commissions earned by horse racing and local municipalities. Year-over-year, gaming at racetrack sites has been the leading revenue generator for the OLG (and the Province of Ontario).

The 2010 Annual Report of the Auditor General recognized the significance of profits from gaming at racetracks (compared to other casino sites), and OLG reports for current years indicate that the trend has not changed.

Figure 2: Profits Generated by Ontario Gaming Facilities Operated by OLG and Private Operators, 2001/02-2008/09 ($ million)

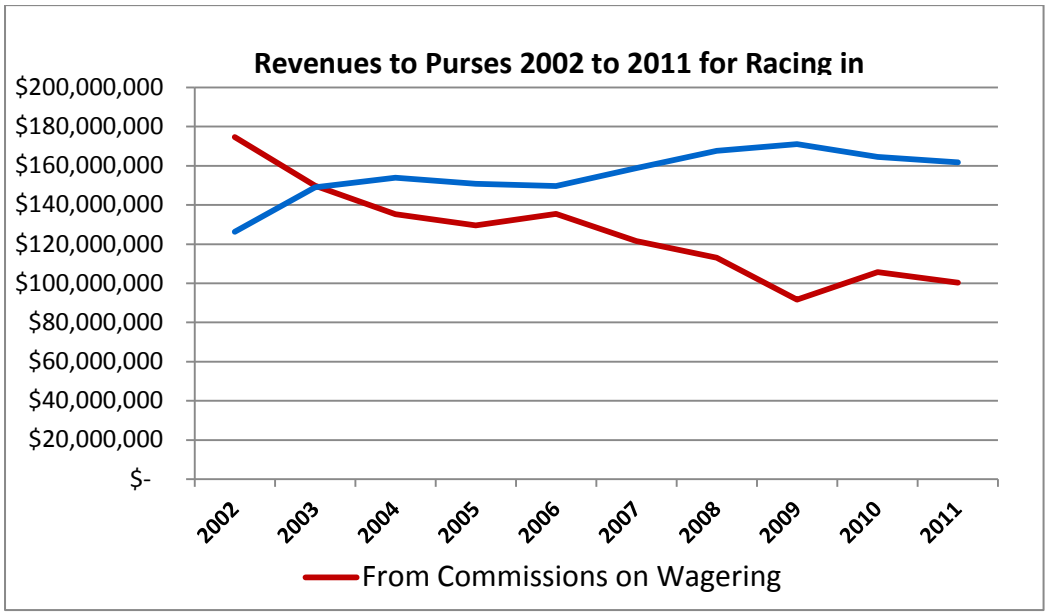
Source of data: Ontario Lottery and Gaming Corporation



The agreement was not entered into lightly by the horse racing industry. The industry had very legitimate concerns that slot machines at racetracks would cannibalize wagering on horse racing. The agreement reached for revenue sharing with the industry (and host municipalities) was intended to offset losses on wagering on horse racing, while providing an instant customer-base on which the OLG could build its business.

The expansion of regulated gaming in Ontario provided significant competition to the market for pari-mutuel wagering on horse racing. However, in the win-win scenario of the SARP, the impact on pari-mutuel wagering revenues was offset by commissions earned from gaming at racetrack sites. The commissions that were earned by the horse racing industry were directly invested into live racing in Ontario.

The level of industry investment achieved with the SARP supported more than 34,800 *person-years* of employment, mostly in rural Ontario, and more than $2.3 billion in annual expenditures for the production, care, training and racing of horses in Ontario. Commissions earned from the SARP provided revenues for racetrack operations, and approximately 60% of the purse value to support this significant economic contribution in Ontario.



The horse racing industry does NOT share the Panel's assessment that "SARP subsidized failure … by supporting racing that does not attract customers." Horse racing customers annually wager approximately $1 billion on horse racing in Ontario. The share of commissions allocated to purses for horse racing has built Ontario into the best horse racing centre in North America. Revenue stability to Ontario horse racing – during a period of significant volatility in the gambling and gaming marketplace – supported confidence in investment in Ontario horse racing and breeding operations. Based on 2010 data, horse owners have an average of $279,000 per owner invested in horses, tack and equipment, and horse-related property improvements to farms in Ontario – more than $2.8 billion in private investment in rural Ontario.

