



Revitalizing Horse Racing in British Columbia

B.C. Horse Racing Industry
Management Committee
Report

April 2013
Draft for Industry Consultation



The purpose of this draft report is to facilitate consultation between the Horse Racing Industry and the B.C. Horse Racing Industry Management Committee.

The Committee will release its final report following the consultation process.

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PART ONE

Executive Summary

Horse racing is in decline throughout North America, and in Canada the removal of government funding in some provinces has dealt devastating blows to the industry.

To stabilize and revitalize horse racing in British Columbia, the Horse Racing Industry Management Committee (HRIMC) conducted a broad consultation and evaluation process. The result is this report, which provides the road map for the future of B.C. horse racing.

The Committee has acknowledged that the entertainment environment is competitive and unforgiving, and that both success and failure of horse racing in B.C. are possible. Tweaking the details of a century-old business model will no longer work. Success requires a bold and determined transformation of the industry. The degree to which industry partners stay focused and pull in the same direction will determine the outcome.

To create conditions for success, the Committee determined that each breed must transform its business model to address the reality of today's competition. Each breed must compete not just against other racetracks and gaming facilities, but against the entire entertainment industry. This requires a wholesale re-evaluation of horse racing's products and their reconfiguration as a unique entertainment experience.

The Committee has identified fundamental changes that are required at the industry level to align the interests of stakeholders and establish the bedrock on which the breeds can build their new business models. To that end, there are four elements of change that the Committee believes should be undertaken:

- The breeds should have more influence over the strategy and direction of the industry. Breed associations and the Track Operator should come together to form management groups (one for each breed) that will become the controlling minds of the new racing strategy and make key decisions such as season length, marketing allocations, etc;
- The two breeds should be decoupled to pursue unique and independent strategies in order to achieve success;
- The funding model should reflect this decoupling so that benefits derived from the execution of independent strategies flow to reward the breeds' actions; and
- A financial transparency program should be put in place to promote trust and understanding between industry partners.

The Committee also recommends the following to support industry transformation:

- Industry governance should change to complement the new industry model. A Governance Triangle is proposed to provide appropriate support, information flow and dispute resolution in order to foster innovation throughout the industry;
- The BC Lottery Corporation (BCLC) should take on greater participation with Teletheatre BC (TBC) to leverage BCLC's marketing capability and integrate operations where synergies exist;

- The Track Operator should provide expert advice and operations for live racing on a cost-recovery basis. Any surpluses or deficits generated from operations would be handled according to a formula determined during consultations regarding industry funding as a whole; and
- The provincial government should provide stable support to enable the industry's transformation. (Government has already made this commitment – December 2012.)

Dedicating the time and effort to research, consult, evaluate and write this report has been the easy part. True success for the B.C. horse racing industry lies in the execution of the plan. The Committee will assist in carrying out the plan and is confident that a remarkable success story will unfold: the revitalization of British Columbia's horse racing industry.

Background

Over the last several decades, horse racing has been in decline throughout North America. Attendance and wagering revenues have dropped steadily. In some towns and cities Thoroughbred and Standardbred tracks have run their last races.

The pressures affecting horse racing are felt in British Columbia, too; however, the response here has been different than in some other jurisdictions. All levels of the industry – owners, trainers, breeders, track operators, backstretch and racetrack employees – are striving to work together to ensure horses and riders/drivers continue to race.

For many years in Canada, horse racing was the only legal gambling option available to citizens. When public interest in other gambling options grew, the B.C. government, like governments in other jurisdictions, recognized both a need for enhanced regulation and an opportunity to collect revenues that could be spent on important public programs. The Province assigned the B.C. Lottery Corporation to conduct and manage commercial gambling in British Columbia, including casinos.

As gaming facilities became more prevalent, the horse racing industry, concerned that its traditional fans might abandon the tracks in favour of slot machines and table games, appealed to government for a share of casino revenues.

The Province agreed to the request and in 2004 approved the installation of slot machines at B.C.'s two Lower Mainland tracks: Hastings Racecourse and Fraser Downs. A percentage of net revenues from slot machines at the tracks was allocated to the industry in order to fund purses, enhance live racing and bolster the province's agricultural sector.

Unfortunately, revenues from the racetrack slot machines were, and continue to be, lower than anticipated. To help the industry remain viable and to support revitalization efforts, the Province topped-up the slot machine revenues with an additional \$4 million in each of 2011 and 2012, making a total annual grant in those years of \$10 million. (In late 2012, the Province announced that the horse racing industry's share of net slot machine revenues at the two racetracks would be increased to 25 per cent from 15.5 per cent, effectively replacing the top-up grants while keeping the level of funding at approximately \$10 million per year going forward.)

In response to a request that government assist with organizational challenges and lead horse racing stakeholders in revitalizing their industry, the Honourable Rich Coleman, Minister Responsible for Gaming, announced in November 2009 the creation of the B.C. Horse Racing Industry Management Committee.

The Minister said that through the Committee the Province would “bring the industry together under a single team to establish and implement a more efficient financial management structure and develop a new marketing strategy to increase revenue.” To help horse racing become sustainable, the Committee would recruit leading industry and business experts. The Committee is chaired by the General Manager of the Gaming Policy and Enforcement Branch and includes representatives of the Thoroughbred and Standardbred horse breeds, the B.C. Lottery Corporation, track operator Great Canadian Gaming Corporation and a former Auditor-General of British Columbia.

