

BluSlate Inc.

2018 Sustainability Review for the Manitoba Horse Racing Industry

Prepared for the Government of Manitoba

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BluSlate Inc.
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1. EXECUTIVE SUMMARY

1.1 REPORT AT A GLANCE

1.1.1 Racing Program

Standardbred

Current Race Days	Location	Proposed Race Days	Location
10	Miami, Killarney, Glenboro, and Holland Ag. Societies	Up to 16	6 dates at RREx ¹ and 10 dates at optimal rural Ag. Society sites

Thoroughbred

Current Race Days	Location	Proposed Race Days	Location
50	Assiniboia Downs	50	Assiniboia Downs

1.1.2 Governance

Overall responsibility for the proposed program, requires collaboration between government and the industry. It also requires accountability and transparency. These themes are the foundation of this report.

	Lead Agency	Role
Government	MBLL	Operations and business development
	LGA	Regulation
Industry	RRex	Standardbred
	MJC	Thoroughbred

1.1.3 Recommended Funding Model

A detailed review of the funding model is found in Section 11.4.

Standardbred

It is recommended that the Standardbred racing program will be supported by the following funding model.

Proposed	Source of Funding	Receiver of Funding
Up to \$450,000 annually	MBLL	RREx

¹ See Appendix A for a list of acronyms.

This funding replaces the current funding from the Pari-Mutuel Levy Fund as well as the supplemental grant (\$300,000) and will support six additional days of racing. RREx will be responsible for the distribution of those funds to operators, race hosts, purses and breeders.

See Section 11.4 for more detail on the recommended financial model for the Standardbred program.

Thoroughbred

It is recommended that the Thoroughbred racing program will be supported by the following funding model.

Proposed	Source of Funding	Receiver of Funding
\$7.8M annually	MBLL	MJC

This funding replaces all of the previous funding including the \$5.4M settlement, \$1.15M (plus an additional \$100,000 in 2018/2019) in supplementary grant(s), and the VLT revenue generated from the commercial agreement with MBLL. This, along with the levy recommendations, will provide the necessary operational and reinvestment funds (\$0.5M-\$0.7M) to address the capital requirements for infrastructure and growth. It will be offset by the VLT revenue (~\$1M) that will be reclaimed by MBLL when they assume operations of the gaming floor. MJC will be responsible for satisfying the purses and breeders supports necessary to achieve the primary objective of growing wagering revenue for the industry.

MHRC

It is recommended that the MHRC funding program be based on an annual grant that is derived from MBLL through to LGA.

Proposed	Source of Funding	Receiver of Funding
\$300,000 annually	MBLL	MHRC/LGA

This model replaces the funding that was received through the Pari-Mutuel Levy. This approach removes the reliance on a model that fluctuates annually based on wagering, providing certainty for the regulatory requirements. The quantum contemplates some efficiencies with the LGA operations and some significant changes to standardbred regulatory model.

Impact to Treasury (Thousands)

	Current (2017/18)*	Proposed	Difference
Thoroughbred Program	\$ 9,218.3	\$ 10,037.9	\$ 819.6
Settlement	\$ 5,400.0	\$ -	-\$ 5,400.0
Supplemental Grant	\$ 1,150.0	\$ -	-\$ 1,150.0
PMLF: TB Purse Contribution	\$ 1,320.1	\$ -	-\$ 1,320.1
PMLF: TB Breeders Contribution	\$ 348.2	\$ -	-\$ 348.2
New Grant	\$ -	\$ 7,800.0	\$ 7,800.0
Operator VLT Revenue (20%)	\$ 1,000.0	\$ -	-\$ 1,000.0
Pari-Mutuel Levy (~\$9.6% of handle)	\$ -	\$ 2,237.9	\$ 2,237.9
Standardbred Program	\$ 573.2	\$ 450.0	-\$ 123.2
PMLF: MGWHRC	\$ 273.2	\$ -	-\$ 273.2
Supplemental Grant	\$ 300.0	\$ -	-\$ 300.0
New Grant	\$ -	\$ 450.0	\$ 450.0
MHRC Program	\$ 390.2	\$ 300.0	-\$ 90.2
PMLF: Regulatory Funding	\$ 233.9	\$ -	-\$ 233.9
PMLF: SB Regulatory Operations	\$ 62.5	\$ -	-\$ 62.5
Supplemental Grant	\$ 93.8	\$ -	-\$ 93.8
New Grant	\$ -	\$ 300.0	\$ 300.0
Total Cost to Treasury	\$ 10,181.7	\$ 10,787.9	\$ 606.2

Notes:

* 2017/18 wagering data is based on calendar 2017 results.

1.2 PREAMBLE

Across Canada and around the world, governments have struggled to find the right formula to sustain a robust horse racing industry.

Over the past two decades, as the industry's virtual monopoly on gaming has been eroded, horse racing in most North American jurisdictions has required government assistance to survive.

As the competition for gaming revenue increases, the horse racing industry is in the unenviable position of being a relatively high cost gaming product struggling to maintain a sustainable share of the market.

Even the best efforts of the industry to promote and monetize horse racing have not reached the threshold of self-sustainability.

As this traditional industry has been challenged by the rapid expansion of gaming alternatives, governments have faced a stark choice: find politically and financially acceptable methods of providing a foundation of public support to allow the industry to exist or allow horseracing to succumb to market forces.

This choice is not an issue governments can easily ignore. In Canada, the threat to the survival of the industry is a by-product of two decades of the expansion of most provincial governments into gaming.

To the horseracing sector, this expansion has had the discomfiting effect of positioning government in conflicting roles as the principal competitor, regulator and potential benefactor of the industry. Well-intended public policy choices produced unintended and harmful consequences to the horse racing industry.

What is clear from our study is the unambiguous effect of government withdrawal of long-term support for the industry. In every case of withdrawal of public support, the horse racing industry collapsed.

1.3 THE CASE FOR SUPPORT

We examined many jurisdictions in this study and the overwhelming majority chose to provide the sector with public support.

The public policy objectives for support varied by jurisdiction but centered on four key areas

- i. contribution to the rural economy,
- ii. employment,
- iii. tradition; and
- iv. social license.

Economic Impact

Our study has benefited from a wealth of reports on the economic impact of horseracing. (See Section 9.) These reports reify the notion that the basic premise of the industry – private dollars invested for minimal return – provides a solid base for public support.

Employment

A horse trainer we interviewed described a horse farm as a job factory. Professional horseracing provides employment opportunities for people, including those who often fall into the difficult-to-employ category.

Tradition

The long tradition of horseracing is frequently cited as a compelling rationale for public support.

This is not unfamiliar ground for governments who often chose to invest public funds in a variety of sports and cultural activities deemed to be culturally significant.

Social License

In some cases, the fit of horseracing within the gaming milieu was a key driver for support. The social license provided for gaming within the long-established horseracing footprint was the principal rationale for the Ontario Slots At Racing Program (SARP), for example.

However, as gaming has increased and matured in these markets, the perceived value of the social license provided by horseracing has eroded.