With the significant changes in the gambling/wagering marketplace over the past ten years, the horse racing industry will require significant investment in evaluating the current marketplace (and customer needs) in relation to the pari-mutuel wagering product offered. A Customer-centric approach to analyzing the marketplace and the Customer demand for products, distribution platforms, and new products should be a core focus to moving forward with industry restructuring.

While the purpose of this Plan is not to revisit the decision surrounding ending the revenue-sharing agreements between OLG and the horse-racing industry through SARP, what is important in forward planning is to recognize :

- the value of Ontario racetrack sites as gaming venues
- that the rapid termination of SARP revenues to horse racing has created a significant crisis for employment and investment in the industry, and
- that it will require several years to implement effective change in our industry to achieve sustainability and return to growth.

Horse racing is, by its nature, a hybrid sport and gambling/gaming business. The horse racing business model has distinctive elements that make it unique when compared to other sports and gaming enterprises. The production cycle for our industry reflects the five-year investment cycle for

horse production — measuring the time from investment in breeding through to return on investment at racing that provides a competitive racing product on which customers can wager.

The manner and timeframe with which the Slots At Racetracks Program (SARP) was terminated has created a significant crisis in the Ontario horse racing industry, resulting in:

- **An exodus of investment:** Since 2011, more than 3,000 owners have left the industry, representing approximately $1 billion in investment.
- **Significant loss of jobs:** Since 2011, more than 9,000 jobs have left the industry, mostly jobs in rural Ontario.
- **Substantial reduction in breeding production and breeding capacity:** Since 2011, Ontario mares bred are down by 60%, foals registered from Ontario mares are down by more than 60%, and stallions standing in Ontario are down from 243 (in 2011) to 138 in 2013. The very existence of a viable breeding production sector for Ontario race horses is now in jeopardy.
- **Extreme lack of confidence in investment …** and paralysis of planning for the industry's future.

While in-depth research should be completed to quantify the full impact of the ending of revenue sharing from SARP in 2013, available data indicates the following impacts as at June 2013. (See endnotes for data sources).

Reduction in Ownership Investment: ORC Ownership Licenses Issued (Note 1)

ORC Ownership Licenses	2011	2012	2013	Net Change 2011 to 2013	
				# of Licenses	%
Thoroughbred	3,317	3,117	2,236	- 1,081	-33%
Standardbred	7,614	7,137	5,305	- 2,309	-30%
Quarter Horse	254	317	203	- 51	-20%
TOTAL	**11,185**	**10,571**	**7,744**	**- 3,441**	**-31%**

With an average capital investment per owner (in 2010) of $280,000 (Note 2) this represents approximately $1,000,000,000 ($950,657,958) investment leaving the industry.

Reduction in Jobs in Racing: ORC Licenses for Racing, Operations & Wagering (Note 3)

ORC Licenses for Racing	2011	2012	2013	Net Change 2011 to 2013	
				# of Licenses	%
Thoroughbred	4,143	4,019	3,302	- 841	-20%
Standardbred	8,769	7,760	6,055	- 2,714	-31%
Quarter Horse	620	645	443	- 177	-29%
TOTAL	**13,532**	**12,424**	**9,800**	**- 3,732**	**-28%**

Lower number of Licences issued is an indication of reduction in employment "at racetracks". Of note, an individual person may have an ORC licence in more than one category. Analysis of

individual people that are licensed shows a reduction of 2,634 individuals with licences (comparing 2012 to 2013).

Industry research reports an additional 2.5 jobs, (many of which are held by unlicensed individuals), on-farm for every job at racetracks – jobs in the rural Ontario agricultural sector for the breeding and on-farm care of horses. More than 9,000 jobs have been lost in 2013 (compared to 2012), in Ontario's agricultural sector, resulting from cutbacks in racing activities at tracks, and the related impacts for on-farm breeding, training and care.

In addition to job losses in the horse racing and breeding sector, public announcements related to OLG layoffs from the closing of slots facilities at Fort Erie, Windsor, and Sarnia (in 2012), include an additional 540+ jobs lost.