Competitive Environment

The first order of business of the B.C. Horse Racing Industry Management Committee (the Committee) was to address the industry's most pressing issues. Steps were taken to consolidate the industry's financial situation and to develop marketing plans to encourage a renewed interest in horse racing. The fact that horses are still racing in B.C. is evidence that the Committee and industry stakeholders together successfully took the first vital steps.

However, horse racing in B.C. is still at a critical point. In fact, unless industry stakeholders collaborate more effectively, horse racing in this province will fail, and very soon.

There are two main and related problems: the betting handle is down and competition is up.

While all-sources wagering on live racing at the two Lower Mainland racetracks showed significant increases in 2012 (up 7.6 per cent over 2011), the amount wagered on simulcast racing at the track racebooks and off-track teletheatres continued a decline that has been noticeable in recent years, resulting in a drop in total handle. The statistics are sobering:

2012 compared to 2011:

- Fraser Downs handle (live wagering plus Racebook wagering): down 9.8 per cent
- Hastings Racecourse handle (live wagering plus Racebook wagering): down 7.9 per cent
- Teletheatre BC handle: down 1.9 per cent
- Overall handle: down 4.4 per cent.

It bears emphasizing that the B.C. industry is heavily dependent upon success in the simulcast environment. Income from simulcast wagering accounts for more than 92 per cent of the money used to support horse racing in the province; only eight per cent is the result of live racing.

The Committee concluded that the handle (both from simulcast and live racing) is down in large part because competition for the entertainment dollar has intensified dramatically. In the past 15 years consumer preferences have changed. Horse racing is no longer the only legal form of gambling in the province, and it is far from the only option British Columbians have for a fun afternoon or evening out. Horse racing is now in a much tougher entertainment environment.

Competition also extends to the issue of horse supply. The B.C. industry competes for horses with Alberta and the northwestern states. Other major challenges are described elsewhere in this report.

After consulting extensively with B.C. horse racing stakeholders and after researching operations at several successful tracks in other parts of North America, the Committee is confident that B.C.'s horse racing industry can be revitalized and can successfully compete in today's – and tomorrow's – entertainment world.

THE B.C. PLAN

When the Committee set out to develop a new model for horse racing in B.C. the goal was clear: Design a model that will revitalize the industry. The next step was to determine which principles would best guide our work.

Following extensive discussion, the Committee concluded that the overriding principle must be “sustainability.” That is, every decision for change must advance the sustainability of the industry – both operationally (horse supply, for example) and financially (ensuring that revenue streams are predictable and resilient, for example). In reaching these decisions, we must recognize the realities of our environment and face them head on.

Requirements for Sustainability

The interests of our industry partners must be aligned.

The current business model pits the interests of horse racing partners against one another. For example, revenues are shared, but savings through cost-cutting benefit only the Track Operator. As a result the operator is motivated to cut costs.

Throughout our consultations we heard serious concerns about Great Canadian Gaming Corporation cutting costs “to the bone.” It is evident why some of these cuts would be implemented. It is equally evident that the current funding formula has placed industry stakeholders in conflict with one another, and in so doing, has put B.C. horse racing at risk.

The industry must work collaboratively toward mutually advantageous goals by engaging a new industry model that aligns the interests of all parties (as this report intends to do) and that puts behind us the historic differences of opinion that have prevented such cooperation.

Those with the greatest passion and holding the greatest risk must be in a position to influence operational decisions.

There is a story about a cheetah chasing a hare. The hare manages to escape the attack, and an eagle, watching from above, laughs at the cheetah: “The hare is fast but you are the fastest animal in the world. How did he get away?” The cheetah replies: “I was running for my lunch. He was running for his life.”

The horse racing industry in B.C. must run for its life. The people who have the most to lose in failure should be part of the process of making critical decisions that will shape future success. Those decisions must be well informed by industry experts and supported by experienced operators.

Every decision made must be based on market reality.

Ultimately, the market will determine whether the industry lives or dies in B.C. Therefore, decisions must be made that continually improve the competitiveness of horse racing within the context of the B.C. entertainment market.

Financial support from government has likely reached its maximum level. The market should determine success or failure.

Four Elements of Change to Revitalize the B.C. Horse Racing Industry

To satisfy the requirements for sustainability, changes must be made to the industry.

Outlined below are four key elements of change that, together with the proper support systems, would create the environment for horse racing success in our province. First, the breed associations must be given more influence in the key strategic and operational decisions facing their industry. Second, the two breeds must be decoupled to enable each to pursue unique strategies that maximize the competitive advantages of their respective entertainment offerings. Third, the breeds' individual strategies and resulting level of success in the marketplace must determine the extent to which each breed benefits from funding. And finally, there must be a satisfactory level of trust established within the industry regarding financial reporting.

1. More Influence to the Breeds

Currently, it is primarily the Track Operator who makes strategic and operational decisions that profoundly affect the horse racing industry. This is the traditional model, and it can work in a purely market-based environment where the operator's best (or only) opportunity for profit lies in the tracks' success.

This is not the situation in B.C. Here, while the operator has an interest in making the tracks profitable, its best opportunity for profit lies elsewhere. In fact, potential returns in the casino business are significantly higher than in horse racing, where the risk of loss is materializing throughout North America.

The current funding model in B.C. attempts to address this issue by pooling all sources of income, including slot machine revenues. Allocations are made by the Committee based on what is perceived to be "fair." Despite the Committee's best efforts, this method can result in a disparity between allocations and market reality.

