Horse Racing Industry Transition Panel

Building a Sustainable Future Together: Ontario's Five-Year Horse Racing Partnership

October 2013

HORSE RACING INDUSTRY TRANSITION PANEL

October 1, 2013

The Honourable Kathleen Wynne
Minister of Agriculture and Food
Government of Ontario

Dear Minister:

We are pleased to submit our Five-Year Partnership Plan for Ontario horse racing, as requested in your letters earlier this year. Based on extensive consultation, this partnership plan reflects our consensus on the actions the government and the industry should now take together to build a dynamic, sustainable horse racing future.

With the completion of this plan, the panel has crossed the finish line on what has been an effort spanning almost a year and half. All along the path we received invaluable advice and assistance from racing's dedicated stakeholders. This plan could not have been created without their help.

We are confident the Five-Year Partnership Plan provides a sound blueprint. But success depends on quick and effective implementation by government and stakeholders working together. The time for consultation and debate is over. Now is the time for action to build a robust, thriving horse racing industry in Ontario.

Elmer Buchanan

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1. Executive Summary

- The Horse Racing Industry Transition Panel has developed this Five-Year Partnership Plan for Ontario horse racing at the request of the Minister of Agriculture and Food, the Hon. Kathleen Wynne. The plan covers the period from April 1, 2014 to March 31, 2019 and reflects a consensus of the three members.

- In the course of its work the panel benefited enormously from public and stakeholder input. In all, more than one thousand individuals participated in the consultation process during the summer of 2013.

- At the outset, the panel acknowledges that horse racing and gaming are highly regulated sectors. Based on our best understanding, this plan is designed to comply with all relevant laws, regulations and authorities.

- The panel's recommendations fall into four areas: industry restructuring, reformed industry governance, public investment, and integration with the provincial gaming strategy.

- The panel calls for the formation of a standardbred racing alliance to operate a world-class racing circuit within a commercially viable shipping area. The alliance should be comprised of eight centrally located tracks: Hanover, Clinton, Grand River, Western Fair, Flamboro, Georgian, Mohawk and Woodbine. One horsepersons group should be created for the alliance tracks by vote of all licensed members.

- In addition to the alliance tracks, regional tracks provide jobs, racing opportunities for younger and older racehorses and valuable entertainment venues for their communities. The panel recommends government support for a coordinated program of regional grassroots racing.

- The panel observes that thoroughbred racing is expensive because of the practice of stabling horses on-track for the racing season. Ontario now has two thoroughbred tracks, duplicating this infrastructure. The best business case for the industry is to consolidate most, if not all, thoroughbred racing at one track – Woodbine.

- While Fort Erie remains a beautiful and historic site, the panel can find no path to sustainability for a full race calendar there. The panel suggests exploring the possibility of a holding a festival meet at Fort Erie – with horses shipped in on race days – in conjunction with regional tourism initiatives.

- The panel endorses the continuation of the current 30 race-day calendar of quarter horse racing at Ajax Downs, supplemented by a limited series of ship-in thoroughbred races.

- The panel recommends a new governance model for the industry. The linchpin will be a central organization, Ontario Live Racing (OLR), to be established as the industry development arm of the Ontario Racing Commission (ORC). OLR should be organized into three breed-based divisions: Standardbred Live, Thoroughbred Live and Quarter Horse Live. The Ontario Horse Racing Industry Association (OHRIA) should continue its role as the advocacy group for the entire industry.

- OLR will be responsible for the channelling of public funds to the industry while ensuring the objectives of the Five-Year Partnership Plan are met. These objectives include accountability, transparency, a focus on the customer and a positive return for Ontario taxpayers. To access public funds, the industry will require the approval of OLR. In the longer term, the goal is to devolve management of the industry to the industry itself.

- Currently, the ORC is primarily a regulatory and adjudicative body. Its board must be restructured to effectively oversee the new responsibilities to manage the industry development side of horse racing. To avoid conflicts, the ORC must build a firewall between its ongoing regulatory role and its expanded industry development role.

- As the ORC's industry development arm, OLR must provide strong leadership to oversee the evolution of a network of racing. OLR must be staffed with the right skills to deliver on this mission.

- The panel has scanned international jurisdictions and found that a viable horse racing industry is not possible without some form of public funding. The panel recommends that the Ontario government invest up to $80 million per year for the next five years – a total of up to $400 million. In all, the five-year government funding available to the industry from rents for Ontario Lottery and Gaming Corporation (OLG) slot facilities, the Pari-Mutuel Tax Reduction (PMTR) and the new investment fund will exceed $1 billion. This long-term commitment will create a stable environment for private investment in the industry.

- The panel recommends continuing the current PMTR, leaving these funds in the hands of the industry. The distribution of this tax benefit should be redesigned to reflect the needs of the Five-Year Partnership Plan.

- The panel projects that the recommended funding level will secure more than 900 days of racing annually with competitive purses totalling more than $125 million – creating one of the most robust racing programs in North America. Future growth will reflect the industry's customer focus and increased commissions from wagering.

- The panel calls for continued PMTR funding of the Horse Improvement Program, which supports the breeding sector – extending the previously announced $30 million a year program to March 31, 2019.

- Under the plan, the Ministry of Agriculture and Food will be charged with responsibility for developing objectives and benchmarks to measure the industry's performance in serving the public interest. The first set of metrics is to be in place by April 1, 2014.

- A key goal of the Five-Year Plan is to strengthen and promote live racing in Ontario – that is, races actually run in the province. Live racing generates a stronger economic impact in terms of jobs on the track, on the farm and in related businesses than do simulcasts of races in other jurisdictions.

- To put a focus on the growth of live racing, the panel recommends allotting the public investment funds to the three breed divisions based primarily on their contribution to commissions from wagering on live racing. As well, tracks will share the province-wide proceeds from non-track wagering on this basis. Furthermore, under the Five-Year Partnership Plan, all tracks receiving public funds will be required to invest the net proceeds of new OLG gaming activities into the support of live racing.