1.4 DEFINING SUSTAINABILITY

The challenge of preserving an active horseracing sector in the face of increasing competition from other forms of gaming and entertainment requires a sustainable horseracing program.

A sustainable horseracing program must produce racing that is well received within the pari-mutuel marketplace and offer sufficient purses and racing opportunities to attract and retain racehorse ownership.

Our report provides sustainability models that are differentiated by breed. The pari-mutuel marketplace, the characteristics of racing unique to each breed and the current state of horseracing in Manitoba, informs this differentia.

1.5 THE ECONOMIC IMPACT OF HORSE RACING IN MANITOBA

Horse racing produces economic activity, jobs and tax revenue for all three levels of government. However, the manner in which this positive impact is complex. Section 9 reviews these complexities in detail.

What is important to underscore here is that the proposed public investment, within a more transparent and accountable framework, will produce an economic dividend much larger than the required investment of tax dollars.

Further, we do not believe horse racing can survive in Manitoba absent both this investment and this improved accountability framework.

We reviewed many economic impact analyses of horse racing in jurisdictions with similarities to Manitoba. Then we applied a methodology founded in these best practices to measure the current and proposed economic impact of the industry.

Overall, we estimate the following current economic impacts of horse racing in Manitoba:

Economic Impact of Horse Racing in Manitoba	
Economic Impact	\$125 million – \$142 million
FTE	1100 – 1750
Total taxes generated	\$34.5 million – \$40.7 million

We believe preserving and indeed growing these impacts is a worthy goal, one that justifies the proposed modest public investment. Section 9 also contemplates the growth of investment, jobs and tax revenue if the industry can meet the key performance indicators outlined below.

Without the investment by the Government of Manitoba, we believe all of these economic impacts – including revenue to the government – will be lost within a few years. No horse racing industry in a state or province like Manitoba is truly self-sufficient. More hopefully, we are confident that the proposed partnership between the government and industry will enable a much more viable industry with greater economic impacts.

1.6 HORSE RACING IN MANITOBA

Our report is a comprehensive effort to inform the options available to the Government of Manitoba in supporting a sustainable horseracing sector in the province.

Currently the industry receives public support from a variety of sources.

These funds are used to produce a series of thoroughbred (TB) and standardbred (SB) races and to support the breeding sector that supplies horses for racing.

Our report focuses on four distinct segments of the market:

- i. The regulatory and governance options for conducting and managing horseracing,
- ii. The operations and role of the principal racetrack,
- iii. The breeding and racing of thoroughbred horses, and
- iv. The breeding and racing of standardbred horses.

We have examined these four components of racing in light of horseracing industry trends and unique opportunities and challenges in the Manitoba market.

1.7 UNIQUELY MANITOBA

This report is a product of considerable experience in the equine and horseracing sectors.

To tailor our recommendations to meet the unique challenges and opportunities in Manitoba, we looked for deviations from industry norms.

The unique characteristics of Manitoba racing, compared to industry norms and trends, are reflected in this report. There is one overriding characteristic of Manitoba racing that informs the rest of our report: the resiliency and dedication of Manitoba horsepersons.

There would be no future for horseracing in Manitoba without the dedication of owners, trainers, breeders, the legion of professionals who have supported the sport through challenging times and the enduring passion of horseracing fans.

It has been our distinct pleasure to meet with many of these fine Manitobans. Their passionate voices were heard, and we are grateful for their genuine open-mindedness as we formed our ideas and recommendations for the future.

1.8 CREATING A SUSTAINABLE INDUSTRY

This report provides a guideline for the long-term sustainability of the Manitoba Horseracing industry.

As previously noted, a truly self-sustaining horseracing industry is almost certainly an impossibility.

As governments have expanded offerings in the gaming marketplace, horseracing has become dependent on public support – in Manitoba as elsewhere.

Our report notes that public investment is provided to the industry in two general forms: integration with the gaming strategy including revenue streams from hosting gaming (racetrack casinos) and/or direct grants to compensate for lost revenue.

Manitoba has provided support to horseracing through a combination of direct grants and gaming integration (VLTs at Assiniboia Downs).

Ontario is an example of a jurisdiction currently transitioning from integration funding (SARP) to direct grants through Ontario Lottery and Gaming.

The public policy advantage of direct grants is the ability to more precisely tailor the public support provided to the industry.

Sustainability is best defined as the combination of race opportunities and purses that support a viable industry.

A sustainable industry model exists within a relatively narrow band of options. The size and scope of a successful racing program must conform to market realities including horse supply, competing jurisdictions and the pari-mutuel marketplace.

Similarly, the options for pragmatic public support of horseracing exist in a narrow range. Overstimulation of the industry can result in the unsustainable market conditions experienced in Ontario under SARP. Conversely, underfunding can result in the expenditure of public dollars with little return from an industry that is insufficiently robust to deliver on performance metrics (e.g. pari-mutuel wager, rural economic activity).

Our report provides options for a sustainable horseracing industry within the confines of the racing marketplace and the dictates of reasonable public policy.

Our recommendations are guided by four overarching elements of a successful horseracing program:

- i. Clear Performance Objectives
- ii. Transparency
- iii. Long-term Commitment
- iv. Growth Potential

Clear Performance Objectives

Clarity of desired outcomes is a fundamental requirement of any public investment.

We have placed considerable attention on key performance indicators (KPIs), reporting structures and funding modalities to ensure that every element of the industry is focused on desired outcomes.

Further, we have recommended funding mechanisms that support the fulfillment of sector specific KPIs.

Transparency

Transparency is another requirement for public support. The horseracing sector is complex, and overlapping variables (pari-mutuel wager gross/net handle, horse production, rural impacts, etc.) obscure the success or failure of the industry in meeting sound public policy objectives.

To remedy this inherent deficiency, we have recommended reporting and funding options that provide both incentives to achieve public policy objectives and clarity in performance reporting.

Long-term Commitment

The horseracing sector does not suffer from a lack of risk. Breeders, horse owners and industry professionals invest in an industry that does not meet the normal thresholds for return on investment.

Horsepersons embrace this inherent risk when they breed mares or purchase a racehorse. They will not invest, however, if the future of the industry is in question or unclear.

The long lead times involved in the production of a racehorse (four to five years) requires confidence in the stability of the industry, ideally for ten years.

The requirement for long-term stability is tempered by the need for flexibility as the racing program adjusts to market forces and the obligation to meet KPIs.

We have recommended a 10-year program with specific KPIs requiring annual reports and a five-year review.

Ideally, assuming the objectives of the program have been met, the five-year review will result in program adjustments as required and a further ten-year commitment thus maintaining the confidence required for investment.

Growth Potential

No industry can thrive if there is little opportunity for growth. Our recommendations provide a path for growth in both of the industry segments.

We recommend funding the Thoroughbred program with 100% of the commissions from pari-mutuel wagering. This funding modality puts the future of thoroughbred racing firmly in the hands of horsepersons. If they are successful in offering competitive races with full fields, they will increase wagering, particularly in the export markets. This introduces a virtuous circle; more pari-mutuel wagers improve purses, potentially providing a better wagering product.