The Ontario breeding sector was the component of horse racing that felt the earliest impacts of announcements surrounding the ending of SARP revenues to the industry. Data from Standardbred Canada reports the impacts on production (and capacity) for the Standardbred breeding sector (the largest of the three breeding sectors), comparing 2011 to 2013.

Standardbred Breeding Sector: Reduction in Breeding Production and Capacity

Standardbred Canada Reports	2011	2012	2013	Net Change 2011 to 2013	
				Total Change	%
Mares bred — Ontario owners	2,750	1,684	1,100	- 1,650	-60%
Mares bred to Ontario stallions **	4,071	2,884	1,600	- 2,471	-60%
Foals registered by Ontario owners*	1,620	1,445	550	- 1,070	-67%
Mares enrolled in Ontario Programs	1,449	1,517	836	- 613	-42%
Stallions standing in Ontario	134	98	62	- 72	-54%
Standardbred Canada Ontario members	6,038	5,737	4,858	- 1,180	-20%

**Foal registrations for 2013 may not yet be complete as at June 2013. Best estimate 550.*

*** There were over 1300 U.S. owned mares bred in the province in 2011.*

The number of stallions standing in Ontario is down 43% for the Thoroughbred and Standardbred breeding sectors combined, with the reductions primarily coming from the quality stallions participating in the Ontario Sires programs.

The Ontario Standardbred breeding industry has lost more than 40% of its quality broodmare band, and more than 50% of the quality stallions. Restoration of a viable breeding sector for Standardbred racing in Ontario will require significant reinvestment (or new investment) in the industry.

Stallions Registered with Ontario Sires Programs	2011	2012	2013	Net Change 2011 to 2013	
				Total Change	%
Standardbred Stallions	134	98	62	72	-54%

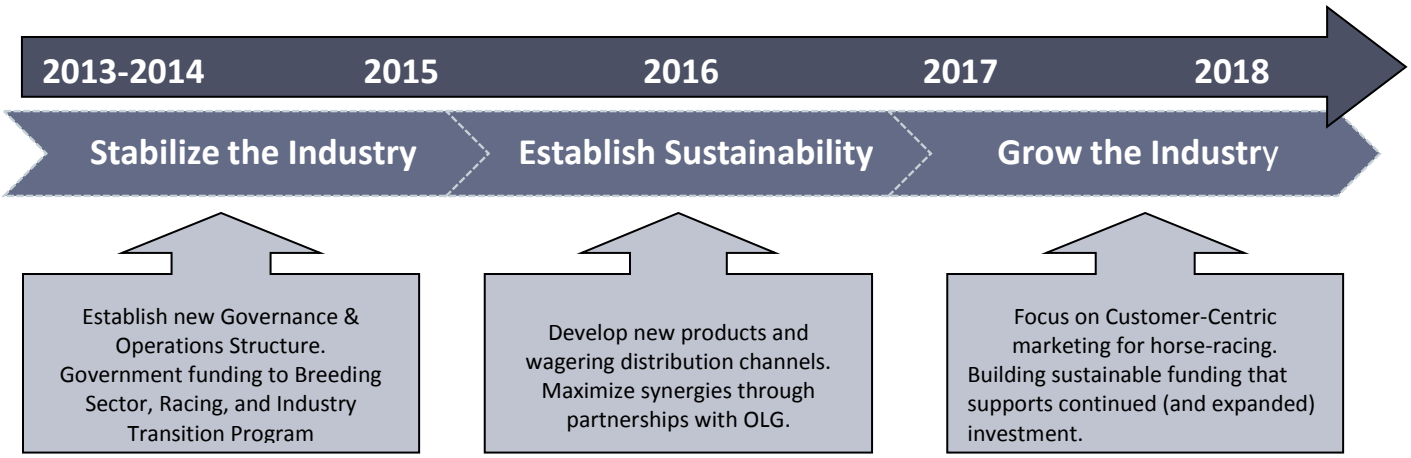
Thoroughbred Stallions	109	101	76	33	-30%
Thoroughbred + Standardbred	243	199	138	105	-43%

It should be noted thoroughbred and quarter horse mares bred and foals registered are not available at this time.

Unfortunately, this may not be the full extent of the cutbacks in horse racing and breeding sectors. In the absence of a clear plan for stable funding over the current business cycle, additional investment and job losses can be expected in 2013/2014.

