

Executive Summary

The Challenge

By the end of 2000, the Alberta horse racing industry was fragmented, lacked direction, and was in crisis - both financially and from the perspective of a declining horse population. Appreciating this situation, Premier Ralph Klein challenged the industry to work together and come forward with one voice, with a plan for the future.

We believe that we have risen to that challenge and present our report – **“Alberta Horse Racing Industry Review, June 29, 2001”** – that identifies what all stakeholders in the industry believe is necessary and must be achieved.

This Executive Summary presents only a brief overview of the contents of our report. The main body of the report and appendices must be read to obtain a full appreciation of all of the specific recommendations that we have developed.

Alberta Horse Racing Industry

Horse racing and breeding has a long history in Alberta, with its roots based in the rural agricultural economy. Today, the economic and social benefits of the industry to the agricultural sector and rural communities in Alberta are in jeopardy, in part due to the introduction and expansion of other forms of gaming.

The current situation in Alberta’s horse racing industry is similar to that experienced in other jurisdictions. Pari-mutuel wagering, once the only form of legalized gaming, has been challenged by other forms of gaming such as casino games, slot machines and video lottery terminals (“VLTs”). In these situations, wagering has transferred to these other gaming activities.

To mitigate the impacts of other forms of gaming on the horse racing industry, a variety of actions have been undertaken in other jurisdictions, including:

- Introduction of simulcasting of horse races;
- Reduction in the pari-mutuel tax and redistribution of these funds into the horse racing sector;
- Allocation of government funds to the horse racing industry, through purse supplements or forms of breeding incentives (i.e., grants);
- Introduction of slot machines at racetracks, with a sharing of revenues between government and the horse racing industry (e.g., Woodbine Racetrack in Toronto has 1,700 slot machines; all Ontario racetracks have over 8,000 slot machines, with a goal of 10,800); and,
- The recognition of the horse racing industry as a component of the overall gaming strategy.

As a result of these types of actions, many jurisdictions have revitalized their horse racing and breeding industries. This has exacerbated the situation in Alberta, since a number of Alberta horse owners, breeders and trainers have left Alberta with their horses, for jurisdictions in which the industry is economical.

Significant Decline in Alberta Horse Racing Handle, Breeding & Live Race Days

The Alberta horse racing industry has declined through the 1990s, and has now reached a critical stage. Specifically:

- The total pari-mutuel handle (amount wagered on horse racing by fans) in Alberta has declined by 48% since 1991; and our share of the Canadian handle has declined from 12% to 8%;
- Alberta currently ranks fourth in total handle, behind Ontario, British Columbia and Quebec, despite the fact that Alberta had one of the strongest economies during this period;
- The number of live race days at “A” racetracks in Alberta dropped from 382 in 1991 to 221 days in 2001;
- Horse breeding in Alberta has declined to critically low levels:
 - The number of thoroughbred foals born annually have declined from about 550 to approximately 400 in 2001, which is below a level which will permit reasonable race meets in the future.
 - The number of standardbred mares being bred declined from well over 600 during the early 1990s, to 527 in 2000.

Financial pressures have made it difficult for owners, breeders and racetrack operators, to plan on a long-term basis creating uncertainty and confusion. Many breeders and owners are leaving the province for other jurisdictions since it is now no longer viable to breed, own and race horses in Alberta.

Alberta Horse Racing Industry Review Working Committee

In February 2001, the major stakeholders in Alberta’s horse racing industry agreed to work together, consult with others in the industry, review the industry in the province and develop recommendations to enhance its long-term viability. The Premier and the Government of Alberta have encouraged this initiative, and have expressed a willingness to consider recommendations on proposed changes to the horse racing industry.

Our challenge was to work together and come forward with one-voice for the Alberta horse racing industry, to achieve goals that include:

1. Stabilize, enhance and ensure the growth of live racing.
2. Revitalize the horse breeding industry.
3. Assure the industry is economically viable.

4. Make an attractive industry for fans as well as existing and new investors.
5. Position the industry advantageously in the current gaming environment.