The Committee's recommendations would shift more influence to the breeds because they are the stakeholders most interested in success. Indeed, if live horse racing were to end in B.C. tomorrow, it would mean the end of everything for the breeds, while other industry partners would continue with other aspects of their businesses.

For the breeds to be successful they each require unified governing and decision-making bodies, supported by industry-leading advice and competent operations. Here are the Committee's recommendations:

- The breed associations would contribute to strategy and on-track decision-making through representation on newly established Standardbred and Thoroughbred Management Groups. These groups would develop business plans annually and submit them to the Committee for approval;
- Support for live racing would be provided by Great Canadian Gaming Corporation, as is the case now. GCGC would provide the two breed Management Groups with track operation services as well as expert strategic advice. GCGC would be reimbursed for delivering track services. A formula for handling surpluses or deficits will be determined following consultations regarding the industry funding formula as a whole. The goal is to align the interests of the operator and the breeds; and
- Off-track betting would be supported by the B.C. Lottery Corporation. The Committee recommends that Teletheatre BC (TBC) actively collaborate with BCLC where synergies exist (such as through the PlayNow.com web portal). This arrangement would provide the

industry with the marketing capability to expand the off-track handle, the industry's best opportunity to increase revenue.

2. Decoupling the Breeds

From a business and entertainment perspective, the two breeds active in B.C. (Thoroughbreds and Standardbreds) are significantly different. Combining the two through a forced marriage hinders the ability of each to pursue the unique and bold strategies necessary for their individual success. A more appropriate relationship would see two independent partners assisting each other as they pursue similar but different strategies.

The Committee analyzed the synergies between the breeds and considered a two breeds/one track facility. The one-track option was found to be impractical, but more importantly, the differences between the breeds in relation to market positioning, cost structure and operations clearly called for a separation to maximize the unique competitive advantages of each breed. More information regarding the differences between the breeds is included in the table below.

The racing breeds compared	BREED	
	STANDARD BRED	THOROUGHBRED
COST STRUCTURES	<p>Low cost</p> <p>Horses can be brought to race at lower cost than Thoroughbreds and run more frequently. Facilities can be delivered at lower cost.</p>	<p>Highest cost</p> <p>Several orders of magnitude higher cost than Standardbreds.</p>
OPERATIONAL MODELS	<p>Generalist/Hobbyist</p> <p>Owners can breed, train and drive their own horses if they choose.</p>	<p>Specialist/Professional</p> <p>Owners rely on professional breeders, trainers and jockeys.</p>
REVENUES	<p>Lower wagering revenues</p>	<p>Higher Wagering Revenues</p> <p>Thoroughbred wagering is approximately four times that of Standardbred and attracts more high-volume bettors.</p>
TARGET MARKET	<p>Value-oriented fans, corporate functions</p>	<p>Young, affluent, high-value bettors</p>
PRIMARY COMPETITION	<p>Lower/mid-value gaming offerings: On-line sports betting.</p> <p>For non-bettors – Family sports entertainment : Fairs, camping, low cost sporting events.</p>	<p>High-end for big spenders</p> <p>Social entertainment, major gambling facilities.</p>

3. Funding Tied to Success

To date, the funding formula for the industry in B.C. has been decided annually by the Committee. Decisions have taken into consideration the factors at play in any given year and the expectations of financial performance in the year ahead. The Committee strongly believes the funding model should be principle-based, reflect success in the marketplace, and encourage innovation.

An "eat what you harvest" principle would encourage each breed to collaborate with the Track Operator to innovate aggressively and to develop an entertainment offering that is focused, diversifies revenue streams and develops bettors of the future who will help to grow handle for the long term.

Government has committed to a 50/50 split between the two breeds of racetrack-based slot revenue from Hastings and Fraser Downs.

Other sources of revenue for the industry include:

- Proceeds from live race wagering at the two racetracks;
- Proceeds from simulcast wagering at the two track Racebooks; and
- Proceeds from Teletheatre BC wagering (at the 21 TBC Racebooks and the online HorsePlayer Interactive wagering platform).

Despite agreement regarding the desired outcome, the Committee has not yet achieved unanimity on a modified funding formula.

Consequently, the Committee puts forward the following options for funding that will form the basis for industry consultation prior to its final report.

Option 1

All wagering proceeds would be split based on the percentage of wagers placed on the specific breed.

Option 2

All wagering proceeds would be split based on the percentage of wagers placed on the specific breed, with the exception of track Racebook proceeds which would go to the host breed.

Option 3

A principle-based approach (to be determined in consultation) that maintains the current revenue-sharing proportions but enables the breeds to benefit from growing revenue based on their efforts to innovate in the future.

One of the key requirements for industry success is stability. In a principle-based system, the formula for determining allocations would not be altered year-to-year. Past years have seen repeated proposals to change the funding formula. Leaving funding determination to the Committee means this practice would continue in perpetuity, making funding allocations uncertain every year. This approach has caused stakeholders to become focused on lobbying the Committee rather than innovating the business. The proposed principle-based solutions would put an end to this cycle and enable breeders, trainers and owners to improve their planning and to make plans based on a more reliable income stream.

4. Financial Transparency to Promote Mutual Trust

The Committee is conscious of the need for financial transparency throughout the industry.

All participants should understand and trust the metrics used to gauge the state of the industry's finances. The Committee believes much headway has been made in recent years through the establishment of a solid financial model and of reporting mechanisms managed by the industry's Financial Working Group, which includes representatives from all elements of the industry.