Recovery for the industry will be a multi-year process that will need to be addressed in three stages:

- Stabilizing the current crisis situation
- Creating structures for sustainability based on a strong pari-mutuel wagering marketplace, and
- Integrating horse-racing into Ontario's Gaming Strategy in a manner that develops new products and marketing channels to support growth.



A NEW GOVERNANCE MODEL FOR THE INDUSTRY

With the ending of the *Slots-at-Racetracks Program* (SARP), **both the horse racing and gaming industries require a new governance and operations model** that enables industry restructuring for long-term sustainability and growth. A new governance and operations model for the horse racing industry should reflect the following Guiding Principles …

1. A governing board that reflects investment by "shareholders" to the industry's activities
   - Industry investment (racetracks, race horse owners, breeding sector, etc.)
   - Government investment
   - Partner investments (such as with the OLG)
2. A key role for the industry in the governance and operations of horse racing moving forward. The role of the Ontario Racing Commission (ORC) should be focused on, and limited to, regulatory issues for horse racing.

3. A governance structure with a mechanism for both cooperative decision-making (between industry, government, the OLG and other partners) and conflict resolution between competing interests.

4. Priority should be given to creating efficiencies within breed sectors, and across horse racing in Ontario. Significant efficiencies could be realized through using the WEG Standardbred Division infrastructure to form the basis of administration, market development and operations for the Standardbred sector moving forward.

5. Creating efficiencies across horse racing in Ontario is NOT achieved through a program for purse pooling and/or revenue redistribution between racetrack, unless agreed to by racetracks.

The **Industry proposes the creation of a *New Governing Body*** for Ontario horse racing with:

- A *Governing Board* of seven members representing investment (Government, Industry, OLG)
- Three *Breed Divisions* (one each for Thoroughbred, Standardbred, and Quarter Horse)

The mechanism for appointing representation to the *Governing Board* should ensure that the Board has the required expertise and skill set to be effective in policy development, government relations, partnering with the OLG, and the development of new products and distribution channels for pari-mutuel wagering.

There should be clearly articulated terms of references that define the level (and limitations) of responsibilities for each group in the *New Governing Body*. Responsibilities for each level in the Governance Model, should be guided by bylaws and/or letters patent for purposes as designed by the founding members (and outlined in Terms of Reference for each group)

New Governance Model for Horse Racing

Seven (7) Person Governing Board

Government Appointed Chair

One (1) representative from Government
One (1) representative from OLG
One (1) representative from WEG
One (1) from Thoroughbred Division
One (1) from Standardbred Division
One (1) from Quarter Horse Division

Thoroughbred Division

Coordination
Race Dates
Market development
Industry Development
Breeding Sector Programs

Standardbred Division

Coordination
Race Dates
Market development
Industry Development
Breeding Sector Programs

Quarter Horse Division

Coordination
Race Dates
Market development
Industry Development
Breeding Sector Programs

The **Board** of the **New Governing Body** will be responsible for:

- Verifying and approving matching fund requests from the Government of Ontario in fulfillment of the agreed upon matching funds formula
- Transparent financial reporting on distribution of all funds received
- Setting goals and objectives for industry performance, and providing transparent reporting to government, stakeholders and the public on performance towards identified goals
- Developing policies that stabilize the industry, ensure long-term sustainability and industry growth
- Establishing horse-racing's role in an Ontario Integrated Gaming Industry (development of new products and distribution channels)
- Policies related to ethics and animal welfare
- Resolving issues that result from the natural competing interests that make up our industry model

It is recommended that the defined Terms of Reference for the **New Governing Body** will include clarification of the model for funds distribution, specifically:

- Where Government funding is received under a "matching-wagering-commissions" model, Government funds should be distributed relative to wagering earned by each racetrack.
- Funds collected through the pari-mutuel tax reduction program, will be allocated to each Breed Division based on a formula that reflects proportional wagering on the Breed
- Funds collected through the wagering levy (for Horse Improvement Program funding) will be allocated to each Breed Division, based on a formula that reflects proportional wagering on the Breed

The respective Breed Divisions (Thoroughbred Division, Standardbred Division, and Quarter Horse Division) will be responsible for:

- Setting race dates
- Herd Improvement Programs and breeding programs that encourage Ontario horse supply
- Marketing and branding specific to each Breed-racing type
- Customer-focused research on customer needs assessment, market deelopment and new product development

While the setting of purse-per-day thresholds for racing will be a function of each Breed Division, the allocation of purses will be a function of agreements at the racetrack level between horsemen and racetrack operators.