Currently, for every dollar invested in the industry, only thirty cents are recovered. From the beginning, a key issue was to increase this return to a more reasonable level, to ensure that Alberta can compete with successful horse racing industries in other jurisdictions.

Racing Corporation Act and the Alberta Racing Corporation (ARC)

The Alberta Racing Industry Renewal Initiative began in 1995/96. The expected outcome of the initiative was to empower the horse racing industry to manage its own affairs, and affect the renewal that was considered necessary to ensure it continued to play a vital role in Alberta's gaming, entertainment and agricultural industries.

The Alberta Government's proclamation of the Racing Corporation Act ("the Act") occurred on October 4, 1996. The Act placed the responsibility for management and regulation of the horse racing industry in Alberta on the Alberta Racing Corporation ("ARC"), in partnership with industry stakeholders.

The failure of this arrangement to include representatives from all industry stakeholders soon created a counterproductive industry, and contributed to industry fragmentation. In addition, the confusion surrounding the role of government, and the lack of a linkage between racetrack licenses and gaming licenses further eroded the potential for industry renewal.

Economic Benefits of Horse Racing Industry

Notwithstanding the huge declines in the horse racing industry, today we still generate significant economic benefits for Alberta.

The horse racing industry spans the agricultural, entertainment and gaming sectors. The most visible focus of the industry, the race horses, have strong ties to the agricultural industry and to rural Alberta.

For the year 2000, the total economic benefits of the horse racing industry have been estimated to include:

- 3,084 person-years of employment – It must be noted that the total number of persons employed on a part-time or full-time basis in the "equine side" of the horse racing industry, and in the operation of racetracks, off-track betting, and ancillary services required by the patrons of those facilities, on a paid or unpaid basis, amounts to between 7,000 and 8,000 Albertans.
- \$83.1 million of labour income; and
- \$51.1 million in taxes including:
 - \$29.1 million of federal taxes;

- \$15.4 million of provincial taxes;
- \$6.6 million of local taxes.

Furthermore, the horse racing sector employs many individuals who would have difficulty gaining meaningful employment elsewhere.

Strategic Plan for Horse Racing in Alberta

The Working Committee undertook a detailed review and discussion on all of the input from various stakeholders (organizations and individuals), including the written submissions, verbal presentations, focus groups, and information from other jurisdictions and sources.

The results of our work include a mission statement and a vision statement for the horse racing industry, as well as strategic initiatives and specific recommendations agreed by the Working Committee.

Vision

A “vision statement” is a very brief statement that clearly indicates what an organization or industry must become in the future, allowing for creativity and flexibility in its execution. The vision for the horse racing industry in Alberta is:

“To be recognized internationally for premier horse racing, breeding and entertainment.”

Mission

A “mission statement” communicates the current essence of an organization or industry, indicating its current purpose, business and values. The mission for the horse racing industry in Alberta is:

“To provide quality entertainment, employment and value-added agricultural opportunities in Alberta through a unified, viable and growing horse racing and breeding industry that operates with honesty and integrity.”

Strategic Initiatives

In support of the mission and vision for the future, we have developed thirteen strategic initiatives. These initiatives address relevant issues, and are supported by 40 specific recommendations to be implemented by horse racing industry stakeholders, including government. The strategic initiatives are:

- **Initiative #1 – Horse Racing to be Part of an Overall Gaming Strategy for Alberta:** “The Province of Alberta should recognize the importance of the horse racing industry to rural communities and the agricultural sector by including horse racing in its overall gaming strategy for the Province.”