- Betting on horse racing has a long history and the panel believes it is a natural partner in today's provincial gaming strategy. The top priority for an integrated relationship between horse racing and the OLG is to maximize the potential of racetracks as gaming centres by adding new gaming options at these community-friendly venues, where permitted.

- The panel believes racing's off-track betting locations and advance-deposit wagering (ADW) system offer promising opportunities for collaboration with the OLG. To facilitate collaboration, the panel calls for the operation of all ADW in Ontario by a single province-wide provider, and also recommends a single operator for all off-track betting sites. A single off-track operator would be well positioned, where appropriate, to both market existing OLG products and work with the OLG and the industry to develop and distribute new racing-themed offerings, such as a lottery tied to racing results. This approach has been successful in other jurisdictions.

- The panel is very optimistic about the future of Ontario horse racing. It is confident that with a renewed focus on the customer the industry will resume sustainable growth, creating jobs and economic benefits across the province and preserving a valuable social and cultural asset for Ontario communities.

2. The Panel's Mission

The Horse Racing Industry Transition Panel has prepared this Five-Year Partnership Plan to guide a new relationship between horse racing and the Ontario government from April 1, 2014 to March 31, 2019. This plan was developed at the request of the Minister of Agriculture and Food, the Hon. Kathleen Wynne, and reflects a consensus of the three members, who are former Ontario Cabinet ministers.

The panel was originally retained in June 2012 to make recommendations on how the government could help the horse racing industry adjust to the end of the Slots at Racetracks Program (SARP). In two reports, in August and October 2012, the panel found that dependence on slots revenue – a funding source unrelated to wagering by horseplayers – had divorced the industry from its customers and generated artificial and unsustainable growth. Moreover, SARP lacked the accountability and transparency expected today. At the same time, however, the panel concluded that a world-class, sustainable horse racing industry required a measure of public funding, though much less than SARP provided. The government accepted the panel's recommendations for transitional funding, which enabled racing to continue through the 2013-2014 fiscal year, as this plan was developed.

Directions to Panel

In May 2013, the Minister requested the panel to produce a concrete plan to assist the industry in assuming responsibility for its future based on the principles previously articulated by the panel – namely, accountability, transparency, customer focus and a positive return on public investment. After reviewing the industry feedback on the panel's draft plan, she honed her request in September 2013. Specifically, she called for a comprehensive Five-Year Plan reflecting the panel's advice regarding the distribution of race days for each of the three breeds (thoroughbred, standardbred, quarter horse) by category of racing (premier, signature, grassroots), including identifying the tracks where these races should be run and the recommended competitive purse levels – as well as the stable support required for the breeding sector to maximize the economic benefit to Ontario.

The panel was directed to establish the specific amount of recommended government investment required during the Five-Year Plan to achieve a sustainable horse racing industry. The Minister also confirmed that the panel should propose a revised governance structure to accomplish the Five-Year Plan, including the role of the Ontario Racing Commission and industry associations, and also make specific recommendations on how to best achieve the integration of gaming and horse racing in Ontario.

A Productive Consultation Process

The panel developed this Five-Year Partnership Plan through extensive consultation with stakeholders and the public. Four public meetings took place in July – in London, Toronto, Ajax and Ottawa – and the panel held numerous sessions with industry representatives during the summer. Interested parties were invited to submit comments electronically. In all, more than a thousand people contributed to the panel's work. The panel wishes to take this opportunity to thank all those who participated for sharing their knowledge, perspectives and passion for racing.

The consultation process focused on the draft plan released by the panel in late June to stimulate discussion.[1] While the broad directions of the draft plan garnered wide support, the panel has listened to the feedback and the details in this final plan reflect many of the points raised.

A Sustainable Vision

In previous reports, the panel has sketched a vision for a sustainable Ontario horse racing industry that has three dimensions:

- a live racing product that appeals to horse players – with ample race dates, full cards, competitive fields and an attractive pari-mutuel wagering pool

- an Ontario-based breeding industry – for thoroughbreds, standardbreds and quarter horses – including world-class horse improvement programs to enhance the value of Ontario racehorses

- world-class horse racing tracks and training facilities.

The panel's recommendations to the government for achieving this vision can be grouped under four broad headings:

- Restructuring the Horse Racing Industry
- Reforming Industry Governance
- Public Investment in Racing
- Integrating Horse Racing into Ontario's Gaming Strategy.

The Five-Year Partnership Plan outlined below is organized along these lines.

Regulatory Framework

At the outset, the panel acknowledges that gaming and horse racing in Canada are highly regulated, falling under both federal and provincial laws and regulations.

The Canadian Pari-Mutuel Agency (CPMA) within Agriculture and Agri-Food Canada regulates and supervises pari-mutuel betting on horse racing across Canada. The CPMA:

[1] Toward a Sustainable Future – a Plan for Horse Racing in Ontario – Draft for Consultation. June 2013.

- tests and monitors all computerized betting tote systems;
- audits the distribution of pay-out prices;
- conducts investigations into questionable activities;
- enforces betting regulations/policies and ensures compliance;
- operates the Equine Drug Control Program.

At the provincial level, the Ontario Racing Commission (ORC) has a mandate to direct, govern and control the horse racing industry and ensure public confidence in the honesty and integrity of the sport. Its core regulatory functions include:

- officiating at all races – judges and/or stewards are provided to supervise races at each licensed track
- approving race dates
- investigations and compliance
- licensing individuals directly involved in racing
- adjudicating appeals from rulings of judges, stewards or the director
- holding public hearings on administrative issues, including obtaining input into programs or policies
- oversight of racetracks, including annual licensing and review of business plans
- oversight of purse trust accounts and their distribution
- implementing any mandate given to it by the Lieutenant Governor in Council.

A different regulatory regime governs other gaming sectors, such as lotteries, slot machines and casinos, again at both the federal and provincial levels. The panel recognizes that this framework must be respected in the course of integrating horse racing with the activities of the Ontario Lottery and Gaming Corporation (OLG).

The panel believes that implementing this Five-Year Partnership Plan does not require immediate legislative changes at either the federal or provincial level. The plan is intended to comply with all relevant laws, regulations and authorities.

