June 23, 2008

His Worship Fred Eisenberger
Mayor
City of Hamilton
Hamilton City Hall
77 James Street North
Hamilton ON L8R 2K3

Dear His Worship Eisenberger:

I am writing to provide you with a copy of the Horse Racing Industry Strategic Review Panel’s report to the Government of Ontario. As there is a racetrack located within your jurisdiction, I thought you would be interested in reviewing the report and learning more about the current challenges affecting the Ontario horse racing industry.

The panel which was appointed in July 2007, to review and develop a strategic plan for the industry, is to be commended for its commitment to this project. It undertook considerable efforts to meet with industry participants and to understand the key issues affecting horse racing in Ontario.

The report provides a comprehensive review of the horse racing and breeding industry, and offers a number of recommendations with the long-term goal of promoting the horse racing industry and benefitting those involved in the rural and agricultural sectors of the industry.

The government will carefully assess the recommendations and determine how best to promote and support the horse racing industry going forward. The government recognizes the importance of the Ontario horse racing and breeding industry, and is looking forward to pursuing this important initiative.

Kind Regards,

Ted McMeekin
Minister of Government and Consumer Services

Attachment
EXECUTIVE SUMMARY

The horse racing and breeding industry in Ontario requires a strategic vision and direction for the future. It now finds itself within a huge gaming/entertainment industry and customers with leisure dollars to spend have many and varied choices.

The horse racing and breeding industry is labour intensive and supports approximately 55,000 full and part-time jobs, many of which are in the agricultural sector of Ontario and would be difficult to replace. In the past, the government has been supportive of the industry by virtually eliminating the tax on pari-mutuel wagering and by introducing a Slot at Racetracks Program that injects millions of dollars into the industry each year.

The industry derives its income from three sources: wagering on horse races, the sale of Ontario-bred racehorses and slot revenue. The slot program was designed to permit the industry to invest in its future by growing its wagering and breeding sectors.

The slot program is now 10 years old and has had mixed success. It was introduced without specific direction as to how slot revenue should be spent and without benchmarking. Industry stakeholders were left to invest the revenue in ways that would enhance wagering and breeding that would lead to positive results.

OHRIA, the industry association, played a significant role in securing a tax reduction and the introduction of slots at the racetracks. However, due in large measure to its structure for decision-making, it has failed to become an effective economic regulator for the industry.

On a broader scale, the province lacks a comprehensive gaming strategy, and the horse racing and breeding industry lacks a focal point within government for the consideration of policy related to the industry’s relationship with other gaming sectors.

This Report recommends not only a new structure for the industry association but also the creation of a ‘Gaming Secretariat’ within government that would develop and implement a comprehensive gaming strategy that includes the horse racing and breeding industry. At the industry level, the new industry association, Horse Racing Ontario (HRO), should have a Board of Directors comprised of representatives of industry stakeholders and the addition of three government
appointees and one representative of the Quarter Horse Industry. Among other things, it would take over the economic regulation of the industry including: a) the fixing of race dates, b) the development of the details of an industry strategic plan, c) the structuring and administration of all province-wide programs such as the HIP Program and the Quarter Horse Industry Development Plan, d) the oversight of the expenditure of funds generated by the tax reduction, and, e) the branding of horse racing and the development of an industry-wide marketing strategy. The decisions of the Board would be governed by a majority decision.

The role contemplated for HRO is much broader than that performed in the past by OHRIA. As HRO will be responsible for the ultimate structure and administration of programs that are recommended in this Report with respect to the use of some of the slot revenues, the ability of HRO’s new Board to come together and work in the best interests of the industry as a whole is perhaps the single most important element for the future success of the horse racing and breeding industry in Ontario.

Because it is intended that HRO will take on the economic regulation of the industry, the Ontario Racing Commission that had, by default, performed these functions, would return to its traditional mandate of regulating all aspects of horse racing that are designed to protect the public interest by insuring the highest level of integrity.

The Panel fully supports the continuation of the Slots at Racetracks Program at a minimum level of 20% of the revenue generated from slot machines at the racetracks. However, we also recommend that the Program be adjusted to better meet the objectives of enhancing wagering on Ontario product and enhancing the breeding of Ontario racehorses.

It is recommended that when the New Slots Program can be implemented, the annual slot revenue be pooled and distributed on the following basis: 25% of the slot revenue generated at each racetrack would be paid to the racetrack and 25% would be paid to that racetrack’s respective horsepeople for purses.

Funds would then be allocated out of the balance of the pooled revenue (approx. 10% of the balance) to cover four industry-wide initiatives: funding the operations of HRO, branding and generic marketing of Ontario horse racing, research, and developing innovative technology and new betting products.

Funds should also be allocated out of the pooled revenue (approx. 90% of the balance) to support three recommended programs that are targeted to enhance
wagering on Ontario horse racing product and the breeding and sale of Ontario-bred racehorses: i) a program directed to fund restricted races for Ontario-breds, ii) a program that pays bonuses by way of purse money to the owners and breeders of Ontario-breds, and, iii) a program that pools and redistributes a portion of standardbred purse monies and pays an equivalent amount to the racetracks that receive such funds for purses.

These three programs would flow a substantial amount of slot revenue back to racetracks and horsepeople for purses in addition to the 25% of slot revenue that each group will receive by way of direct payments. Two of the three programs are incentive based, as the funds available to each racetrack would be allocated in accordance with that racetrack’s ability to grow wagering on its live product.

The Report recommends that all of the slot revenue flowing to racetracks and horsepeople be subject to benchmarking designed to measure the effect of slot revenue on the enhancement of wagering on Ontario product and the breeding sector. Benchmarking will be based on criteria that follow the people, the horses and the money. Racetracks and horsepeople would be expected to invest slot revenues in ways that will meet the objectives of the Program.

The Report sets out a number of transitional alternatives for commencing the New Slot Program. Early commencement of the Program is encumbered by the existence of the outstanding Site Holder Agreements between Ontario Lottery and Gaming (OLG) and each racetrack that are due to expire at varying times between 2008 and 2021. The Report recommends that the new Program commence on January 1, 2012, when all but five of the Site Holder Agreements will have expired. All those due to expire before that date would be extended on their existing terms until December 31, 2011.

HRO should set an aggressive time-line for the development and implementation of innovative wagering products, new and improved methods of delivery, new types of races and new partnerships.

The Report recommends that HRO establish a budget for research and education, and that it support organizations that arrange for the adoption of racehorses after their racing careers have ended. In addition, HRO should work with the new Gaming Secretariat to ensure that appropriate problem-gambling programs are developed and delivered to people who wager on horse races.

Finally, the Report addresses the particular problems that exist for ‘border racetracks’ such as Windsor Raceway, Fort Erie Racetrack, Hiawatha Horse Park
and Rideau Carleton Raceway. In addition, it addresses the problems of racetracks such as Woodbine that compete with the OLG commercial-type casinos at Niagara Falls and Orillia. The Report suggests that government should consider supporting the plans of some of these racetracks on an economic development basis to diversify their offerings in order to secure their ability to offer horse racing products. The Report speaks to the future ability of the Gaming Secretariat to consider the difficulties that these racetracks are experiencing in the context of a broader gaming strategy. This strategy should be designed to enhance existing individual operations with a view to meeting the policy objective of sustaining jobs in the agricultural sector of the province rather than simply maximizing provincial gaming revenue.