The Committee believes this financial transparency can be advanced further by way of third-party audits of track operations. This transparency should take place in two ways. First, an independent accounting firm should be contracted to recommend the extent to which indirect costs such as depreciation, interest and management fees should be considered reasonable costs of race operations. Secondly, with this information in place, the Gaming Policy and Enforcement Branch's audit staff would conduct regular audits of the industry's finances to ensure that all transactions are appropriately recorded and that the actual uses of funds are as presented in the financial disclosures of the Track Operator.

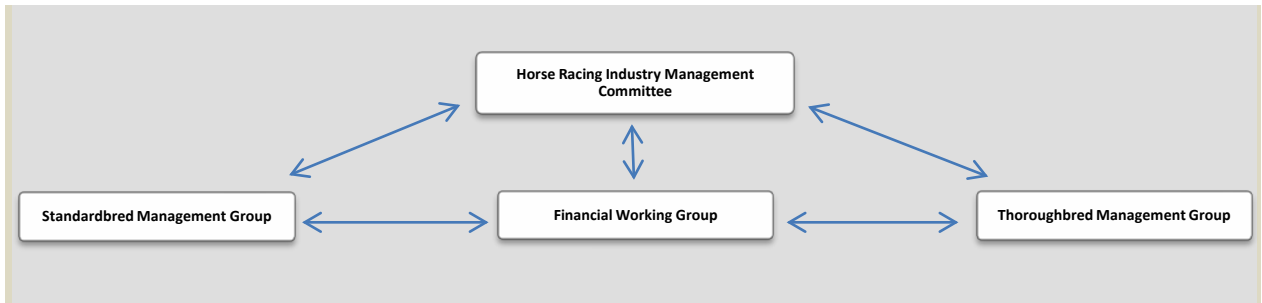
Recommendations Supporting Change

Industry Governance

The new industry business model requires a governance structure that enables transformation to take hold in a sure and stable manner. The Governance Triangle illustrated below would ensure that authority rests with the appropriate organizations, that responsibilities are clear and that innovation is driven by dynamic information flow between industry partners.

This new structure would enable the breeds to build and execute unique and innovative business plans within a networked system. This network would provide the necessary financial, strategic and operational support to make success sustainable for horse racing in B.C.

Governance Triangle



There are four components of the Governance Triangle:

1. B.C. Horse Racing Industry Management Committee

The Committee would continue to provide executive oversight of the industry as a whole and would consist of industry representatives in the same proportions as today. (The Committee is made up of representatives of both breeds and the track operator plus three outside appointees to represent the interests of the public.) The Committee would approve business plans presented by the breed Management Groups (described below) and act as the final arbiter in cases where a dispute between industry partners requires a decision. This dispute resolution function would likely be needed only in special circumstances, for example if a dispute arose regarding Track Operator cost allocations.

The Committee would also facilitate transparency throughout the industry, including the overseeing of financial audits.

2. Standardbred Management Group

An executive body should be formed that includes representation from the Track Operator and the Standardbred community. This group would undertake business planning for Standardbred racing and provide the Track Operator with guidance regarding racing administration. This group would be chaired by the Director of Racing Sustainability. It should be put in place no later than Aug. 31, 2013.

This group would take on decisions of importance to the breeds that until now have been the responsibility of the Committee, such as the number of race days, season length, marketing fund allocations, takeout, etc.

Additional roles and responsibilities will be identified through consultation with industry.

3. Thoroughbred Management Group

An executive body should be formed that includes representation from the Track Operator and the Thoroughbred community. This group would undertake business planning for Thoroughbred racing and provide the Track Operator with guidance regarding racing administration. This group would be chaired by the Director of Racing Sustainability and should be put in place no later than Aug. 31, 2013.

The Thoroughbred Management Group would take on decisions of importance to the breed that until now have been the responsibility of the Committee, such as the number of race days, season length, marketing fund allocations, takeout, etc.

Additional roles and responsibilities will be identified through consultation with the industry.

To maximize the group's effectiveness, the Committee recommends that the Thoroughbred breed be represented by one association.

4. Financial Working Group

The Financial Working Group would continue as it is currently constituted and also would consider financial, strategic and operational issues of common interest and make recommendations to any of the other industry groups. (The Financial Working Group consists of representatives from the Thoroughbred breed association, the Standardbred breed association, the track operator, Teletheatre BC and the Committee.)

Industry Governance – Related Matters

The Committee strongly believes that the creation of the Governance Triangle described above should be supported by the following:

Director of Racing Sustainability

The Director of Racing Sustainability would play a critical role coordinating the activities of the industry groups and ensuring that communication is strong, that the Governance Triangle works efficiently and that innovation is realized. The Director would therefore continue to provide staff support to the Committee and would chair the Standardbred Management Group, the Thoroughbred Management Group and the Financial Working Group.

Funding Formula

As noted earlier, the funding of both breeds would be based on the market success of their respective business plans. Today, all of the funds are pooled and distributed to the three stakeholders (each breed and the Track Operator) as mandated by Committee allocation percentages.

Under the new model, all funding would initially go to the breed associations. This revenue would include government slot payments (50 per cent to each breed), on-track and off-track betting proceeds, and other on-track revenue such as food and beverage.

The breeds would then pay the Track Operator for the costs of delivering the racing and associated services. The payment process would be coordinated by the Financial Working Group, using the services of B.C. Horse Racing Administration Ltd., the accounting entity currently used by the industry.