3. Restructuring the Horse Racing Industry

Background

Horseracing in Ontario includes three breeds with distinct roots and different practices.

Standardbred racing originated at fall fairs in rural Ontario, with some harness races dating back to the 18th century. This type of racing – where horses pull a cart with a driver – continues to attract participation on a broad footprint that covers much of rural Ontario.

Standardbreds are durable horses and are able to race more often than other breeds. They need frequent race opportunities and it is the practice to ship horses to the track on race days, as opposed to having them reside on track.

In contrast, thoroughbreds are ridden by jockeys, and thoroughbred racing is built on a tradition of horses residing on track during the racing season. The horses require relatively long rests between races, necessitating race opportunities spread over a lengthy calendar.

On-track stabling entails considerable expense. As a result, thoroughbred racing is restricted to fewer venues. There are currently two licensed thoroughbred racetracks in Ontario.

Quarter horse racing is a newer industry in Ontario, but still goes back several decades. The long-time sole venue for quarter horse racing is Ajax Downs, the home of the sport's patrons, the Picov family.

Quarter horses are similar to thoroughbreds, but they run a shorter distance and generally require less rest time. Quarter horses train off track and ship in for races.

The breeding sector produces the equine athletes – the racehorses – and there are significant differences between breeds here as well. Specifically, artificial insemination can be used in standardbred and quarter horse breeding, permitting the shipment of semen, while the thoroughbred industry restricts breeding to live cover. This difference affects the nature of the breeding industry and the required supports.

In addition to different breeds, Ontario racing operates at different levels, namely:

- Premier – the best horses running for relatively large purses
- Signature – horses running for lower purses as they transition in or out of premier races
- Grassroots – racing for very young and unproven horses or older horses that are not competitive in premier or signature races.

The thoroughbred sector hosts premier and signature races, while standardbred racing includes all three levels. (These levels are not currently used in quarter horse racing.)

Standardbreds

<u>A Racing Alliance</u>

Reflecting the origins of the sport, standardbred racing is conducted at a variety of tracks and levels of competition. This wide scope creates the potential for a province-wide network of racing.

Horsepersons have informed the panel that the unique requirements of standardbred racing, including shipping in for races and the need for frequent racing opportunities, necessitate a co-ordinated racing circuit that is commercially viable (generally within a two hour drive).

The panel has encouraged the formation of an alliance of tracks to conduct most premier and signature standardbred racing in Ontario. These tracks lie within the region of the province with the greatest horse supply and are also within a commercially viable haulage distance for industry participants. As well, they account for most of the wagering on Ontario standardbred racing. Horseplayers expect deep wagering pools (so last-minute bets will not dramatically alter the odds) as well as competitive racing cards. These expectations can be met only within a dense sector of racing.

Horsepersons groups represent the industry participants who own, train and ride or drive racehorses. Ontario currently has four standardbred horsepersons organizations. The panel believes the horsepersons groups at the alliance tracks should consolidate through a vote of all licensed members. This single group should negotiate an agreement with the alliance tracks for the sharing of revenues – a requirement under the pari-mutuel wagering system – and provide member benefits.

The panel's draft plan proposed ending standardbred racing at Woodbine and making Mohawk the anchor of the circuit. As the panel anticipated, this suggestion proved controversial. The panel has been persuaded by the argument that standardbred racing benefits from a strong year-round presence in the Toronto market, and therefore recommends continuation of standardbred racing at Woodbine.

Recommendation:

- ***Work with the industry to support the development of a standardbred racing alliance to operate a world-class racing circuit within a commercially viable shipping area. The alliance should be comprised of eight centrally located tracks: Hanover, Clinton, Grand River, Western Fair, Flamboro, Georgian, Mohawk and Woodbine. One horsepersons group should be created for the alliance tracks by vote of all licensed members.***

Regional Tracks

Standardbred racing also has an historic base outside of the alliance tracks. Regional tracks feed young horses into the alliance tracks and offer a venue for older horses to continue racing. Each of the regional tracks serves a unique market segment. Moreover, these regional tracks are important venues within their local communities for employment and entertainment.

Regional tracks typically do not attract enough wagering to cover track operations and meaningful purses. They tend to offer a limited, summer-only schedule of racing at the grassroots level. Regional markets are currently found in Ottawa, Peterborough, Sudbury and Southwestern Ontario.

The special needs of regional tracks require a flexible, co-ordinated program. In some parts of Ontario a regional racing series between tracks may reduce costs and increase fan participation. With good planning, festival racing can support local events and it may be possible to share infrastructure within a region.

There are horsepersons organizations in Ottawa and Sudbury. If these regional groups continue, consideration should be given to centralizing member benefits with the alliance horsepersons organization to achieve cost savings.

Recommendation:

- ***Work with the industry to support a series of standardbred races at regional tracks.***

Thoroughbreds

In the thoroughbred sector, Woodbine currently hosts all premier races while Woodbine and Fort Erie both offer signature races.

While thoroughbred racing attracts the highest wagering from horseplayers, it is the most expensive form of racing, largely due to the practice of on-track stabling. This cost is exacerbated with two tracks duplicating infrastructure.

The Fort Erie track has played an esteemed role in Ontario’s racing heritage, but over the last decade meeting its financial needs has been a challenge. For years, additional provincial funding, over and above SARP, has kept this track open. Despite the best efforts of a dedicated Fort Erie racing consortium to boost fan attendance and wagering, maintaining a backstretch in Fort Erie places a difficult economic burden on the industry. Moreover, Fort Erie has struggled to attract an adequate horse supply to meet the demands of a 40 race-day calendar.

Consolidating most, if not all, thoroughbred racing at one track, Woodbine, represents the best business case for the industry and the taxpayer. Reducing overheads and increasing the exposure to horseplayers in the larger Toronto market would provide more racing opportunities and higher purses than does the two-track alternative. Woodbine has the capacity to accommodate the horses currently racing in Fort Erie.

Fort Erie remains a beautiful and historic venue for racing. While track operating costs, including the redundant stabling facilities, are prohibitive on a full race-calendar basis, consideration should be given to hosting a ship-in festival meet at Fort Erie. Perhaps this could be done in conjunction with tourism initiatives in the region. One could easily imagine this festival culminating in the historic Prince of Wales Stakes.