- **Initiative #2 – Industry Governance & Re-Organization - One Voice for the Alberta Horse Racing Industry:** “To ensure that the best interests of all Alberta horse racing industry stakeholders and organizations are represented through one industry-wide organization – Horse Racing Alberta – and that the government deal with all matters pertaining to racing through this organization.”
- **Initiative #3 – Integrity:** “To further enhance and foster integrity and ethical conduct as a foundation of all aspects of the horse racing industry.”
- **Initiative #4 – Recognition and Support for the Breeding Industry:** “To grow the breeding industry and enhance the quality of racehorses bred in Alberta through increased support and recognition.”
- **Initiative #5 - Increased Purses:** “To increase and maintain horse racing purses at a level that will provide an appropriate opportunity for horse owners to achieve a reasonable return on investment.”
- **Initiative #6 – Reduced Take-Out & Full Horse Fields:** “To provide enhanced horse racing entertainment to attract more fans to racing.”
- **Initiative #7 – Racetrack Facilities:** “To promote the development of high quality horse racetracks (i.e., substantially upgraded existing facilities or new facilities) for horses, fans, owners and personnel.”
- **Initiative #8 – Off-Track Betting (“OTB”) and Alberta Teletheatre Network (“ATN”) Facilities:** “To promote the development of high quality off-track betting facilities to enhance racing entertainment for existing horse racing fans, and to attract new fans to horse racing.”
- **Initiative #9 – Image, Marketing & Promotion:** “To enhance the image and heighten the profile of the horse racing industry through a co-ordinated marketing and promotion program.”
- **Initiative #10 – Support and Development of Horse Racing Personnel:** “To facilitate the education, training and development of quality horse racing personnel.”
- **Initiative #11 – Revenue Generation & Sharing:** “To maintain and grow the horse racing industry in Alberta by:
 - Increasing revenues through an increased handle;
 - Increasing the number of slot machines for the horse racing industry;
 - Legislating the sharing of slot machine revenues with the horse racing industry; and,
 - Other initiatives.”
- **Initiative #12 – Fair Tax Treatment for Horse Owners and Breeders:** “To support the Horse Racing Alliance in its ongoing work to lobby the federal government to make appropriate amendments to Section 31 of the federal Tax Act, to ensure fair tax treatment for horse owners and breeders.”

- **Initiative #13 – Efficient & Effective Transition:** “To ensure that an efficient, effective and timely transition occurs from the Alberta Racing Corporation to Horse Racing Alberta, and that immediate and ongoing progress towards the initiatives and recommendations contained in this Alberta Horse Racing Industry Review is achieved.”

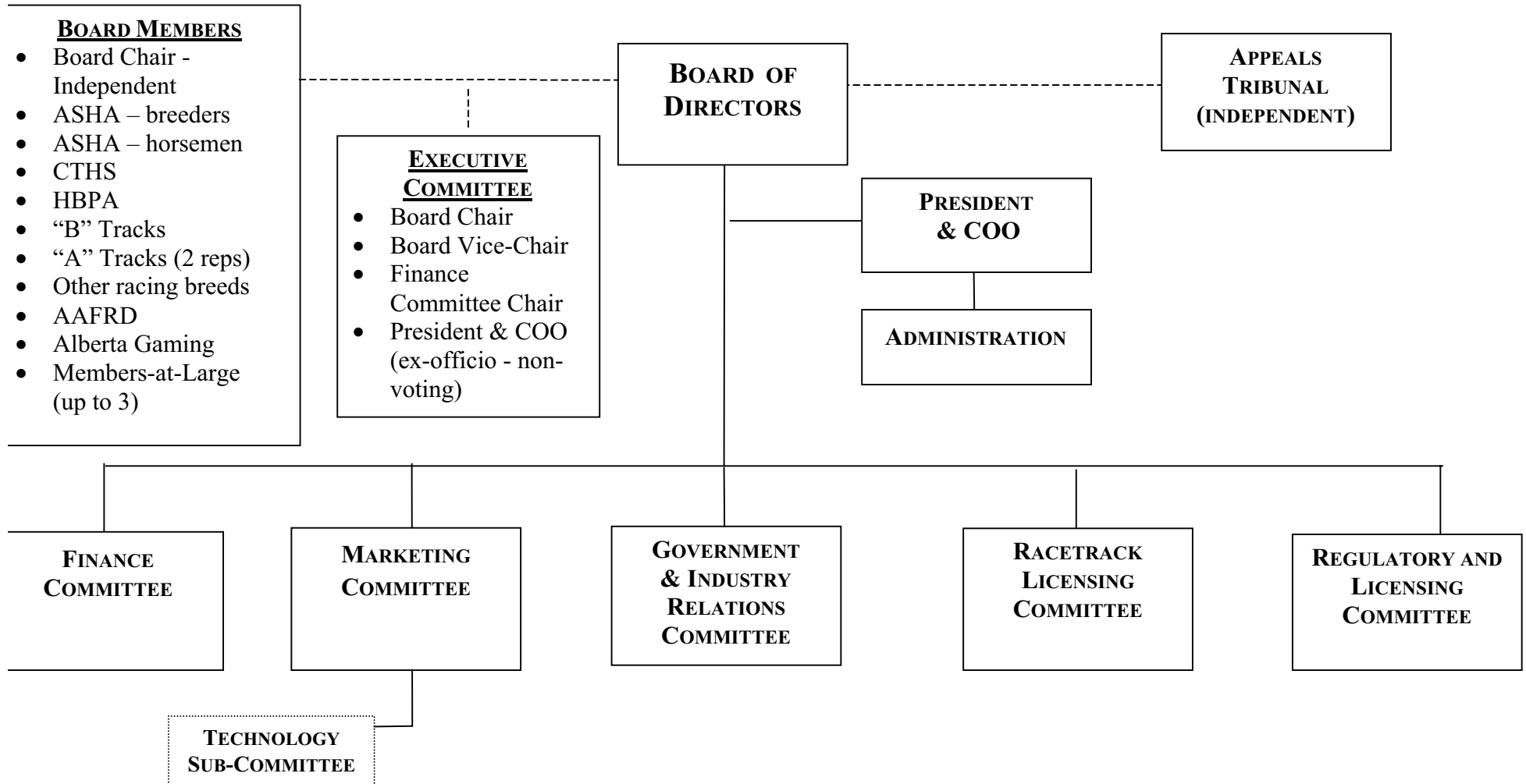
The 40 specific recommendations that support all of these initiatives are described in detail in the main body of our report.