Any surpluses or deficits generated from operations would be handled according to a formula determined during consultations regarding industry funding as a whole. The Committee recommends that any gains be reinvested in the industry for the foreseeable future.

This funding formula aligns the interests of the Track Operator and the breeds. It focuses the attention of all parties on resource allocation while also encouraging prudent investments.

Long-term lease issues – the need for certainty

One aspect of the horse racing industry that the Committee found to be of continuous concern was the need for certainty:

- certainty for breeders that foals produced from breeding conducted now will be bought;
- certainty for owners that there will be purses and stakes races in the future for their horses to try to win; and
- certainty for trainers and backstretch employees that there will be work available in B.C. in the sport they love.

Certainty in all these respects depends in part on the availability of racetracks.

The recently renewed lease to operate the racetrack at Hastings Racecourse is held by Great Canadian Gaming Corporation, the Track Operator, and is due to expire in November 2014. The Committee actively supports GCGC's efforts to secure a long-term lease with the City of Vancouver. A long-term lease, coupled with stable government funding and a principle-based allocation system, would create the required stability for the success of the Thoroughbred industry.

The lease with the City of Surrey by which GCGC operates harness racing at Fraser Downs racetrack expires in 2024, and therefore is not of immediate concern.

Teletheatre BC Operations

Simulcast wagering constitutes more than 92 per cent of horse racing revenues in the province. Teletheatre BC (TBC), through its 21 bricks-and-mortar racebook locations and its online HorsePlayer Interactive network, contributes about two-thirds of that simulcast wagering income; the rest comes from the racebooks at the two Lower Mainland tracks.

The Committee recommends that TBC and the B.C. Lottery Corporation collaborate in finding efficiencies in existing operations and in creating additional distribution channels for off-track wagering.

The Committee believes the following opportunities should be acted upon:

- Active collaboration between TBC and BCLC in establishing Racebook/Sportsbook facilities where wagering on horse racing can occur alongside wagering on other sports events, particularly single-event wagering, if it is legalized;
- Distribution of TBC's online wagering product on BCLC's PlayNow.com website, which is quickly gaining traction as a premier, secure and local source for online wagering by British Columbians;
- Creation of new and innovative horserace wagering products, some of which may be independent of the pari-mutuel system on which the B.C. industry currently operates. Collaboration with third-party service providers would be key; and
- Researching the wagering behaviour of existing and prospective bettors through data analytics to create incentive programs that lead to increased wagering on simulcast races. Work is under way in this regard with data analytics experts.

TBC has challenges that must be addressed if it is to reach its full potential:

- Working capital is not available;
- Potential site locations must be chosen with a view to maximizing industry handle; and
- Economies of scale and other efficiencies may be achieved by aligning with an organization such as BCLC.

Track Operations

The Committee received varied advice on the type of entity best suited to operate the Lower Mainland tracks. Suggestions included GCGC (a for-profit company), a different for-profit company, a not-for-profit entity, a commercial consortium, etc. The Committee believes almost any entity would be suitable as long as it is dedicated to horse racing and provides the necessary management skills.

Under the proposed governance structure, breed representatives would sit on the Management Group alongside representatives of the Track Operator. As noted previously, the management group would be responsible for determining the business plan and for making the key decisions regarding implementation. There would be a separate management group for each breed to enable unique business plans to take best advantage of their respective competitive positions. The operator would continue to make day-to-day decisions unilaterally. This would support responsive, efficient operations. However, key decisions such as season length, race days, on-site services and activities in support of the racing experience would be made by the breed Management Group.

Food and beverage revenue to the industry

As noted throughout this report, attracting new fans to the track and converting them to horse betting enthusiasts will depend on the ability of the Management Groups to transform their entertainment offerings.

In order to accomplish this, the Management Groups must control the entire experience. A critical component of the total entertainment product is food and beverage. Careful attention should be paid to creating a food and beverage menu that best complements other aspects of the entertainment experience. Food and beverage costs and revenues should be integrated with all other track operations and should form part of the bottom line for the industry.

Marketing and Operations Strategy

A detailed marketing and operations strategy will be required to support the business strategy.

While the Committee may make suggestions, discussion and action in these areas would be the responsibility of the Management Group.

The Committee proposes that the main responsibility for deploying the resources of the Industry Marketing Fund (currently \$800,000 per year minus the compensation costs of the Director of Racing Sustainability) be transferred to the Standardbred and Thoroughbred Management Groups. It is anticipated that B.C. Lottery Corp. staff would continue to provide expert advice and assistance in executing the marketing plans.

Stability – Government support

The provincial government has decided to alter the manner in which it supports the horse racing industry. Starting in 2004, a revenue-sharing agreement was put in place that permitted slot machines at racetracks. It was recognized that the introduction of slot machines could impact wagering levels at the tracks. Consequently, it was decided that the horse racing industry would get a share of the slot machine revenues. The industry share was set at 15.5 per cent of on-track slot machine revenues at the two racetracks (approximately \$6 million per year). In each of 2011 and 2012 the province provided an additional top-up grant of \$4 million, making a total annual grant of \$10 million to help the industry remain viable and to support revitalization efforts and the agricultural industry.

Beginning in 2013 the industry's share of net revenue from slot machines at the two racetracks was increased to 25 per cent. This will constitute the total amount of support from government. If the industry's share of racetrack slots is more than \$10 million per year, that will be the industry's good fortune. Conversely, if slot revenues decline, the industry's share will decline accordingly.