Similarly, the base funding for the principal Manitoba horseracing track, Assiniboia Downs (ASD), must include the necessary incentives to further enhance the customer experience and actively pursue development opportunities.

We recommend creating a Standardbred racing circuit designed to leverage the program's impact on the rural economy. The program will provide a necessary immediate boost in race opportunities for Standardbred owners and the opportunity to build a more robust racing program in future years.

Placing the management of the Standardbred program with an Agricultural Society with proven event management and promotions capacity provides an opportunity for growth with improved product placement and promotion.

We believe the combination of adding some Standardbred racing at Red River Exhibition (RREx), ensuring that optimal sites host the rural program and enhancing local wagering on live races, promises better returns for rural communities and growth for the industry.

In short, our recommendations are designed to produce a sustainable racing program that can prosper and contribute to the culture and economy of Manitoba.

1.9 REVIEW OF THE THOROUGHBRED PROGRAM

Our recommended program for thoroughbred racing mirrors the current fifty days of racing currently offered by MJC. The industry has found a calendar niche that fits with racing in other jurisdictions and provides sufficient opportunities for racing participants and fans.

Scheduling a racing season for thoroughbreds is in many ways an exact science, balancing often-conflicting factors.

From a horsepersons perspective, the race season must be long enough to allow thoroughbred horses the opportunity to compete in class on multiple occasions with long rest periods between races. Purses must be sufficient to cover the cost of racing for horses that are moderately successful. Some of the available gross purse account must be reserved for stakes races (races restricted for specific qualified horses) that offer an opportunity to race for substantial sums.

Horseplayers (individuals regularly making large wagers) also have demands. With a world of racing to wager on, they can choose between race cards offered at the same time in a variety of locations. Relatively small tracks like Assiniboia Downs must avoid offering racing cards that overlap with larger competing tracks.

Two other significant client groups must also be considered in the schedule: horse breeders and racing fans.

Manitoba enjoys a small but dedicated contingent of horse breeders. The production of Manitoba bred horses helps to provide a reliable foundation of young horses to support the racing program. Breeders rely on a market of owners encouraged to invest in Manitoba bred horses by the offering of purse incentives and restricted races.

MJC has developed a large cadre of racing fans. The races we attended attracted larger audiences than we have experienced at similar tracks throughout North America. Satisfying this fan base requires consistent scheduling of races at times that may not be optimal for wagering.

We believe the program that has been developed by MJC has managed these competing demands well. The focus of attention for the thoroughbred community (MJC, HBPA, and CTHS) should be on improving field sizes to attract more wager while continuing to do the good work outlined in this report to attract new fans and owners.

Our recommendation to maintain the current race calendar funded by 100% of the commissions from pari-mutuel wagering will, we believe, provide for the immediate needs of the industry and incent growth in the sector.

Pari-mutuel wager has declined over the last two decades for reasons detailed in this report. The efforts of the Manitoba industry have stabilized wagering levels in recent years and we are confident that more effort will result in modest increases in the net proceeds.

Based on the most recent reports we estimate pari-mutuel commissions (the net proceeds from all forms of pari-mutuel wagering in the province, less the 0.8% federal levy) will be approximately \$5.4 million dollars in 2018.

Currently, all pari-mutuel wagering is subject to a levy for which is retained by Manitoba. A portion of the levy is used for the operations of the Manitoba Horse Racing Commission (MHRC). The remainder of the levy is redistributed through the Pari-Mutuel Levy Fund and used for the thoroughbred purses, the rural Standardbred racing circuit, and breeding programs.

The total of purses and breeder supports for the recommended program is approximately \$4.34M. Dedicating all pari-mutuel revenue (less the 0.8% federal levy) to the funding of thoroughbred racing along with the new grant will provide a modest (approximately 5%) growth in the purse account, would allow for the necessary capital improvements, horseplayer benefits, and operating deficit contribution.

The allocation of these funds will be an important consideration in the negotiation of a funding agreement between MJC and MBLL.

We encourage MJC, CTHS and HBPA to work with FN Developments Inc. to reconstruct the ASD backstretch.

As mentioned above, managing the purse account requires balancing the competing needs of overnight races (unrestricted races open to all qualifying horses), purse incentives for Manitoba bred horses and stakes races (races restricted for specific qualified horses). In many jurisdictions, the competition for limited funds becomes contentious and fractious.

Manitoba is unique in the relative harmony and cooperation between horsepersons, breeders and MJC. Given this cooperative state, we believe it is best to leave the distribution of purse monies to the collective wisdom of MJC, HBPA and CTHS, as part of the recommended governance model.

1.10 REVIEW OF MANITOBA JOCKEY CLUB AT ASSINIBOIA DOWNS

This report makes specific recommendations for the funding of racing at ASD.

Currently, track operations, purses and breeder supports are provided through a complex matrix of funding supports including VLT revenue, direct grants and commissions from pari-mutuel wagering.

Our recommended funding is informed by five imperatives:

- Increase pari-mutuel wager.
- Maintain the Manitoba bred component at 20-25% of the horse herd.
- Increase the number of Manitoba race horse owners.
- Clear and transparent KPIs, reporting and responsibilities.
- Program outcome determined by the industry.

To achieve these objectives, we have divided the funding into two elements: The funding supporting ASD operations behind the grandstand (gaming, event management, physical structure) and funding to support the live racing program (track, grandstand, backstretch, purses and breeder supports).

The recommended operational support, including gaming and event management, is assigned to an agreement between MBLL and MJC, offset in whole or in part by VLT revenue.

Currently these MJC operational costs are supported by the settlement agreement, revenue from VLTs and a direct grant from the provincial government.

The settlement and VLT funding are fixed by agreement (settlement agreement and VLT contract). The direct grant supplements this revenue to the extent required to maintain operations at ASD.

Our review of MJC financials found the total funding provided to MJC for the 2018 racing season is the minimum required to meet operating pressures.

As noted elsewhere in this report, MJC operating costs are at or below industry norms and revenue enhancement from events hosted at ASD exceeds industry norms.

Therefore, we find comfort in the ability of MBLL and MJC to establish a reasonable operating budget, calculate the operating revenue gap based on revenue and expense estimates and agree to annual funding to offset said deficit.

Effectively this would normalize the existing modalities of funding.

Based on our review of the MJC budget we have estimated the required annual grant to be \$7.8M to replace the current VLT, settlement and grant funding, which will, along with the levy recommendations, provide the necessary operating and reinvestment funds to address capital requirements and grow the industry.

This actual amount would be determined by MBLL and MJC subject to the review process that presumably established the current operating grant.

MBLL brings a wealth of experience in gaming operations and is capable of negotiating a reasonable funding agreement.

MJC currently operates with no reserve funds and a list of desired and necessary upgrades for the ASD site.

We would encourage MBLL to establish a funding agreement that provides some additional operating funds subject to MJC meeting targets for revenue generation. We believe this arrangement will create incentives to ensure that MJC continues its excellent record of revenue generation.