The alternative to a festival meet would be continuation of a 40 race-day program at significantly reduced purses, with operating costs subsidized through a reduction in thoroughbred purses and races offered at Woodbine. The panel does not support this alternative.

Fort Erie Proposal

The panel recently learned of a proposal by the Fort Erie Live Racing Consortium (FELRC) to host 40 race days per year. This proposal put the cost of producing these races at $7.9 million annually. In addition to the costs identified by the FELRC, the panel believes capital improvements of at least $1 million per year are required at the Fort Erie track. Beyond these sums, a fair comparison with providing all thoroughbred races at Woodbine must reflect the lost opportunity for higher wagering at Woodbine. The panel believes a reasonable estimate of the lost wagering revenue is $2.5 million annually.

Weighing all these elements, it is reasonable to assume that the total cost of producing 40 race days per year at Fort Erie, including capital improvements and provision for lost wagering, is about $11.4 million annually. All in all, the panel believes an investment of public funds of this magnitude in the Fort Erie track would not reflect good public policy.

Racing at Woodbine receives stronger support from horseplayers and creates more net investment and employment opportunities. While Fort Erie does create on-track jobs, the panel notes that the required funding of $11.4 million would support a payroll of only $3 million. It is the view of the panel that this does not meet the test for a positive return for Ontario taxpayers.

In short, the panel can find no path to sustainability for a resident racing program at Fort Erie. Supporting a racing season at Fort Erie is not consistent with a sustainable horse racing industry. The panel believes the public and the industry are better served with one resident thoroughbred track, Woodbine.

At the same time, the panel urges the government to work with the FELRC to develop an alternate and sustainable business plan based on the festival concept mentioned above.

Recommendation:

- ***Work with the industry to support a full season of signature and premier thoroughbred racing at Woodbine.***

Quarter Horse

Quarter horse racing in Ontario takes place at one track, Ajax Downs, on a ship-in basis. The supply of quarter horses in Ontario and the limited uptake of quarter horse racing by horseplayers undermine the business case for a race calendar beyond the currently scheduled 30 days. Moreover, quarter horse racing is not a vigorous part of the racing industry in the northeastern United States and, consequently, Ontario quarter horse owners and breeders do not benefit from racing opportunities in neighboring jurisdictions.

Each Ontario racetrack except Ajax Downs has a home market area (HMA) assigned under its racing licence and receives a commission on non-track wagering in its area. This arrangement has placed quarter horse racing at a disadvantage. The panel reiterates its proposal in the draft plan to consolidate the individual HMAs into one, with the entire province considered a single market area for purposes of non-track wagering.

The panel believes that exposing the quarter horse product to more horseplayers will attract more wagering. To that end, quarter horse racing opportunities should be tried at Woodbine. Moreover, neighbouring northeastern U.S. states do not have live quarter horse races or permit simulcast imports of this kind of racing. The panel understands that coupling limited thoroughbred racing at Ajax Downs with the quarter horse program would allow the track to export its quarter horse racing signal.

Despite the difficulties, quarter horse racing in Ontario has attracted a loyal fan base and enthusiastic owners and breeders. The panel therefore endorses continuation of the current 30-day race calendar at Ajax Downs. Purse support for these races should be provided by on-track wagering revenue from quarter horse racing and a share of revenues derived from non-track wagering across the province. Operational support should come from commercial rents from the OLG for the slots facility at Ajax Downs.

Recommendations:

- ***Work with the industry to:***
    - ***support a calendar of 30 days of quarter horse racing at Ajax Downs***
    - ***support the introduction of limited quarter horse racing at Woodbine***
    - ***support a limited series of thoroughbred races at Ajax Downs.***

A Work Force in Transition

As the panel has observed previously, the horse racing industry began a period of transition with the announcement of the cancellation of SARP. Many jobs, especially in the breeding sector, have been lost. The panel believes that the Five-Year Partnership Plan will stabilize the industry at current levels and provide a base for future growth, although there may be further local adjustments.

While the panel is optimistic that the industry will begin to grow again as the Five-Year Plan gains momentum, many people who can no longer find work in the industry need assistance. Employment Ontario programs delivered through the Ministry of Training, Colleges and Universities (MTCU) focus on both individual workers and the communities where they live. The Ontario Ministry of Agriculture and Food (OMAF) has worked with MTCU to ensure that all Employment Ontario offices are aware of the changes occurring in the horse racing industry. OMAF is also working with the Ontario Horse Racing Industry Association to establish an effective gateway to provide access to, and information about, existing government programs and services that can help individuals and businesses adjust.

Information about Ontario government programs and services that may support the transition of horse racing workers or aid with farm business transition can be found in the appendices of the panel's October 2012 report.

4. Reforming Industry Governance

Given the industry's complexity, as described above, each breed deserves and requires its own management structure. At the same time, however, the industry as a whole has functional areas – such as marketing, public investment, race co-ordination, responsible gambling and equine welfare – that cut across all breeds and require industry-wide management.

The panel therefore reiterates its proposal for a new governance model for the industry. The linchpin will be a central industry-wide organization, Ontario Live Racing (OLR). OLR will be established as the industry development arm of the Ontario Racing Commission (ORC). OLR will consult with stakeholders before making funding decisions and will be organized into three breed-based divisions:

- Standardbred Live
- Thoroughbred Live
- Quarter Horse Live.

Recommendations:

- ***Create a new industry development arm of the Ontario Racing Commission (ORC), to be known as Ontario Live Racing (OLR), to provide overall management of the horse racing industry. OLR should employ a consultative process with stakeholders prior to making funding decisions.***

- ***Administer thoroughbred, standardbred and quarter horse racing through separate breed divisions.***

Role of Ontario Live Racing

The government has recently completed an independent review of the ORC. The panel has received the report and its findings have contributed to the panel's thinking on industry governance. The report is available on the OMAF website www.ontario.ca/horseracingtransition.