Each Breed Division will include participation by the breeding sector, horsemen and racetrack operators involved in the breed-type racing. Industry is in agreement, that representation from the Standardbred breeding sector to the *Standardbred Division*, should be through the SBOA (Standardbred Breeders of Ontario Association).

INDUSTRY STRUCTURE

It is important to note that, while those outside our industry may view "horse racing" as a singular industry, this is simply not the case. The distinctive nature of each of the three Breed Racing sectors is comparable to those in other horse sports – the audience (and customer) for Olympic show jumping is rarely the same as the customer for rodeos.

Each of the three Breed Divisions to the industry have unique factors related to their operations, customer base and production model. While there clearly can be economies of scale and efficiencies developed through cooperation between the Breed Divisions, a "one-size-fits-all" approach is not always applicable.

Within the *Standardbred Division*, the panel proposes to create a Consortium of racetracks (including WEG in a leadership role) to establish a shared operations and market development approach. OHRIA supports the panel's proposed model with the following tracks, (Western Fair, Grand River, Clinton, Hanover, Flamboro, Georgian, Mohawk and Woodbine) to complete a centralized circuit.

In discussions, it was clear that similar arrangements for racetrack consortiums were not applicable to the Thoroughbred or Quarter Horse sectors at this time. However, should future discussions evolve on consortiums between racetracks, such discussions – very technical and logistical in nature – would rest within the respective Breed Divisions.

In the discussions supporting the development of this Plan, Industry was in agreement that significant efficiencies could be achieved if the WEG infrastructure (and experience) was used to form the basis of administration, market development and operations support for Ontario Standardbred racetracks moving forward.

It was further agreed that decisions regarding what racing products are offered at specific racetracks is a business decision for racetracks based on the appropriate business case. Specifically, it was agreed that Standardbred racing should continue at Woodbine Racetrack.

In-depth discussions are required to identify the optimal model for enhancing the *Off-Track Wagering* distribution network and revising the current *Home Market Area* structure for horse racing in Ontario.

Such discussions should be based on the following Guiding Principles:

- Management of off-track pari-mutuel wagering rests with the horse racing industry (does not pass to OLG management).
- The current model for a single ADW provider (HPI) in the Ontario marketplace, entrenches returns from Internet pari-mutuel wagering to the Ontario horse racing industry (as opposed to a for-profit ADW provider). The current model provides significant efficiencies to the off-track wagering framework, and the industry supports the current Account Wagering platform.
- Restructuring the current model for Home Market Areas in Ontario should …
    - Provide the maximum incentive and encouragement for each of the *Breed Divisions*, and for all racetracks in Ontario, to grow pari-mutuel wagering on horse racing
    - Should consider revenue distribution that reflects the efforts (and success) of each *Breed Division* to enhance pari-mutuel wagering on their Breed racing product
    - Should NOT provide a disincentive for racetracks to develop export sales of their Ontario live racing product

As new products for Ontario horse racing are developed (and new distribution channels for pari-mutuel wagering evolve), models for investment and sharing new revenues should follow the same General Principles.

A NEW FUNDING MODEL FOR THE INDUSTRY

With the ending of commissions from SARP to racing, a new funding model is urgently required. The model proposed in this Plan, is outlined to achieve three key objectives:

1. The integration of horse racing into the overall gaming strategy for Ontario in a manner that generates new products and new distribution channels for horse racing
2. A Customer-Centric marketing and product development approach, that maximizes market share for pari-mutuel wagering on horse racing, and
3. Development of secure revenue streams to horse racing (to support re-invigorated investor confidence), in a model that can shift over the five-year business cycle as we move through the stages to stabilize the existing crisis, achieve a level of sustainability, and build the foundation for future growth.