The support for racing is provided by the forgiveness of tax on pari-mutuel wagering. We estimate the total commissions from pari-mutuel wagering, less the federal levy (0.8%) at \$5.4M.

Pari-mutuel commissions are variable on several factors – the uptake of Manitoba racing in the international racing marketplace, and wagering on live and simulcast events at ASD and through its distribution channels by Manitoba horseplayers. The recent trend in these forms of wagering is negative to stable. See Section 5 for detailed overview of the role wagering plays in the industry.

2018 funding for purses (overnight and stakes) and all forms of Manitoba TB breeder supports is estimated at \$4.135M.

The recommended model provides for an increase of 5% in purse/breeder supports to an annual level of \$4.34M. This increase is deemed necessary to maintain competitive fields (a necessary precondition for a sustainable industry).

The balance of funds available from the pari-mutuel commissions forecast (\$1.06M) is directed to racing imperatives, which includes backstretch renewal and track/grandstand improvements.

The backstretch (stable area) at ASD dates to the 1960s and is nearing the end of its lifecycle. In total, the facility has stabling for 1,000 horses, however about 25% of the facility is not usable.

The future state requirements are 700 stalls. The immediate need is for renovation/replacement of up to 200 stalls at an estimated cost of \$12,000 each.

In addition to the cost of replacing/renovating the stables, other supporting infrastructure needs capital investment including drains and water mains.

Required or recommended track improvements include lighting upgrades and improvements to the grandstand area.

We estimate the total capital required to fully update the racing infrastructure at \$10.7M. Of this total approximately \$3.2M in capital spending is required in the near-term (200 stalls and water main upgrade).

As outlined in this report, the development of the ASD property is subject to an agreement between MJC and Peguis First Nation.

Our recommendation is for MJC to finance the necessary capital investments to allow for the timely commencement of the required improvements. Such financing would be serviced through the annual funding model (\$0.5M-\$0.7M) and amortized over the effective lifecycle of the capital improvements.

We note that this arrangement has the effect of providing capital upgrades to property that is subject to an agreement between Peguis/MJC.

It is reasonable to ask why we have not required this investment from Peguis/MJC and instead provided for capital repayment from pari-mutuel wager.

Our recommendation in this regard is based on the nature of the capital investment. Stabling, water main and track reconditioning do not generate revenue, do not materially increase the value of the property and are provided entirely for the benefit of the horsepersons who have discretion over the pari-mutuel revenue directed to this purpose.

We recognize that many elements of the racing industry compete for investment.

We have not been prescriptive in terms of the amount of support required for various industry elements (overnight purse, stakes purse, Manitoba bred incentives, direct breeder awards, horseplayer rewards and capital improvements) except as broad outlines.

We believe the industry should determine the investment strategy under the leadership of MJC.

The purse demands, for example, must weigh the requirement to provide sufficient overnight purses to attract competitive fields, the need to incent owners of Manitoba bred horse and sufficient stakes races to attract new horse ownership and horseplayers.

The desired outcomes – increased pari-mutuel wager from deep, competitive fields and the attraction of new Manitoba horse owners – should weigh the balance of these interests.

The investment of discretionary capital improvement funds also requires judgment informed by program imperatives.

Improvement in lighting, for example, will help make the ASD signal more appealing to horseplayers. Renewed stabling would help attract horses and potentially new horse ownership.

We believe the investment strategy that improves horse ownership and pari-mutuel wager is best left to the discretion of the Manitoba Thoroughbred industry. However, we are cautioned by the inability of the industry to work effectively in other jurisdictions.

The racing industry is often characterized by infighting between competing elements (for example horse owners vs. horse breeders), a reluctance to invest in customers (horseplayer rewards) and an inability to execute long-term plans (marketing, capital investment).

These factors provide a strong rationale for industry oversight by governments that chose to invest in the horse racing industry.

Our recommendations are counter to direct government oversight of the racing program. We have recommended allowing the industry to collectively make investment decisions for two reasons:

- Funding racing operations (including capital requirements, purse and breeder supports) entirely through the commissions from pari-mutuel wagering puts the onus on the industry to make wise long-term decisions and grow pari-mutuel wager. Our recommended model puts the responsibility for growing a robust industry in the industry's hands, without the promise or assurance of any future financial support from the public purse.
- The Manitoba horse racing community is relatively small and tightly connected. We believe the industry has the strength and coherence to make wise investment decisions.

On balance, we believe the recommended model provides the incentives required to build a robust industry with the stability provided by secured funding for the non-racing elements of the MJC operations.

1.11 REVIEW OF STANDARDBRED PROGRAM

Historically, Standardbred racing in Manitoba has its roots in the rural fairs where racing, and the novelty of wagering on races, drew large crowds and generated significant revenue.

Over the past two decades, in the face of increased competition from other forms of gaming, the revenue generated by Standardbred racing has declined significantly.

Our examination of Manitoba Standardbred racing found an industry teetering on dissolution.

Currently the Manitoba Great Western Harness Racing Circuit (MGWHRC) offers ten days of racing over the summer months on fair tracks in rural Manitoba. Based on the information available to us, we believe that in 2017, these races provided about \$164,500 in total purses (about \$1,650 per race) and \$62,300 in breeder support (about \$1,000 per horse).

A one-time grant of \$300,000 has supplemented purses for 2018.

Funding for MGWHRC is primarily derived from a 15% share of the pari-mutuel wager levy, less regulatory costs deducted by MHRC.

While many factors have contributed to the decline in Standardbred racing the overarching issue is the decline in wager.

Internationally, horseplayers prefer wagering on Thoroughbred races to Standardbred races. Horseplayers are attracted to competitive fields with deep pari-mutuel pools (the total amount wagered on a race). Wagering on Standardbred racing in North America is concentrated on the few racing products that are capable of generating these favourable conditions (e.g. Mohawk in Ontario,

Meadowlands in New Jersey). The Standardbred fair racing model offered in Manitoba is not attractive to horseplayers.

Local wagering on MGWHRC races has declined dramatically as other gaming products have been introduced in rural Manitoba. Currently the gross handle (total wagering) on MGWHRC races is often less than the cost of *regulating* the race.

In short, the Manitoba Standardbred industry is entirely reliant on a funding source (levy on pari-mutuel wager) that it does not influence or contribute to.

Given the factors mentioned above and detailed in this report, we see little future for Manitoba Standardbred racing as a viable pari-mutuel product.

However, there is value for the rural communities that host races and support MGWHRC. The races contribute financial support to the local agricultural societies (although the contribution from wagering proceeds would be diminished if regulatory costs were fully reflected) and provide a boost to local economies.

A sustainable Manitoba Standardbred racing program must focus on further strengthening the rural economic impact and developing the rural circuit as a viable entertainment product.

Horse supply is an issue for racing in all jurisdictions, none more so than Standardbred racing in Manitoba. Local breeding, a remnant of the now defunct PMU (Pregnant Mare Urine) program, primarily drives the supply of Standardbred horses in Manitoba.