“Breakthrough” Recommendations

We believe that each of our recommendations is important. However, we have summarized some of our “breakthrough” recommendations below:

- The industry should be governed by “Horse Racing Alberta”, a new organization to replace the Alberta Racing Corporation. It will set policy, govern the horse racing industry, and be a partner with government. The Board of Directors should include representation from all industry stakeholders (see Horse Racing Alberta – Organization Chart on following page).
- Breeders incentive programs are required for the long-term and the short-term. In the short-term, a \$1,000 emergency stability payment should be provided to breeders for each live Alberta bred foal registered over the next three years.
- Additional slot machines should be introduced at licensed “A” and “B” racetrack facilities, as outlined, in order to generate additional revenues to support the horse racing industry.
- An appropriate number of video lottery terminals (“VLTs”) should be available at Alberta Teletheatre Network facilities and off-track betting facilities. Horse Racing Alberta should share in these revenues.
- The horse racing industry’s share of slot and VLT revenue (51.7%) should be placed into an industry account (common pool) and allocated by Horse Racing Alberta. The allocation should be done in a manner that is in the best interests of the industry, taking into consideration all factors, and removing the restriction that revenues generated from a specific location must remain in that location.
- The proportion of take-out on racing handle (i.e., wagering) should be reduced from a weighted average of 21.5% to 20.0%. This will demonstrate the industry’s commitment to racing fans, provide Alberta with a competitive advantage over other jurisdictions, and generate additional handle in the medium and longer term for the benefit of the industry.
- Many backstretch employees fit into a socio-economic niche with some special needs. In order to increase the available pool of personnel and improve the conditions for existing employees, the industry should establish a benevolence fund for the benefit of backstretch personnel, to address issues such as literacy, education, day-care and substance abuse.

HORSE RACING ALBERTA – ORGANIZATION CHART¹



¹ Board of Directors to include up to three members-at-large. Initially, two of the members-at-large are to be current ARC Board members, for a period of one year, to provide for continuity. Each committee is to be chaired by a member of the Board of Directors and will report to the Board of Directors. Committees are to comprise appropriately skilled persons that may include volunteers (who may be industry representatives) and others from government and Horse Racing Alberta administration. All committee members are to be approved by the Board of Directors. The Executive Committee comprises three Board members, plus the President & COO as ex-officio (non-voting).