In addition to regulatory functions, the ORC currently performs limited industry development roles – such as determining race dates and venues and managing the Horse Improvement Program (HIP). The panel proposes to base the ORC's non-regulatory roles in OLR. The ORC's regulatory functions and powers are unaffected by the Five-Year Partnership Plan.

OLR will serve as the conduit for public investment in the industry. It will ensure a fair process for developing the racing calendar and purse levels proposed by the breed divisions, and will review and approve the calendar and submit it for regulatory approval. OLR will also coordinate the race calendar and purses for regional standardbred tracks receiving public funds. As well, it will coordinate the centralized marketing of the Ontario racing product, and take the lead in promoting equine welfare and responsible gambling initiatives for pari-mutuel customers.

Key Priorities

To be sustainable, the industry's growth must be market-driven. The future sustainability of horse racing depends first and foremost on the growth of wagering. The panel underlines OLR's crucial role in aligning the industry's efforts to grow the market for live Ontario racing.

To this end, OLR will work with the industry to develop a province-wide marketing plan to boost wagering on Ontario racing, attract new fans, enhance promotional and advertising revenues and increase the international uptake of the Ontario racing product. To assist with these endeavours, a consumer perspective will be invaluable and OLR should seek meaningful input from representatives of the horseplayer community.

In previous reports, the panel has emphasized the key issue of equine welfare. This is in fact closely related to marketing since the public will not support an industry that is unwilling or unable to prevent substandard animal care, limit injury or provide for a full life expectancy. The panel believes standards of care must go beyond regulatory requirements and be implemented through OLR and its breed divisions. For guidance on the ethical treatment of the equine athlete, OLR should obtain advice from experts, including a practising equine veterinarian and a sports ethicist.

Recommendation:

- ***OLR should obtain input from horseplayer representatives to gain a consumer perspective, and seek advice from experts on equine welfare issues.***

Divisional Roles

Each division must take into account the needs of tracks, breeders and horsepersons working together. The panel believes the divisions have the capacity to determine the mix of racing opportunities and purse levels that will best utilize the horse supply, maximize wagering and improve the fan and horseplayer experience. The divisions will therefore develop the racing calendar and work with the respective tracks and horsepersons to arrange a split of purses and track operating funds, subject to OLR approval. They will also be expected to organize local marketing initiatives and develop a robust life-cycle plan for all horses in their breeds.

For greater clarity, the divisions will create their own plans, but to access public funding those plans must be approved by OLR. This deliberate design will allow for prior consultation and timely decision-making. It goes without saying that none of this supersedes the ultimate authority of the regulators, namely the CPMA and the ORC.

As discussed below, the panel anticipates that the management of horse improvement programs can eventually be devolved to the breed divisions. The panel is confident that, as the Five-Year Partnership Plan proceeds and the industry builds collaborative relationships, further responsibilities can also be shifted from OLR to the divisions. The ultimate goal is for the industry to become fully self-managed.

The panel has reviewed the response by the Ontario Horse Racing Industry Association (OHRIA) to the draft plan. In it, OHRIA proposed a representative board structure for OLR that would embed stakeholder groups into decision-making. The panel is firm in its view that OLR must consult with the industry but that the ultimate responsibility for the $400 million of public funds to be invested under this plan must rest solely with government.

The panel believes that the appropriate role for OHRIA going forward is to continue to be an advocate for the entire horse racing industry with both the public and the government.

ORC Skills and Funding

The ORC is currently designed primarily as a regulatory and adjudicative body. Its board should be restructured to effectively oversee the expanded responsibility to manage the economic development aspects of the industry. The regulatory and industry-development operations of the ORC should be firewalled to prevent overlap and potential conflict between these distinct functions.

As the ORC's industry development arm, OLR must provide the leadership, acumen and skills to oversee the evolution of a coordinated, market-focused network of racing. OLR must be staffed with the right talent to deliver on this mission.

The ORC is currently funded by a combination of fines, fees and a percentage of wagering. The panel believes it would be more appropriate to fund the ORC through a fixed annual budget approved by OMAF, with revenues returned to the provincial treasury. This change would require legislative amendments, which are not feasible in the short term but which should be considered later, perhaps when the Five-Year Plan is reviewed.

In any case, the ORC should take immediate steps to align its cost structure with best regulatory practices. The recent review of the ORC found that its costs per race day were out of line with other jurisdictions, given the decline in Ontario race days over the past two years. Action must be taken to reduce the cost burden, which places the Ontario industry at a competitive disadvantage.

Recommendations:

- ***Restructure the ORC board to reflect the additional skills required to oversee the industry development side of horse racing.***

- ***Firewall the ORC's operations into distinct regulatory and industry development functions. Ensure the industry development arm – OLR – possesses the leadership capabilities to develop the Ontario racing network and implement the Five-Year Partnership Plan.***

- ***The ORC should take immediate action to reduce regulatory costs per race date to a level competitive with other jurisdictions.***

5. Public Investment in Horse Racing

As the panel has emphasized in previous reports, a robust horse racing industry requires some form of public support. The panel has recommended four public-policy principles to guide future government investment in horse racing: accountability, transparency, a positive return to taxpayers and a market-driven customer focus. In the transitional 2013 racing season the province invested in racetracks subject to an external audit of individual track operating costs. This funding enabled racing to continue and met three of the four policy objectives.

However, the direct funding of racetracks based on cost recovery does not focus the industry on building the customer base of horseplayers and fans. In the draft plan, the panel suggested tying all public investment to a match of commissions earned from wagering by horseplayers. In this final plan, the panel builds on this theme by providing funds based on a match of wagering commissions, while meeting the industry need for a stable, long-term funding commitment.

To this end, the panel recommends an initial fixed annual public investment of up to $80 million for the next five years – totalling up to $400 million over the term of the plan. This investment should be subject to a three-year review to ensure that public-policy objectives are being met, and should be renegotiated during the fourth year for a subsequent five-year period.

These funds will mainly help cover purses and the direct costs of live racing, while a portion will support industry-wide initiatives. Importantly, these funds are not for major capital projects.