1. Integration of Horse Racing and Gaming:

The **integration of horse-racing into the overall Gaming Strategy for Ontario,** should reflect the following Guiding Principles …

- Integration should be based on an *Integration Plan* that creates the environment for long-term sustainability and growth for both the horse-racing and gaming sectors.

- An *Integration Plan* should recognize that the OLG has a need to enhance gaming revenues, and the best way to do so is through our industry's racetracks (proven performers as gaming sites). A fundamental principle of any model should result in a return on investment to racetracks. Decisions around how gaming is enhanced and expanded at, and around racetracks, should reflect consideration of the impacts on live racing.
- The integration of horse-racing into the overall Gaming Strategy does NOT include OLG management of off-track pari-mutuel wagering. An effective *Integration Plan* would capitalize on developing both OLG and racing's distribution networks.
- While cooperative marketing between horse racing and other Ontario gaming is necessary, the core responsibility for developing the brand and marketing for horse racing rests with the horse racing industry.
- Integration of horse racing into overall gaming should include representation from the horse racing industry to the Governing Board of the OLG.

The industry supports the Panel's assessment that "one of the most important aspects of integration is the use of racetracks as gaming centres. Ontario communities support enhanced gaming opportunities at tracks, and new gaming products can be added to existing facilities quickly and at relatively low capital cost. The panel believes that tapping the potential of racetracks as gaming centres should be a top priority in the integration of horse racing into the provincial gaming strategy."

As Step 1 in the integration process, the existing racetrack gaming sites should be given *preferential consideration* as the operators of enhanced gaming at racetracks. Where a racetrack operator is selected as the operator of an expanded gaming site, there would be a requirement for a commitment to live racing at a level as defined by each Breed Division. A portion of revenues earned through the management of the gaming site would be allocated towards costs of live racing – significantly reducing the costs to government for support to the horse racing industry.

2. Maximizing Market Share for Pari-Mutuel Wagering:

A new funding model for horse-racing in Ontario should reflect the following Guiding Principles:

- Long-term sustainability and growth for horse-racing is dependent on a strong market for pari-mutuel wagering, and a stable business environment that provides confidence in investment. Sustainability and growth is achieved where revenues earned from pari-mutuel wagering belong to the organizations that earn them (i.e. not subject to pooling or re-distribution), unless agreed to by the racetracks.

- Developing markets for pari-mutuel wagering will require significant investment in customer-needs assessments, market demand, branding, marketing and awareness campaigns for horse racing. As a component of an integrated Gaming Strategy for Ontario, horse racing should have access to both marketing expertise and marketing budgets from the OLG.

- Decisions around how gaming is enhanced and expanded should reflect consideration of the impacts on live racing, and pari-mutuel wagering on horse racing.

- A model that ties government funding support to commissions earned for wagering on Ontario live racing will not provide the required funding to stabilize the current crisis in the industry in the short-term. The 50%+ reduction in racing in 2013 has created the situation where the industry has significantly less Ontario live racing product available for sale. With reduced Ontario racing in the short-term, it is expected that a higher percentage of wagering in Ontario will come from wagering on foreign product – a situation that is counter-productive to the intended goal to expand wagering on Ontario live racing.

3. Secure Revenue Streams That Support Investor Confidence:

The industry's funding requirements will shift over the five-year business cycle as we move through the stages to stabilize the existing crisis, achieve a level of sustainability, and build the foundation for future growth. A revised funding model for the industry needs to reflect both the urgent needs of the current industry crisis, and to develop a framework for long-term sustainability and growth.

The breeding sector (all three breeds) is suffering from significant exodus of investment and loss of bloodstock and breeding capacity. The level of funding allocated to breeding sector programs should be considered in the context of – but in addition to – funding for racing (purses and operations).

The industry proposes a funding model that establishes the following timelines for restructured industry revenue streams:

- During the ***Stabilization Period***
  - Government funding should be provided to create a *Breeding Sector Stabilization Fund*, sufficient to stabilize the breeding sector and instil confidence in buyers of Ontario horses. The fund would set a floor to the existing breeding support programs (HIP and QHRIDP), at the level of Program funding in place in 2011.
  - Funding to Racing (operations and purses) that guarantees a purse value threshold per day, and racing opportunities that reflect available horse supply for each breed.
  - Government funding for a *Horse Racing Transition Program* — that recognizes the unique needs of those in the horse racing sector — to provide support to those who have lost employment or suffered significant investment losses, and addresses the equine welfare needs for horses that are now surplus to racing and breeding.