A few breeders provide most of the racehorses. While this supply helps to maintain sufficient horses for a modest race schedule (60-80 individual horses) it makes providing meaningful breeder incentives difficult. Currently Manitoba bred stakes races attract short fields with considerable overlap of owners and breeders, a less than ideal circumstance.

This concentration of horse supply in relatively few hands is the inevitable result of contraction in the industry. The concentration of drivers, owners and breeders from a few families with a long history of supporting Standardbred racing makes wagering and public support for the industry problematic.

The industry must work to diffuse this concentration by broadening the base of ownership, an important KPI for sustainability.

Manitoba Standardbred racing requires additional race dates to prosper. Adding additional race dates is not as simple as providing additional funding for purses and operating costs. There are a limited number of racehorses, owners and trainers in Manitoba. Rapidly expanding the race calendar would quickly exceed the industry's ability to produce competitive races.

Our recommended race program focuses on gradual expansion of race opportunities and purses as the industry focuses on growing the economic impact of Standardbred racing.

We believe Red River Exhibition (RREx) provides the opportunity for the sustainability and growth of Manitoba Standardbred racing.

An agricultural society in an urban setting, RREx offers Standardbred racing considerable event management and promotion experience and access to a large market.

Our Manitoba Standardbred racing program includes the current 10 race days at rural tracks, under the management of RREx. We believe that RREx, with the assistance of MHHI and MSSBA, provides the expertise necessary to locate and promote these races to maximize the impact on the rural economy.

In addition to the 10 rural race days, we propose adding up to six race days at RREx. RREx has the infrastructure (portable grandstands, stalls) and land to affordably build a race track. More importantly, RREx has the event management skills to monetize fair racing (entry fees, food and beverage, etc.).

We propose funding the Standardbred racing program, including operational costs, breeder incentives and purses, from a promotional agreement between MBLL and RREx. Subject to acceptable KPIs, said agreement would be for a renewable five-year term initially capped at \$450,000 annually, allowing for a spend of about \$30,000 per race day.

Assuming KPIs are met or exceeded the program could be expanded in a second five-year term.

We believe this program will provide the Standardbred industry an opportunity for sustainable growth as a valuable contributor to the rural economy in Manitoba.

1.12 REGULATION

The Manitoba Horse Racing Commission is responsible for protecting the wellbeing of horses and the integrity of the sport.

To do so, MHRC licenses all participants and adjudicates races.

Currently the MHRC is funded through a portion of the pari-mutuel levy and fees and fines charged to the industry.

This arrangement is suboptimal in that the MHRC operating costs are not reflected in the fluctuations of pari-mutuel wagering and the inclusion of fees and fines in the budget of a regulator is, at best, awkward.

From a Treasury perspective the funding is circular. Standardbred racing is funded through the Levy account, less a fee for regulation, and then augmented by a special grant. Similarly, Thoroughbred racing receives purse funding from the Levy, pays a fee back to MHRC and then is provided with an operating grant.

We recommend operating the adjudicative and licencing operations of the MHRC as part of the Liquor and Gaming Authority of Manitoba (LGA). Overseeing and reporting on industry operations, funding and KPIs would be the responsibility of MBLL.

MHRC should be funded by LGA with fees and fines returned to the treasury. The risk-based regulatory framework of LGA should be modeled in the new MHRC, particularly as it relates to Standardbred racing.

Our calculations on net fiscal effect on Treasury includes an estimate of \$300,000 (net of fees and fines) for the operation of MHRC.

Considerable effort should be made, in cooperation with MBLL, to reduce the cost of regulating Standardbred races. These races do not attract significant pari-mutuel wager and the protective regime and adjudicative process normally applied to horseracing is cost prohibitive.

1.13 FUNDING CONSIDERATIONS

As previously noted, the current financial supports for horse racing in Manitoba are confusing and sometimes overlapping (e.g. MJC receives financial support from government, some of which it pays in fees to the provincial regulator (MHRC)).

Our funding recommendations seek to provide clarity. Specifically, we recommend consolidating much of the support under a single government agency, MBLL.

We have also provided a guideline for future funding that provides an opportunity for growth in the sector provided that public policy objectives inherent in program KPIs are attained.

The opportunities for growth hinge on five key areas:

1. RREx

Growth in the Standardbred program requires a successful introduction of limited racing at RREx and improvements to the current rural circuit under the leadership of RREx.

We are recommending an increase (from the current funding from the Pari-Mutuel Levy Fund) in direct funding to this program to \$450,000 to provide the base funding for immediate expansion.

Success for this program will require an investment in capital and expertise by RREx, generating new revenue for the program from increased attendance and on-track wagering.

2. MBLL

The gaming offering at ASD (currently managed by MJC) provides the single greatest opportunity for cost recovery, and potentially net benefit to the Treasury.

We compared the revenues generated from 140 VLTs at ASD with other, more modern facilities in Winnipeg. If the gaming offering at ASD were refreshed to deliver optimal revenues or if some of the VLTs were redeployed to more optimal sites, the revenue to MBLL (and the Treasury) would more than cover the cost of supporting the racing program.

VLT Contribution to Racing Program

	Current	Fair	Good	Optimal
Annual Gross Revenue per VLT	\$44,286	\$60,000	\$95,000	\$120,000
Total (140 VLTs)	\$6.2M	\$8.40M	\$13.3M	\$16.8M
MBLL Share	\$5.1M	\$8.40M	\$13.3M	\$16.8M

The table above reflects a sensitivity analysis for the future state revenues that could potentially be generated from the 140 VLTs currently operated by MJC. The cost of the recommended new grants would be mostly recovered with results that achieve the “Fair” scenario. Achieving anything greater than \$77,000 per VLT annually would not only eliminate any impact to Treasury but would also start delivering a net surplus.

To optimize the revenue from the existing VLTs, we recommend MBLL assume responsibility for operating and managing the gaming area at ASD.

In our view, the gaming floor should be renewed and the product offering optimized for the entertainment of ASD guests and horseplayers. We recommend considering the deployment of race themed gaming (historical racing), the provision of poker rooms and the implementation of single-event sports betting (once legal).

The purpose of renewal and reconfiguration is the optimization of revenue from the entertainment of ASD guests and the deployment of the existing 140 VLTs for optimal revenue generation. We believe MBLL has the leadership and management expertise to achieve these goals.

Enacting these recommendations would require rescinding the existing settlement agreement in favour of a long-term (five-year renewable) contract between MBLL and MJC for the operation of the gaming floor at ASD. This agreement would require a payment to MJC equal to the agreed funding gap for operations at ASD.

3. Pari-mutuel Wager

Growing the pari-mutuel wager is critical for the long-term success of the Thoroughbred program.

As outlined in this report, the market for pari-mutuel wager is competitive, however our review indicates that there is a reasonable opportunity for growth through player incentives and providing a high quality-racing product (deep fields, competitive races).

We recommend committing net pari-mutuel revenue (the current estimate is \$5.4M) to purses, breeder supports, player rewards, capital improvements and MJC operations.

This formula provides the combined Thoroughbred community (MJC, HBPA, CTHS) with an immediate modest increase in purse and sufficient funds to address capital needs. More importantly, it puts future growth entirely in the hands of the industry.