While the above change introduces the elements of upside gain and downside risk, it is welcomed by the Committee and is much appreciated. It should provide the industry with much needed financial stability, which should in turn boost the confidence of breeders, owners, trainers, track operators, bettors and others.

PART TWO

GUIDANCE TO THE HORSE RACING INDUSTRY

The Committee has recommended ways to revitalize B.C. horse racing at the industry level so that individual breeds may thrive.

Each breed should, within its management group, develop its own business strategy and make its own decisions. The Committee would step in only if required to provide oversight or dispute arbitration.

NEW RACING BUSINESS MODELS

As a result of the marketing and operational differences between Thoroughbred and Standardbred racing, each breed must operate under its own new business model. However, to be successful, both breeds must focus ruthlessly on three objectives:

1. **Keep current horseplayers** and enhance their experience betting on horse racing;
2. **Transform the live racing experience** to attract a vibrant new generation of fans; and
3. **Convert new fans of live racing to horserace betting enthusiasts** who also bet through TBC and racebooks, assuring the industry's future.

On the way to achieving these objectives, the Standardbred and Thoroughbred Management Groups must manage the industry risks such as horse supply and breadth of ownership.

Standardbred Business Model

As noted above in the discussion of today's competitive environment, it must be recognized that horse racing is not competing only against other horse racing venues and other forms of gambling, it is competing against restaurants, the movies, the Vancouver Canucks, the B.C. Lions, the Whitecaps, etc., for British Columbians' hard-earned entertainment dollars. And the competition is fierce.

Competitive Advantages

Nonetheless, the Standardbred racing experience at Fraser Downs presents a number of important competitive advantages:

Low Cost Structure

- Standardbred racing provides a highly entertaining and engaging experience at a lower cost than Thoroughbred racing;
- Revenue streams other than wagering, such as admission fees and food and beverage, can make a more significant contribution to Standardbred's bottom line; and
- The lower cost also makes the sport more accessible and enables families to become involved in horse ownership and operation.

Quality Facility

- Though some changes may be required to meet the needs of a new business plan, the facility at Fraser Downs is in good condition and provides a professional atmosphere for racing.

Unique and relatively inexpensive family and casual entertainment offering

- Standardbred racing compares favourably to other professional sporting events and other forms of live entertainment. During our consultations we heard repeatedly that Standardbred racing was attractive to families as entertainment and as an activity to

become engaged in. Thought should be given to the feasibility of providing families with an entertaining, non-betting experience of Standardbred racing.

Market Position

Standardbred racing should be positioned in two ways: as an engaging activity for adult bettors to enjoy with friends and colleagues, and, insofar as it is viable, as value-oriented, non-betting live entertainment for families who are not interested in betting.

Business Strategy

The Standardbred business strategy should be based on:

- Understanding active Standardbred bettors and focusing on their needs and desires; and
- Diversifying the revenue stream by offering such value-oriented live entertainment services as food and beverage, consistent with target customers. An admission fee should also be considered.

Thoroughbred Business Model

The Committee researched other tracks' efforts to survive and found Del Mar Racetrack in California to be of particular interest.

Horse racing in the rest of the United States declined by 30 per cent between 2000 and 2010, but over the same period Del Mar increased attendance by 26 per cent – and revenue by 36 per cent – despite offering fewer race days.

While Del Mar is able to take advantage of certain circumstances that do not currently apply at Hastings (such as the ability to run an intense short season as part of a regional circuit) there are many aspects of its model that are transferable.

Much of Del Mar's success can be attributed to its innovative marketing strategy. The Del Mar strategy has two specific targets: young, affluent women and veteran big bettors. Through special events such as Ladies Night, women enjoy watching the races and wagering in a social setting. They also attract men to the track, many of whom are new to horse racing and are potential fans. Del Mar also provides other entertainment in the race day package, such as music concerts. This makes for a very social, entertaining environment.

To keep its traditional audience of veteran and high net-worth bettors, Del Mar conducts dedicated marketing campaigns and provides on-track discounts and similar loyalty rewards.

The Committee believes that these and similar strategies would result in increased revenues at Hastings. Some of the recommendations that follow are being undertaken already, some are not. The Committee believes that to be successful, the operator and breed must fully commit to transformation of the business model, leaving many past practices behind.

Competitive Advantages

As noted above, the horse racing industry must recognize that it is competing for people's entertainment dollar.

In this context the Thoroughbred racing experience at Hastings has a number of important competitive advantages:

- **A hyper-social sporting event**
Unlike at a Canucks game and most other sporting events, Thoroughbred fans are not required to stay in their seats and interact only with those directly around them. The free-flowing movement of people makes the Hastings experience many times more social than attending other sporting event; and.

Add the aspect of betting, and the Hastings experience can become hyper-social as old friends and even passers-by discuss winning strategies, competing with one another or supporting the same horse. This creates a level of social interaction and engagement that is difficult to match in most other forms of entertainment.

- **A stunning physical setting**

While it is acknowledged that the facility could be improved, the geographic setting of Hastings – with the ocean and mountains in the background – is breathtaking. Many well-travelled fans describe it as the most impressive racetrack setting in the world.