- During the ***Building Sustainability Period***
  - Establish and entrench agreements for revenue to Ontario racing from expanded gaming at racetracks
  - Revenues to horse racing from new products and improved distribution channels
  - On-going government funding to racetracks with limited pari-mutuel wagering

Breeding Sector Stabilization Fund:

Ontario's ability to retain a viable horse-racing breeding sector will require the restoration of investment in the breeding sector, and an immediate injection of confidence for buyers of Ontario horses. Buyer confidence is dependent on a reasonable expectation of return on their investment through purses and racing opportunities over a three-to-five year cycle. Decisions around the level of funding allocated to breeding sector programs should be considered in the context of – but in addition to – funding requirements for racing purses and racing opportunities.

There is significant investment "on-the-ground" in young horses that will be reaching the racetrack during 2013 through 2015, resulting from breeding and investment decisions in the 2010-2011 period (prior to the announcements around ending the SARP).

The *Breeding Sector Stabilization Fund* would set a guaranteed base level to the existing Thoroughbred and Standardbred Horse Improvement Programs and Quarter Horse Breeding Programs, at the level of Program funding in place in 2011, for a minimum three year period (2014 through 2016). This would stop the radical devaluation of horses in the channel, for which investments were made in 2010 and 2011 based on expectation of opportunity of return through to 2016.

Breeding Sector Development Programs	**2011 Value**
Thoroughbred Improvement Program	$19,486,029
Standardbred Improvement Program	$25,066,612
Quarter Horse (QHRIDP) Breeding Programs	$2,663,295
Total Annual Fund Requirement	**$47,156,000**

Funding levels that reflect 2011 Program values would total $47,000,000 per year for each of three years 2014, 2015 and 2016. This is a funding commitment that is required in addition to requirements for racing purses and operations.

Establishing the *Breeding Sector Stabilization Fund* should be coupled with an announcement from government (by late August 2013, in time for 2013 yearling sales), with a broad-based communications campaign. To provide credence to the announcement, communications should include an acknowledgement that there is a crisis in the breeding industry that cannot be easily solved within the timelines for the proposed restructuring model.

OHRIA supports the recommendations put forward by the Breed Sector(s). It should be understood that the funding level of $47 million will not necessarily be invested in the same manner as early year programs. Within each Breed Division, planning for restructuring the respective Breeding Sector programs would be completed – with a focus on regenerating investment in quality bloodstock to ensure a sustainable breeding sector for Ontario.

Funding to Racing and Operations:

The model proposed by The Panel for matching funds to racing that correspond to wagering on Ontario racing, should include a guaranteed purse value threshold per day of racing, and racing

opportunities (days of racing) reflecting available horse supply. A minimum purse-per-day threshold is required, to stabilize the available horse supply and provide full-field race cards that are attractive to the wagering customer. Minimum purse-per-day levels should be calculated as follows:

- Premier – per day: Standardbred $200,000, Thoroughbred $400,000
- Signature – per day: Standardbred $65,000
- Grassroots – per day: to be determined

Close attention and analysis of available horse supply in 2013 (and breeding records for 2011 and earlier years), would provide the required information for calculating the required threshold level for racing opportunities (days of racing) in 2014 through 2016.

Where racetrack operators are successful vendors for the operations of enhanced gaming sites at racetracks, a portion of funding for live racing at those sites should be sourced from revenues earned from gaming (plus earned pari-mutuel commissions). For "racino" operations, there would be a requirement to commit to a level of live racing at the track – as determined by the respective Breed Division. It is the expectation that these racing operations would follow a "not-for-profit" model, where they are required to reinvest surpluses into racing.

Where government determines that integration to Gaming doesn't apply to a specific racetrack, it will be Government's responsibility to decide how (and if) other forms of revenue or subsidy will be made available to those tracks.