If the industry can attract more wager (and we believe it can) the additional revenue will provide income to increase purses, improve breeding programs and further enhance horseplayer benefits.

4. MJC – Peguis First Nation

The mid-term sustainability for Manitoba horse racing is dependent on an MJC-MBLL agreement and the optimization of gaming revenue.

Long-term sustainability must be provided through the commercial agreement between MJC and Peguis First Nation and the anticipated development revenues.

MJC entered into the partnership with Peguis First Nation in 2014. The agreement provided MJC with immediate fiscal stability (retirement of debt and obligations), transferred ownership of some property at ASD and created a partnership for future development/revenue sharing (FN Developments Inc.²).

The 2014 settlement agreement between the Government of Manitoba and MJC provided diminishing grants to MJC over a ten-year period, clearly anticipating revenues from the MJC/Peguis agreement after year four of the agreement.

Our consultations confirmed that the MJC/Peguis agreement provides MJC with significant potential revenues, however the revenues are unlikely to materialize in the timeframe anticipated in the settlement agreement.

The factors effecting the realization of revenue from FN Developments Inc. are complex and outside of the direct control of MJC. We can find no way of incenting revenue generation within the scope of the horse racing program.

We recommend the agreement between MBLL and MJC require annual reporting on the revenue generated through FN Developments Inc. and that revenue from this source be used to reduce the payment by MBLL to MJC while maintaining sufficient incentive for MJC to pursue the development.

The viability of FN Developments Inc. should also be a consideration during the five-year review of the racing program.

5. MHRC

We recommend the MHRC be absolved of responsibility for conducting the business of horse racing (in favour of MBLL) and conduct its regulatory role as a part of LGA.

The operating budget of MHRC is \$538,023 in 2017/2018, funded by a percentage of the pari-mutuel levy and fees.

We recommend funding MHRC through LGA and returning fees and fines to the treasury.

Our funding impact model allows for a \$300,000 net cost to the treasury for this allocation. While we believe there are substantial opportunities for savings from synergies with LGA and a

² MJC Financial Statement 2015, Note 4

streamlined regulatory approach, these savings are difficult to quantify within the scope of this report.

Our recommendation for independent implementation oversight anticipates assistance may be required to realize the potential for savings.

1.14 IMPACT ON TREASURY

The racing programs recommended in this report will provide stability for both sectors of the industry in the near to mid-term.

Stability in this sector will ensure that Manitoba continues to enjoy the employment, tax revenue and economic benefits the industry provides.

Long-term growth hinges on the factors listed above, particularly the long-term success of FN Development Inc. and the Standardbred program under the leadership of RREx.

The impacts of our recommendations on the economy of Manitoba are difficult to quantify for the reasons outlined in the report.

The net impact to the Manitoba treasury hinges on several factors that cannot be precisely quantified without a rigorous audit to establish the operating revenue gap at MJC less the purse, breeder supports and gaming floor operating costs. We have estimated that gap at \$7.8M.

Similarly, the net gaming revenue from optimization of the gaming floor at ASD and the 140 VLTs, and the investment and timeframe for realizing that revenue, are difficult to quantify absent an expert opinion from MBLL.

The impact of implementing our recommendation for the deployment of historical racing and/or other racing themed gaming at ASD and the net effect on revenue for cannibalization, if any, also requires consideration by MBLL.

Impact to Treasury (Thousands)

	Current (2017/18)*	Proposed	Difference
Thoroughbred Program	\$ 9,218.3	\$ 10,037.9	\$ 819.6
Settlement	\$ 5,400.0	\$ -	-\$ 5,400.0
Supplemental Grant	\$ 1,150.0	\$ -	-\$ 1,150.0
PMLF: TB Purse Contribution	\$ 1,320.1	\$ -	-\$ 1,320.1
PMLF: TB Breeders Contribution	\$ 348.2	\$ -	-\$ 348.2
New Grant	\$ -	\$ 7,800.0	\$ 7,800.0
Operator VLT Revenue (20%)	\$ 1,000.0	\$ -	-\$ 1,000.0
Pari-Mutuel Levy (~\$9.6% of handle)	\$ -	\$ 2,237.9	\$ 2,237.9
Standardbred Program	\$ 573.2	\$ 450.0	-\$ 123.2
PMLF: MGWHRC	\$ 273.2	\$ -	-\$ 273.2
Supplemental Grant	\$ 300.0	\$ -	-\$ 300.0
New Grant	\$ -	\$ 450.0	\$ 450.0
MHRC Program	\$ 390.2	\$ 300.0	-\$ 90.2
PMLF: Regulatory Funding	\$ 233.9	\$ -	-\$ 233.9
PMLF: SB Regulatory Operations	\$ 62.5	\$ -	-\$ 62.5
Supplemental Grant	\$ 93.8	\$ -	-\$ 93.8
New Grant	\$ -	\$ 300.0	\$ 300.0
Total Cost to Treasury	\$ 10,181.7	\$ 10,787.9	\$ 606.2

Notes:

* 2017/18 wagering data is based on calendar 2017 results.

Note – The impact on treasury does not reflect the fiscal impact of horse racing in Manitoba including direct taxes, employment and investment. The economic impact of horse racing in Manitoba is outlined in Section 9 of this report.

1.15 PROGRAM RISKS

The sustainable Manitoba horse racing program recommended in this report is not without risk.

The most obvious risk to success is the necessity of executing a number of changes in a relatively short timeframe.

Transfer of management of various components of the program to MBLL, RREx and LGA will require skills development at these organizations.

We recommend bringing the regulatory functions of MHRC under the management of LGA specifically to streamline the cost of regulation to the industry. If the operations of MHRC are simply assumed by LGA without significant change this objective will not be fulfilled.

The program assumes that MBLL can provide expertise in managing the gaming floor at ASD. Optimally enhancing gaming revenue would include creating a better environment for ASD patrons.

In our view, optimization should include considering race themed products not currently included in the Manitoba gaming mix. This will require expanding beyond the current expertise at MBLL.

Horse supply is an issue for North American racing. Manitoba horsepersons have done a remarkable job of retaining horse supply in a tough market, however these efforts will need to continue to supply the needs of a modestly expanded program.

This is particularly acute in the Standardbred industry. The Manitoba Standardbred industry must expand both in numbers of racehorses and in a greater diversity of horse ownership.

Sustainability of the Standardbred racing industry hinges on the ability of RREx to bring this product to the Winnipeg market and to revitalize the rural circuit. While we are confident that RREx has the knowledge and leadership required to achieve these goals, short timeframes will necessitate a detailed management plan.

As noted in the report, the long-term health of the Thoroughbred industry hinges on the success of FN Developments Inc. Implementation of the sustainable racing model must include encouragement of development at ASD.

Long-term stability is a requirement for sustainability. We have recommended a series of five-year renewable commitments executed and managed by MBLL. This program will require specific KPIs, annual monitoring and detailed program reviews at five-year increments.