The panel believes that 90 per cent of the public funding should be distributed toward the standardbred alliance tracks as well as Woodbine (thoroughbred) and Ajax Downs (quarter horse). The flow of this funding will be predicated on: a strong business case; the production of live racing for competitive purses at specified venues; the development and execution of plans to enhance the fan and horseplayer experience and build local support for racing; and the investment into live racing of any net earnings by the industry from integration with OLG gaming.

The other 10 per cent of public funding should be allocated toward the regional components of the industry, based on: a strong business case, the past race calendar, local wagering and support from the track or municipality. Funds should not be used to overcome local horse supply issues. Limited funding could also be allocated for a festival thoroughbred meet in Fort Erie as discussed above.

In addition, the panel recommends continuing the current Pari-Mutuel Tax Reduction (PMTR) equivalent to 6.9 per cent of pari-mutuel wagering. However, the distribution of this tax benefit should be redesigned, prior to April 1, 2014, to reflect the needs of the Five-Year Partnership Plan. The projected value of the PMTR this year is about $52 million.

Racetracks are also receiving about $102 million a year from the OLG for the commercial rent of slot facilities. Combining the PMTR, the OLG rents and the new investment funds, more than $1 billion in public money will be available to the horse racing industry over the next five years.

Fostering a Stable Investment Climate

As the panel observed in the draft plan, the recommended annual public investment combined with the PMTR is roughly in balance with industry commissions from pari-mutuel wagering and therefore reinforces, but does not exceed, the dictates of the marketplace. At the same time, the panel has heard the industry's concerns about the draft proposal to vary the level of public funding from year to year, based on the rise or fall of pari-mutuel commissions.

The panel is persuaded that stable public funding is needed to encourage private investment in the industry and therefore opts for a fixed annual government commitment over five years. Based on consultation with the industry, the panel projects that the recommended public funding will secure more than 900 days of racing annually, with competitive purses totalling more than $125 million. This level of activity will make Ontario's horse racing program one of the most robust in North America. With stability assured, the industry can achieve vibrant growth by meeting the needs of its wagering customers.

As noted in the section on governance, Ontario Live Racing will be responsible for channelling the annual public investment of up to $80 million to the industry. OLR will also approve the redesign of the PMTR distribution.

A major aim of this Five-Year Partnership Plan is to strengthen and promote live racing in Ontario – that is, races actually run in the province. Live racing generates more economic impact in terms of jobs on the track, on the farm and in related businesses than do simulcasts of races in other jurisdictions. Accordingly, OLR will distribute the public funds for the alliance tracks, Woodbine (thoroughbred) and Ajax Downs (quarter horse) to the three breed divisions based primarily on their contribution to wagering commissions from live racing.

Within each breed division, public funds will be shared through agreement of the tracks and horse people, subject to approval by OLR. OLR will provide funding for regional racing through an application process with the tracks. All races dates and purse levels will continue to be subject to ORC regulatory approval.

Recommendations:

- ***Provide public funding of up to $400 million over five years to the horse racing industry, subject to appropriate benchmarks and agreements.***

- ***Review the government's funding commitment after the third year of the plan, with a view to renewal for a further five years if public policy objectives and benchmarks have been achieved.***

- ***Put a focus on live racing by allotting public funds to the three breed divisions through OLR based primarily on their contribution to commissions from wagering on live racing.***

- ***Require each racetrack to have a plan to build the fan base and optimize community and commercial support for racing as a condition for receiving public funds.***

- ***Fund a racing series at regional tracks on the basis of the historic racing calendar, horse supply, local wagering and support from the track or municipality.***

- ***Provide limited funding for a festival thoroughbred meet in Fort Erie in conjunction with regional tourism activities.***

- ***Retain the Pari-Mutuel Tax Reduction (PMTR) but redesign the distribution of this tax benefit to reflect the needs of the Five-Year Partnership Plan.***

Ontario's Estimated Annual Purses and Race Dates – 2014-2018

Racing Category	Purses (million)	Race Dates (#)
ALLIANCE /THOROUGHBRED/ QUARTER HORSE TRACKS		
Thoroughbred – Premier	$56	133
Thoroughbred – Signature	$3.9	35
Standardbred – Premier	$37	183
Standardbred – Signature	$22.8	380
Standardbred - Grassroots	$1.05	30
Quarter Horse	$2.25	30
REGIONAL TRACKS		
Standardbred - Grassroots	$5.4	180
TOTAL	$128.4	971

NOTE: Chart does not include purses under the Horse Improvement Program.

Measuring Performance

SARP funds were paid to the industry without any reference to performance – or any requirement to disclose results. These mistakes must not be repeated.

OMAF will be responsible for developing a performance measurement framework for OLR to implement. OMAF will formulate clear objectives and benchmarks to show that the government funding to the industry is in the public interest. Specifically, performance measures will indicate whether the principles articulated by the panel to govern public investment in the industry – accountability, transparency, customer focus and positive return to taxpayers – are being respected. The panel underlines that an initial set of metrics must be in place by April 1, 2014, with fine-tuning if necessary in the following months. OLR will track results and file regular progress reports, at least once a year, so that the public knows who is receiving public money and what is being done with it.

The panel feels strongly that the ORC must up its game with regard to public information and stakeholder communications. To encourage this, the panel recommends that OMAF revise its accountability agreement with the ORC to put more emphasis on communications and transparency. Information of interest to the public or stakeholders, including reasons for decisions, should be released on a timely basis. Accountability and transparency are closely linked because the former cannot exist without the latter. These principles will be hallmarks of the new partnership between government and horse racing.

Recommendations:

- ***Through the Ontario Ministry of Agriculture and Food (OMAF), develop objectives and benchmarks to measure the industry's performance in serving the public interest, with an initial set of metrics in place by April 1, 2014.***

- ***Revise OMAF's accountability agreement with the ORC to put more emphasis on transparency and timely communications.***

Support for Horse Improvement

Many competing jurisdictions provide breeding incentive programs that offer restricted races and purses for locally bred horses. The goal of these programs is to encourage the local breeding of horses by enhancing the value of yearlings.