Horse Racing Transition Fund:

Recognizing the unique needs of those who have lost employment in the horse racing sector, or have suffered significant losses to investments in farms, horses and agricultural business, a Program should be established to assist with financial hardship and transitioning out of the industry. The radical cut-backs to purses and racing opportunities in 2013, has created a crisis in rural Ontario -- and it is expected that the situation may become worse before improvements are evident.

Existing models for Business Risk Management (BRM) programs for agriculture such as the *AgriInvest* and *AgriStability* programs could provide both a potential model and a funding source for a *Horse Racing Transition Program.* It has been the experience of those from the racing sector that have made efforts to enrol in these programs, that the program criteria do not align with our industry's urgent needs for transition assistance. The *Horse Racing Transition Program* would need to be designed to recognize the unique structure of those in the horse racing and breeding sectors, where revenues are not generated in the traditional agricultural "farm-gate-receipts" structure.

Funds from the *Horse Racing Transition Program* should also be made available to address horse welfare needs for the thousands of horses that no longer have careers in the horse racing and breeding sectors.

CONCLUSIONS:

With this Plan, Industry has responded to the proposals put forward by the Transition Panel's *Plan for Horse Racing in Ontario* with a more workable approach to moving the Industry forward. The

crisis in our industry is urgent, deep, and requires rapid decision-making to stabilize losses of jobs and investment. It should be noted that there is broad consensus within the industry that the most expedient, simple and profitable solution (for both the horse racing industry and the Government of Ontario), would be to establish expanded gaming at existing racetrack sites, with transparency, accountability and performance benchmarks established for revenue sharing between the horse racing and breeding industry and the OLG. A fundamental principle of any model should result in a return on investment to racetracks.

ENDNOTES:

More detailed analysis is required to quantify the precise economic impact of changes in the industry business model resulting from the ending of SARP. A framework for on-going statistical tracking of industry performance and trend data would assist in establishing a performance measurement framework for the industry moving forward.

1. *Investment in Horse Racing and Breeding in Canada* (2012 ©Strategic Equine Inc.) and *2012 Horse Racing in Canada* (©Equine Canada) reports a total of $3.24 billion invested by Ontario horse racing sector owners – an average of $279,238 per owner – in horses, tack and horse-related equipment, and horse-related property improvements. This investment does not include full property/land values (i.e. the market value of the farm), but does include the direct investment in horse-related property improvements.

2. **Licensed Owners / Investment:** Data Source for Licensed Owners – Ontario Racing Commission (ORC). Data includes those with a licence in any Ownership Category. Data for 2013 is as at July 29, 2013. Licenses when issued are valid for the calendar year (for Thoroughbred and Quarter Horse), and for a rolling 12 month year for Standardbred (where licenses are renewed annually on licensees' birthday). Number of Owner licensed issued for 2013 will be higher in December.

   In the normal annual cycle, a percentage of owners will acquire their annual licence in the late summer/autumn period (August through October). Conversely, there are licensees that may acquire an annual licence early in the year, and leave the business at some point in the calendar year – specifically in the current situation where there is significant uncertainty as to purses and racing opportunities in 2013 and future years. As an indicator of general trends for ownership, it is reasonable to assume that the 31% reduction in licensees in 2013 is indicative of "real change" between 2011 and 2013.

3. **Reduction In Jobs In Racing:** Data for on-farm and on-track jobs in racing -- *2012 Horse Racing in Canada* (©Equine Canada). Data Source ORC Licensing information. Data reported includes number of licenses issued for drivers, jockeys, trainers, grooms, occupational, trades, veterinarians, pari-mutuel, association officials (employees of racetracks), and Commission officials (adjudication and judging). An individual person may hold a licence in more than one category. Comparing individual licensees between 2012 and 2013:

Individual Licensees	2011 (Not	2012	2013	Net Change 2012 to 2013

	Available)			# of Licenses	%
Individual TB & QH		5,862	4,970	892	15%
Individual SB		7,054	5,312	1,742	25%
Total All Breeds		**12,916**	**10,282**	**2,634**	**20.4%**

Data of on individual people with licenses (by category) for 2011 was not available at time of writing. However, licensees issued (for jobs at racetracks) decreased by 8% between 2011 and 2012. With jobs at racetracks and on-farm, it is reasonable to estimate that an additional 800 people lost jobs in 2012 (compared to 2011).