1.16 PROGRAM IMPLEMENTATION

MBLL is the lead agency in the execution of the sustainable horse racing program. We recommend MBLL create a transition plan and budget to achieve specific goals:

- Stabilize the industry through a transition year (2019),
- Execute the agreements (RREx, MJC) necessary to initiate the sustainable program,
- Consult with industry organizations in the initiation phase including the transition of regulation to LGA, and
- Formally adopt the KPIs, reporting and revenue structure.

To assist in this transition, we recommend MBLL retain external project management for the transition period.

If this report is adopted in its entirety, we envision the 2019 racing season as a transition year with an extension of current funding agreements.

The new sustainable racing program would be initiated in 2020, subject to successful negotiation of required contracts and agreements.

Pari-mutuel wagering is a cornerstone of Thoroughbred racing. It is apparent that the Government of Canada will, at some point in the near term, consider amending the Criminal Code to permit single-event sports wagering. If passed into law, single-event sports wagering could, depending on regulations and implementation, have a detrimental effect on pari-mutuel wager if it attracts bets away from horse racing.

MBLL should monitor this and other developments (off-shore wagering) that might potentially erode the revenues of the Thoroughbred program, rendering it unsustainable. Implementation plans for single-event sports wagering in the province should consider the potential of an integrated approach with racing to minimize the impact and maximize the opportunities to create incremental gaming revenue in the province.

While our recommendation is for MBLL to lead the new program for the reasons noted, we recognize the possibility that government may prefer to have an alternative agency or ministry administer/fund the program. We have addressed that possibility in Sections 1.9 and 10.

1.17 FINDINGS

1. **The horse racing industry provides meaningful economic benefits to Manitoba.**
The industry provides employment (often for persons deemed difficult to employ), generates direct tax revenue and is an important contributor to the economy of Manitoba.
2. **To meet any test of sustainability Manitoba horse racing requires some form of public support (access to gaming revenue, direct grant, etc.).**
Provinces that provide public support (B.C., Alberta, Ontario) have viable horse racing programs. Provinces that have withdrawn public support (Quebec and Saskatchewan) experienced the collapse of the horseracing sector.
3. **The Manitoba horseracing sector is comprised of two distinct breeds, Standardbred and Thoroughbred, which should be treated as separate entities.**
Standardbred and Thoroughbred racing are distinct in history, purpose, market, racing conditions and breeding modalities. The two industry segments require different supports and KPIs to ensure sustainability and provide distinct rationales for public support.
4. **Public funding for horse racing should be based on clear objectives and measures, subject to KPIs that are within the scope of influence of the sector and meet reasonable tests of transparency.**
Current funding is comprised of a levy on pari-mutuel wager, direct grant funding, revenue from onsite gaming at ASD and a 10-year settlement agreement. This is a complex funding mechanism that creates difficulty in measuring industry performance and often leaves industry segments dependent on an uncertain revenue stream they have little or no influence over (i.e. Standardbred and regulatory sectors derive revenue from pari-mutuel wager but do not contribute or influence the wager handle).
5. **Horse racing should be included in the overall Manitoba gaming strategy.**
Wagering on Thoroughbred horse racing provides a unique opportunity to export a Manitoba gaming product to other jurisdictions. Horse racing clients (horseplayers) are a unique segment of gaming customers attracted to intelligent wagers (fantasy sports, single-event sports wagers, poker, pari-mutuel wager). The Manitoba gaming strategy should include targeted gaming products offered at ASD and through the pari-mutuel portal (HPIbet.com).

6. The current Thoroughbred program at ASD is at the low end of sustainability.

Thoroughbred racing requires a racing season that provides opportunities for horses to run in class at least four times in a season for reasonable purses. A sustainable racing program will support the cost of upkeep for a horse with a successful racing season.

We note that slightly reduced purses at ASD in 2016 caused a shortage of horses, producing small fields and reducing the pari-mutuel handle.

The current program of 50 days of racing and \$3.6M in purses (including stakes) is sustainable. Any material reduction in race opportunities and/or purses will lead to the collapse of the industry.

7. The current Standardbred racing program is unsustainable.

The rural racing program has recently been altered to 10 race days (one per week) over the summer months. This level of racing is not sufficiently robust to maintain a fulltime, professional racing industry.

We note that this program requires 60 – 80 individual racehorses to be viable. Recently the current program has experienced difficulty in attracting the lower end of this range despite an increase in purses.

The rural circuit is well received in some communities and actively supported by agriculture societies. Even with this support and a small but enthusiastic group of owners/trainers/drivers, the circuit needs long-term certainty and increased racing opportunities to be sustainable.

8. Pari-mutuel wagering can be optimized for Thoroughbred racing. There is no market for increased wager on Standardbred racing.

Thoroughbred racing at ASD has a market presence that could be enhanced with more competitive racing and larger fields. The Thoroughbred industry should be incented to improve the marketability of the racing product.

No meaningful potential expansion of pari-mutuel market exists for the current Standardbred racing program. Our study of the expanded racing program suggested in 2016 for the Winnipeg market concluded that there is no external market for wagering on this product. If offered into the horseplayer market, it is doubtful that net proceeds from the handle would cover costs of transmission.

9. Supports for Manitoba bred racehorses are suboptimal.

Thoroughbred racehorses require live cover and therefore depend on stallions resident in a reasonable shipping distance. Herd quality requires a selection of stallions that cannot be supported solely on the small broodmare band resident in Manitoba. Breeding supports for Manitoba bred horses reflect market realities and work cooperatively with breeding programs in adjacent provinces and states.

Standardbred breeding in Manitoba is strongly influenced by the collapse of the PMU industry. The few remaining breeders are enthusiastic supporters of the industry however are too small

in number to support stakes programs restricted to Manitoba bred horses and/or direct breeder awards.

10. ASD requires capital improvements.

ASD is a destination for group events in the greater Winnipeg area. The gaming floor is sub-optimal and requires refreshment.

The ASD backstretch dates to the 1960s and requires replacement of at least 100 stalls (capital cost \$1.2M) immediately. The four areas of priority are:

- i) Barn and stalls
- ii) Watermain
- iii) Grandstand
- iv) Track lighting

11. There is little opportunity for cooperation between Red River Exhibition and ASD.

Two adjoining properties owned by not-for-profit entities in the agricultural sector intuitively should have efficiencies from cooperative efforts. Our examination found that seasonal demands for the properties overlap thus negating any opportunity to jointly use barns and other facilities. Sharing of track maintenance equipment is one probable area of cost reduction/avoidance.

12. Effective and efficient regulation of racing should not be funded from pari-mutuel wager.

While regulation is required for pari-mutuel wagering the regulatory body has little to no effect on the conditions that attract wager (deep pools, competitive races, large fields). Regulation would be best funded as an agency of the government subject to normal cost reporting.

13. Consider recruitment and training of Indigenous persons for the ASD backstretch.

We note that some efforts are underway to encourage the training of Indigenous persons for employment in the horse racing industry. These efforts should be encouraged.