- **A celebrity ambassador**

The spring and summer of 2012 saw the emergence of a local hero in international horse racing. Locally trained jockey Mario Gutierrez rode to victory in both the Kentucky Derby and Preakness Stakes, shining a spotlight on Hastings Racecourse that marketing campaigns should continue to capitalize on.

Market Position

Hastings must present a unique hyper-social entertainment environment that offers more than traditional racing. It should strive to become a trendy entertainment venue-of-choice that attracts young, affluent people every raceday.

(Credit goes to Hastings management for promotional efforts to date that have begun to attract this type of clientele. Continuing such efforts is encouraged.)

Business Strategy

The new Hastings business strategy should:

- Ensure the best betting experience for big bettors through a focused strategy to meet their needs. These people are key to cash flow in the industry. However, they are getting older and a complementary strategy to attract the next generation is required;
- Attract young people by continuing to evolve the brand and further developing the social side of the Hastings experience. This would energize the environment, benefiting new and veteran fans. At the same time, strategies should be developed to educate and encourage the younger crowd to become the bettors and horse owners of the future; and
- Diversify income streams, reducing the current reliance on wagering. This approach has been achieved very successfully at Del Mar, and elements of this strategy are transferable to Hastings.

Risks to the horse racing industry

The Committee has identified key risks that the industry must mitigate:

Reliance on government funding

While government has recently strengthened its financial support for the industry – and there is no indication of a change in this regard – there remains a risk that B.C. horse racing could experience government funding reductions in the future. Reductions have occurred recently in other Canadian provinces. The industry would be wise to recognize this risk and work towards future financial sustainability in the absence of direct government support.

Uncertainty regarding lease

In the case of Hastings, the lease renewal is another key aspect of stability. Great Canadian Gaming Corporation recently secured a two-year lease, giving the Committee time to complete this report and to set the future path of the industry. The Committee expects the lease renewal that follows this report to be long-term. The City of Vancouver has confirmed its interest in seeing horse racing at Hastings well into the future.

Uncertainty regarding horse supply

Stability and future prospects are critical to breeders who must make decisions today based on what is expected to happen three to five years in the future. This is why the provincial government's move to solidify slot machine revenue sharing was so important.

Public perception of the potential danger to horses

A number of media outlets across North America have reported about thoroughbred horse injuries, deaths and drugging. The public perception regarding horse health has the potential to have a serious impact on any industry rejuvenation. The B.C. industry must continue to do all it can to make B.C. tracks as safe as possible and communicate effectively on this issue.

Potential decline in horse racing product in other jurisdictions

The lack of control over imported simulcast racing product reduces revenues. This risk materialized in late 2012 and has carried on into 2013 with significant impact on industry earnings. Efforts must be made to anticipate and mitigate these risks.

Track infrastructure

The Hastings facility in particular is in need of upgrading, requiring significant capital expenditures. The business plan must reflect this need.

Performance measures

Measuring industry performance will help the Committee and the industry assess progress and make appropriate adjustments to business plans and/or marketing in the future.

Performance yardsticks must reflect the principles guiding both this plan and the four requirements for track success outlined below. In order to accomplish this, the following performance measures are proposed and will be refined in the coming months:

Adequate Supply of Horses

- Establish an appropriate benchmark for healthy industry. Measure against the benchmark annually;
- Monitor and strengthen field sizes to provide a viable and attractive wagering product.

Robust Wagering

- Monitor wagering volumes.

Broad-Based Horse Ownership

- Monitor horse ownership and compare with past numbers;
- Monitor horse population and the concentration of horses in stables.

Owners and Operators Who Are Working Together for Innovation

- Encourage business innovation;
- Promote capital and operating investments; and
- Promote and provide information regarding potential operating cost reductions.

Tactical guidance for the horse racing industry

The following suggestions are offered at a more detailed level.

Takeout

Aside from government funding and very limited food & beverage revenue, wagering is currently the sole source of financial support for British Columbia's horse racing industry.

Takeout is the amount of commission charged on wagers. In B.C. it averages about 18 per cent of the gross amount wagered by bettors on all races. Under the current model, takeout is shared between the Track Operator and the horsemen associations of both breeds, enabling them to conduct racing in the province.

Takeout is akin to taxation. Governments grapple with taxation levels and find that too much tax drives some businesses to relocate to lower-tax jurisdictions. The same applies to takeout and horseplayers. If takeout is too high, horseplayers will opt not to wager, to wager on lower takeout tracks or to wager on other sports.

In recent years, thanks to enlightened thinking on the part of the Track Operator, B.C.'s racetracks have taken a prudent approach to takeout. Takeout on traditional win-place-show wagers (picking horses that finish 1st, 2nd or 3rd in a race) is now 15 per cent, close to the lowest level in North America, as is the takeout on some multiple-race bets. Takeout is substantially higher on "exotic" wagers such as exactors, triactors or superfectas (picking the top 2, 3 or 4 finishers in order in a single race).

The Committee feels takeout levels in B.C. should be maintained in such a way that they attract the optimal level of wagering from horseplayers, while providing necessary revenue to the industry.

It must be kept in mind at all times that bettors pay the freight for horse racing in British Columbia. As a result, the industry must do everything it can to create attractive conditions for wagering. Without it, there is no industry.

Length of season / Number of race days

The length of the racing season and the number of race days for each breed at each track would be determined by the management groups of each breed. The Committee would consider the decisions made and would not unreasonably deny them. The scheduling process should include consideration of such factors as the horse population, purse account, costs of keeping the tracks open, horseplayer factors such as hospitable weather conditions and levels of interest, among others. To the extent possible, the racing schedules should balance the interests of owners, trainers, operators and industry workers.