The Horse Improvement Program (HIP) supports Ontario breeders through breeder awards, supplemental purses for Ontario-bred horses in some races and a series of races restricted to Ontario bred-horses. The program has standardbred and thoroughbred components. HIP is funded by a share of the PMTR. In 2013 HIP funding was topped up to $30 million by a direct government investment. There is also a similar program for quarter horse breeders – the Quarter

Horse Racing Industry Development Program (QHRIDP) – which also receives funds from the PMTR.

Supply, race opportunities and purses affect the value of yearling horses. With the reduction of race opportunities, yearlings are in oversupply in 2013. This is having a detrimental effect on yearling prices. Conversely, an Ontario network of racing with a five-year public funding commitment should have a positive effect on yearling prices in 2014-2019. Yearlings will likely be in undersupply in these years and prices should benefit.

Initially, the panel proposes that OLR design, operate and determine the funding for the horse improvement programs for all three breeds, in consultation with the relevant stakeholders. The panel recognizes that this is an interim solution.

Ideally, the panel believes that horse improvement programs should be devised and managed at the division level, with the mix of purse supplements, breeder awards and restricted races determined by each breed. The logical choice to run these programs is the respective breed division: Standardbred Live, Thoroughbred Live or Quarter Horse Live. Each division should consult with tracks, breeders and horsepersons organizations. Moreover, the panel believes each division should decide whether to top up funding beyond what the PMTR provides, by accessing other public funding through OLR. The Five-Year Partnership Plan includes enough public funding to maintain a $30 million HIP program. QHRIDP will also continue to receive PMTR support. Over time, the panel expects that most or all of the responsibilities for horse improvement can be devolved to the breed divisions and funding can be provided through increased wagering revenue.

Recommendation:

- ***Continue to provide funding to the Horse Improvement Program from the PMTR and top up to $30 million as required.***

- ***Assign OLR to design and manage horse improvement programs until the industry is ready to assume these responsibilities.***

6. Integrating Horse Racing into Ontario's Gaming Strategy

As a longstanding betting product in Ontario, the panel believes that horseracing should be an integral part of Ontario's modern gaming strategy. The distinction between horse racing and other forms of gaming such as lotteries reflects the regulatory regime, not the marketplace.

One of the questions the panel was most frequently asked during the consultations was what an integrated relationship between horse racing and the Ontario Lottery and Gaming Corporation (OLG) would look like. The panel believes that integration has a number of aspects.

Racetracks as Gaming Centres

First, racetracks provide well-accepted, community-friendly venues for other forms of gaming, currently limited to slot machines. The core of integration is the optimization of these venues for the mutual benefit of racing and the provincial treasury. To realize the potential of racetracks as gaming centres, the panel believes the gaming experience at racetracks should be enhanced, for example, through the introduction of new gaming activities, where permitted, at these sites.

The new revenue derived by tracks from OLG gaming can contribute to a thriving and growing racing industry. The Five-Year Partnership Plan assumes that these extra revenues will be invested in support for live racing.

Non-Track Wagering Networks

A second aspect of integration concerns non-track wagering. The advance-deposit wagering (ADW) system – which includes online and telephone betting – and the array of off-track wagering sites represent key distribution channels for the industry. Currently, one provider, Woodbine Entertainment Group (WEG) – through HorsePlayer Interactive – supplies ADW services across Ontario. One track, Ajax Downs, has recently applied to use an alternative ADW supplier. There are also three networks of off-track betting sites, the largest operated by Woodbine.

The panel sees great potential for collaboration between horse racing and the OLG in the use of these distribution channels. To facilitate such collaboration and to provide certainty, the panel believes that one supplier should be chosen to operate all ADW services in the province for the next five years. In addition, one supplier should run all off-track betting sites in Ontario for the next five years. The government should work with the ORC to select these suppliers.[1] The panel notes that WEG has offered, subject to negotiation, to provide both services on a not-for-profit basis. All tracks would be expected to join these province-wide networks as a condition for obtaining public funds.

As the OLG continues its modernization strategy, including online gaming, the panel believes the province-wide ADW platform could be coordinated within the overall gaming mix to create the best possible customer interface and thereby generate more revenue for both racing and the OLG. This arrangement would have to be carefully designed to conform to legal and regulatory requirements governing horse racing and other forms of gaming.

As well, the off-track wagering network could be used to distribute new racing-themed products, such as historical horse races[2] or race-based lotteries, as well as existing OLG products. The panel believes new products can be developed and delivered most cost-effectively through a coordinated effort among the OLG, OLR, racetracks and the off-track wagering operator. The net revenues from this collaborative effort – that is, from new racing-themed products as well as

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[1] Since off-track venues are federally regulated, creation of a single province-wide system may require federal approval.
[2] In historical horse racing, players bet on the outcome of unidentified past races through an electronic terminal.

from existing OLG products sold through the off-track network – would be equitably shared by the OLG and the racing industry. Again, care must be taken to respect legal and regulatory boundaries.

As noted earlier, the benefits of non-track wagering have been directed to individual tracks by way of a home market area (HMA) reflected in the racing licence. This policy has left one track, Ajax Downs, without an HMA and some regions have been underserved. As mentioned above, the panel recommends that the entire province be considered one home market area. This should be served by the single ADW system and the single off-track wagering network. The net revenues from non-track wagering should be shared industry-wide based mainly on contribution to commissions from wagering on live racing – providing a strong incentive for tracks to increase wagering and support live racing.

Sharing Market Research

A third aspect of integration between horse racing and the OLG concerns market research, an area where the OLG has significant expertise. To retain its current customers and attract new ones, horse racing must improve the on-track experience. With this in mind, the OLG has recently completed an in-depth market survey and jurisdictional review. Summaries of these studies can be accessed through the OMAF website www.ontario.ca/horseracingtransition. The research finds a mentoring program and direct exposure to horses at an early age can be key factors in drawing new fans to racetracks. The panel believes OLR, in discharging its marketing responsibilities, should act on this information and work with tracks to bring new programs and practices on-stream as quickly as possible.