Actions Requested of Government

Some of our recommendations require action by the Government of Alberta. We have summarized these below:

- The Province of Alberta should prepare an overall strategy for the future of gaming in the province, with horse racing incorporated and recognized as an integral component of the strategy.
- Ongoing provincial support for horse racing should be legislated in order to provide certainty of funding sources into the future.
- Amendments will be required to the Racing Corporation Act to permit changes to the governing of the Alberta horse racing industry, such that the Alberta Racing Corporation becomes “Horse Racing Alberta.” The government should deal directly with Horse Racing Alberta on all issues dealing with or involving the horse racing industry.
- The Government of Alberta is requested to appoint two members to the Horse Racing Alberta Board of Directors, provide input on the appointment of the independent Chair of the Board, and participate on selected committees.
- The license for a racetrack and for gaming must be linked, with co-terminous dates, so that live horse racing is a prerequisite for maintaining the gaming license.
- To encourage the development of additional “B” racetracks in support of the agricultural sector and rural Alberta, the number of live racing days required for a Racing Entertainment Centre license (including slot machines) at a “B” racetrack should vary from 15 days to 60 days, as appropriate for each community.
- It is requested that the government permit the following number of slot machines to be installed at racetrack facilities: Calgary – 507; Edmonton – 536; Lethbridge – 163; and other approved “B” racetracks – 150 per facility.
- Slot machine revenues at licensed racetrack facilities should be shared between:
 - Government (33.3%);
 - Racetracks for operations of gaming / non-racing facilities (15%); and,
 - Horsemen and racetrack facilities, through Horse Racing Alberta (51.7%).

This revenue sharing formula for slot machines should be legislated. Legislating slot revenue sharing will ensure that all funds generated for the benefit of the horse racing industry will flow to Horse Racing Alberta on a timely basis, and with long-term certainty.

- Revenue from VLTs at ATN and OTB facilities should be shared as follows:
 - Government (33.3%);
 - Facility operator (15%); and
 - Horsemen and racetrack facilities, through Horse Racing Alberta (51.7%).

- Should any of the proposed revenue generation initiatives not be available, an alternative revenue sharing formula for slot machines would be an option to off-set the revenue shortfall.

Urgent Matters

There are several critical issues that must be addressed before we can move forward:

- The breeding industry is in crisis and requires immediate assistance;
- Industry re-organization must be effected to give all stakeholders representation;
- Purse enhancements are needed; and
- Long-term stability and certainty of racetrack licenses are required, and current licenses expire in 2002. A process must be started immediately to select licensees and negotiate contracts, but this cannot be done until the parameters are known.

Without swift government action, we may not be able to sustain our horse racing industry.

Conclusion

When an industry has a clear sense of its purpose, the direction in which it wishes to go, and the nature of its future state – and when this image is widely shared and appreciated by its members – then individuals within the industry are able to identify and pursue their own roles effectively and with confidence – and hence the whole industry will prosper.

- We now have an industry-wide purpose, direction and targeted future state.
- We are working to ensure all stakeholders share our purpose and direction.
- We speak with one voice.

However, we need the continued co-operation of all industry stakeholders, and particularly assistance and partnership with our current major competitor – the Government of Alberta. With government assistance and partnership, we have a plan that will rapidly produce a flourishing industry. Without it, the industry is doomed and most key players will quickly leave. Should this happen, the Working Committee believes that Alberta would lose an historic, colourful, vibrant industry, based on grass-roots agricultural activity and the symbol of Western Canada – the horse.

Our proposed initiatives for revenue enhancement do not include requests for government grants from tax revenue. Rather, we have made sure that our recommended new revenue sources involve a direct link to revenue generated by the horse racing industry.

Horse racing is an absolutely irreplaceable asset that is in jeopardy. This is the basic message that we would wish to bring forward, along with our plan for the future.

Proposed Revenue Sharing for Horse Racing Alberta