Field size

The Committee recognizes that field size is a critical driver of robust wagering on races. Field sizes for both breeds showed improvement in 2012 compared to 2011 thanks to good management of the horse population and the willingness of owners and trainers to fill races set by the Racing Secretary. These efforts must continue in the future in order to allow the industry to create as attractive a wagering environment as is possible.

Encouragement of horse ownership

The horsemen associations have produced and distributed excellent brochures that educate people about horse ownership and encourage people to buy racehorses. This initiative should continue; the industry needs new blood in the ownership ranks.

Good efforts have been made to popularize ownership syndicates, through which individuals manage financial risk by purchasing a part-interest in a horse.

Encouraging signs were seen at the 2012 Canadian Thoroughbred Horse Society – B.C. Division’s (CTHS-BC) yearling sale, with strong attendance and record average prices paid for horses bought at auction.

It is critical that all efforts be made to encourage horse ownership in both breeds. Without a healthy community of owners, the horse population will dwindle to the point where assembling appropriate fields for racing would be impossible.

Education of bettors

One of the industry’s biggest challenges is the fact that newcomers are intimidated by the intricacies of wagering. This is especially important at Hastings Racecourse, where, in response to marketing and promotional efforts by the track and the Industry Marketing Fund, larger numbers of young people are attending but are not betting in sufficient numbers.

Fan-friendly wagering initiatives are to be encouraged, including deployment at the tracks of Learn-To-Wager Ambassadors and the provision of more betting options. The wagering pipeline needs new feedstock on a constant basis, particularly now as the industry loses by attrition older, veteran horseplayers who account for a high percentage of current wagering.

Interior racing

The Committee was told that viable Thoroughbred tracks in the B.C. interior could enhance their horse racing capacity and provide a “feeder league” to support racing at Hastings.

While such a feeder league could supply desirable equine and human talent to Hastings, resources currently available must be focused on the success of the industry as a whole.

Nonetheless, the feeder league concept has merit. In the future, if sufficient resources become available, it should be investigated.

The Committee has concluded that it is reasonable for the Thoroughbred Management Group to determine whether and when support for Interior Thoroughbred racing is advantageous.

Circuits

Circuits have proven to be very attractive options for track operators. As noted, Del Mar participates in a California circuit that enables it to provide a short, intense horse racing period, resulting in cost reductions and higher marketing impact. Circuits are also very helpful in dealing with declining horse populations.

Efforts have been made by Great Canadian Gaming Corporation to develop a circuit concept with Thoroughbred tracks in the Pacific Northwest. However, to date there has been little appetite due largely to the limited months of good weather available for racing in the region.

The Committee also was told that the Standardbred sector would be well served by an agreement with the Alberta industry under which B.C. horses would race in Alberta and Alberta horses would race in B.C.

However, circuits can make ownership more difficult for smaller-scale horse owners who prefer not to move their horse(s) from track to track.

Options for circuits should continue to be explored.

Quarter horses

Quarter horse racing was suggested to the Committee as a way to address horse shortages and to add more thrill to the racing card.

The Committee and B.C.'s horse racing industry are focused on the revitalization of Thoroughbred and Standardbred racing. Consideration of quarter horse racing would be an unproductive distraction.

At this time, quarter horse racing has virtually no fan base in B.C.

APPENDIX

BC Horse Racing Industry Management Committee Recommendations: Summary

1. That more influence be afforded to the Standardbred and Thoroughbred Associations in relation to the strategic and operational decisions that affect the horse racing industry. (See Recommendation 5);
2. That the breeds be decoupled to enable each to pursue independent strategies and transform their business models. Breeds will continue to co-operate on matters of mutual interest through the Financial Working Group and representation on the Committee;
3. That, as of Jan. 1, 2014, funding be tied to the performance of the respective breed's business plans. The government slot machine revenue sharing grant is to be shared 50-50 by each breed. Other revenue sources, including wagering proceeds and food and beverage revenues, would be split according to a formula to be determined following consultations;
4. That a financial transparency program be established to promote trust and understanding throughout the industry;
5. That a new governance structure be established for the industry as described in the Governance Triangle to formally integrate breed influence and to advance Recommendation 1;
6. That the Thoroughbred breed be represented by one association;
7. That the funding formula be restructured to reflect Recommendation 3. Specifically, all revenue would be distributed to the breeds and each breed would reimburse the Track Operator for the costs of operations. Any surpluses or deficits resulting from operations would be handled in a manner yet to be determined following consultations with industry.
8. That the track operator secure a long-term lease agreement with the City of Vancouver for Hastings Racecourse;
9. That collaboration between the BC Lottery Corporation (BCLC) and Teletheatre BC (TBC) be enhanced to leverage the skills and capacity of BCLC to the benefit of the industry. This may include synergies with BCLC operations through its online site, PlayNow.com. BCLC is also expected to play a continuing role in the execution of marketing plans approved by the breed Management Groups;
10. That on-track strategic and critical operational decisions be made by the Management Group as described in the governance structure (Recommendation 5), and that day-to-day decisions rest with the track operator;
11. That revenue and expenses from the tracks' food and beverage operations be accounted for as part of the overall financial activity of the industry; and
12. That the B.C. government provide stable funding to support the industry and its transition for the future. (This recommendation has been met. The B.C. government announced funding in December 2012.)