Recommendations:

- ***The Ontario Lottery and Gaming Corporation (OLG) should enhance the gaming offering at appropriate racetracks to realize the potential of tracks as gaming centres.***

- ***The OLG and the racing industry should work together to enhance the off-track wagering offering with new racing-themed products, while respecting federal and provincial legislation. Net proceeds of any new products should be shared on an equitable basis between the racing industry and the OLG.***

- ***Require all racetracks receiving public funds to invest any new net proceeds of OLG gaming activities into the support of live racing.***

- ***Designate the entire province as a single home market area. The government should work with the ORC to select one provider to operate advance-deposit wagering and one provider to operate off-track wagering sites. Net revenues from non-track wagering should be distributed among racetracks mainly according to their contribution to commissions from wagering on live racing.***

7. Toward a Promising Future

The horse racing industry connects Ontario's rural heritage with today's modern fast-paced lifestyle. It is a valuable social and cultural asset that joins rural and urban Ontario and appeals to various cultural communities in our diverse society. Moreover, horse racing sustains thousands of jobs and produces hundreds of millions of dollars in economic impact and substantial tax revenues. It also has much to contribute to the province's gaming strategy, offering a modern infrastructure of facilities and systems and an established customer base. As the panel has said repeatedly, this industry is worth saving.

It is also worth growing. The panel sees tremendous potential for horse racing to raise its profile on Ontario's leisure and entertainment scene. Exciting ideas abound for new kinds of wagering such as the Super High Five (where the bettor picks the first five horses), new racing-themed gaming products such as the Swedish V75 lottery (which ties the jackpot to the results of live horse races), new types of races such as head-to-head contests or racing astride on standardbreds (with a rider rather than a cart), and new on-track events and amenities to improve the fan experience. All this will get the attention of consumers in today's crowded marketplace – creating more revenue for the industry to reinvest in live racing.

The purpose of this Five-Year Partnership Plan is to create a blueprint for building a renewed and sustainable Ontario horse racing industry that can take charge of its own future. To do this, the plan aligns the economic interests of all industry partners toward the common goal of maximizing the fan base and wagering – the key to the industry's future success. The focus is on the growth of live racing to maximize job creation and spinoff benefits across the province. The panel is confident that this plan will create the foundation for a new partnership with government that keeps hope burning brightly in the horse racing industry while advancing the public interest.

8. List of Recommendations

The panel's recommendations to the Ontario government are as follows:

Restructuring Horse Racing

- Work with the industry to support the development of a standardbred racing alliance to operate a world-class racing circuit within a commercially viable shipping area. The alliance should be comprised of eight centrally located tracks: Hanover, Clinton, Grand River, Western Fair, Flamboro, Georgian, Mohawk and Woodbine. One horsepersons group should be created for the alliance tracks by vote of all licensed members.

- Work with the industry to support a series of standardbred races at regional tracks.

- Work with the industry to support a full season of signature and premier thoroughbred racing at Woodbine.

- Work with the industry to:
    - support a calendar of 30 days of quarter horse racing at Ajax Downs
    - support the introduction of limited quarter horse racing at Woodbine
    - support a limited series of thoroughbred races at Ajax Downs.

Reforming Industry Governance

- Create a new industry development arm of the Ontario Racing Commission (ORC), to be known as Ontario Live Racing (OLR), to provide overall management of the horse racing industry. OLR should employ a consultative process with stakeholders prior to making funding decisions.

- Administer thoroughbred, standardbred and quarter horse racing through separate breed divisions.

- OLR should obtain input from horseplayer representatives to gain a consumer perspective, and seek advice from experts on equine welfare issues.

- Restructure the ORC board to reflect the additional skills required to oversee the industry development side of horse racing.

- Firewall the ORC's operations into distinct regulatory and industry development functions. Ensure the industry development arm – OLR – possesses the leadership capabilities to develop the Ontario racing network and implement the Five-Year Partnership Plan.

- The ORC should take immediate action to reduce regulatory costs per race date to a level competitive with other jurisdictions.

Public Investment in Horse Racing

- Provide public funding of up to $400 million over five years to the horse racing industry, subject to appropriate benchmarks and agreements.

- Review the government's funding commitment after the third year of the plan, with a view to renewal for a further five years if public policy objectives and benchmarks have been achieved.

- Put a focus on live racing by allotting public funds to the three breed divisions through OLR based primarily on their contribution to commissions from wagering on live racing.

- Require each racetrack to have a plan to build the fan base and optimize community and commercial support for racing as a condition for receiving public funds.

- Fund a racing series at regional tracks on the basis of the historic racing calendar, horse supply, local wagering and support from the track or municipality.

- Provide limited funding for a festival thoroughbred meet in Fort Erie in conjunction with regional tourism activities.

- Retain the Pari-Mutuel Tax Reduction (PMTR) but redesign the distribution of this tax benefit to reflect the needs of the Five-Year Partnership Plan.

- Through the Ontario Ministry of Agriculture and Food (OMAF), develop objectives and benchmarks to measure the industry's performance in serving the public interest, with an initial set of metrics in place by April 1, 2014.

- Revise OMAF's accountability agreement with the ORC to put more emphasis on transparency and timely communications.

- Continue to provide funding to the Horse Improvement Program from the PMTR and top up to $30 million as required.

- Assign OLR to design and manage horse improvement programs until the industry is ready to assume these responsibilities.

Integrating Horse Racing into Ontario's Gaming Strategy

- The Ontario Lottery and Gaming Corporation (OLG) should enhance the gaming offering at appropriate racetracks to realize the potential of tracks as gaming centres.

- The OLG and the racing industry should work together to enhance the off-track wagering offering with new racing-themed products, while respecting federal and provincial legislation. Net proceeds of any new products should be shared on an equitable basis between the racing industry and the OLG.

- Require all racetracks receiving public funds to invest any new net proceeds of OLG gaming activities into the support of live racing.

- Designate the entire province as a single home market area. The government should work with the ORC to select one provider to operate advance-deposit wagering and one provider to operate off-track wagering sites. Net revenues from non-track wagering should be distributed among racetracks mainly according to their contribution to commissions from wagering on live racing.