1.18 RECOMMENDATIONS AND KEY PERFORMANCE INDICATORS

1. Standardbred Program

Rural racing circuit should be expanded from 10 days to up to 16 race days – 10 days of rural racing and up to six days of racing at RREx.

This program should be focused on supporting the agricultural societies and communities that host races. RREx should administer the program.

Government funding should be limited to up to \$30,000 per race day (up to \$450,000 annually).

Program should be funded for five years with annual reporting and a full review in year four.

Funding should be provided by MBL as part of their promotional/community support budget.

KPIs

Licensed Owners

- 2017/18 MHRC reported 31 licensed owners. Program should demonstrate annual growth in licensed owners.

Individual Starters

- Program requires 60-80 available horses for each race day. Program should report available horses (box) for every race day and demonstrate growth in field strength

Attendance

- Program should record attendance for each race day (estimate of crowd size at mid point of daily race program). Program should demonstrate growth in attendance.

Revenue

- Program should measure direct revenue generated (gate receipts, program sales, wager, food & beverage). Program should demonstrate growth in revenue.

2. Thoroughbred Program

Thoroughbred program should be maintained at 50 race days at ASD.

Total purse/breeder support should be budgeted at \$4.34M with the balance of revenue from pari-mutuel wager (estimated at \$5.4M) committed to capital improvements, horseplayer benefits and MJC operating requirements.

Racetrack operations should be supported by MBLL, subject to a management agreement between MBLL and MJC.

Program should be funded for five years with annual reports and a full review in year four.

KPIs

- Program should demonstrate growth in pari-mutuel revenue.
- Program should demonstrate increase in average field size.
- Program should demonstrate reduction in individual races with prohibitive favourites.
- Program should demonstrate increase in number of Manitoba based horse owners.

3. Integration with Manitoba Gaming

ASD gaming floor should be focused on two markets; horseplayers (historical racing, poker, event live poker room) and track guests (historical racing, Konami's Fortune Cup, VLT).

Deployment of the current 140 VLTs should be optimized by MBLL.

MJC and MBLL should work cooperatively to increase attendance and revenues at ASD for both gaming and racing as part of the new funding agreement with MBLL. Utilizing the experience and resources of both parties in areas such as events, food and beverage, and marketing will be crucial.

- **KPIs to be determined by MBLL**

4. Regulation

MHRC should be administered and funded by LGA. The commission should work with CPMA to reduce the regulatory burden on low wager, non-simulcast racing (Standardbred rural circuit) and to reduce hearings arising from racing.

Fines and fees should be returned to Manitoba government general revenues.

- **KPIs to be determined by MBLL**

5. Breeding Supports

Standardbred breeder supports should be sourced by agreement between horsepersons and breeders from the funds provided for purses in the rural racing program. Manitoba bred stakes races should only be offered when conditions (number of unique owners and unique horses) allow for competitive fields.

Support for Manitoba Thoroughbred breeders should be determined by agreement between horsepersons and breeders. The program costs should be sourced from the pari-mutuel revenue.

KPIs

- Program should demonstrate growth in number and value of yearlings at CTHS sale.
- Program should maintain number of Manitoba bred horses at 20-25% of unique starters at ASD.
- Standardbred program should demonstrate growth and diversity of breeders/owners.

1.19 RECOMMENDED FUNDING MODEL

A detailed review of the funding model is found in Section 11.4.

Standardbred

It is recommended that the Standardbred racing program will consist of the following funding model.

Proposed	Source of Funding	Receiver of Funding
Up to \$450,000 annually	MBLL	RREx

This funding replaces the current funding from the Pari-Mutuel Levy Fund as well as the supplemental grant (\$300,000) and will support six additional days of racing. RREx will be responsible for the distribution of those funds to operators, race hosts, purses and breeders.

See Section 11.4 for more detail on the recommended financial model for the Standardbred program.

Thoroughbred

It is recommended that the Thoroughbred racing program will consist of the following funding model.

Proposed	Source of Funding	Receiver of Funding
\$7.8M annually	MBLL	MJC

This funding replaces all of the previous funding including the \$5.4M settlement, \$1.15M (plus an additional \$100,000 in 2018/2019) in supplementary grant(s), and the VLT revenue generated from the commercial agreement with MBLL. This, along with the levy recommendations, will provide the necessary operational and reinvestment funds (\$0.5M-\$0.7M) to address the capital requirements for infrastructure and growth. It will be offset by the VLT revenue (~\$1M) that will be reclaimed by MBLL when they assume operations of the gaming floor. MJC will be responsible for satisfying the purses and breeders supports necessary to achieve the primary objective of growing wagering revenue for the industry.

MHRC

It is recommended that the MHRC funding program be based on an annual grant that is derived from MBLL through to LGA.

Proposed	Source of Funding	Receiver of Funding
\$300,000 annually	MBLL	MHRC/LGA

This model replaces the funding that was received through the Pari-Mutuel Levy. This approach removes the reliance on a model that fluctuates annually based on wagering, providing certainty for the regulatory requirements. The quantum contemplates some efficiencies with the LGA operations and some significant changes to the Standardbred regulatory model.

1.20 PROGRAM OPTIONS

Section 10 of this report (Alternative Model Options) examines alternatives to the recommended program.

The first option considered was status quo – continuing the current industry supports.

This option assumes maintaining the current funding modalities including:

- Industry support through the Pari-Mutuel Levy Fund
- Commercial revenue agreement for 140 VLT’s at ASD
- Settlement agreement
- Direct grants (MHRC, MGWHRC, MJC)

This option can be utilized to provide sustainability for the industry if specific deficiencies are remedied.

The most important deficiency is funding stability. As noted in this report, the industry requires stability to encourage investment.

The status quo option requires a long-term (minimum five year) horizon to encourage sustainability.

The Standardbred program (MGWHRC) is not sustainable absent substantial improvements in the event management, marketing and scope of the circuit. If the status quo option is selected, circuit management capacity – including circuit schedule, marketing and revenue enhancement – must be enhanced.

The status quo option does not preclude significant reductions in the regulatory burden, particularly regarding the Standardbred circuit. MHRC should be encouraged to explore industry self-regulation where appropriate.

MJC operations are currently supported with a combination of supports including VLT revenue, Pari-Mutuel Levy Fund, the settlement agreement and direct grants.

As noted in the report the annual grants provided to MJC are intended to supplement the settlement agreement funds. We understand these grants are determined based on submissions from MJC.

As noted, annual or semi-annual reviews of funding requirements are suboptimal in providing long-term security. Formalizing the review process would provide a partial remedy.

While the status quo option, modified to provide stability, would sustain the Thoroughbred program at ASD, it would not address two significant sustainability issues, capital improvements and VLT revenue.

The recommended option provides funding from pari-mutuel wagering to address significant capital improvements required in the ASD property.

If the status quo option is adopted, the cost of capital improvements must be included in future direct grant supports to MJC.

The recommended option features supports for the industry from one government agency, MBLL.

This option is recommended for two reasons; it provides a clear path for program accountability and it allows for optimization of VLT revenue.

We note that government may prefer to fund and/or administer the program through an alternative agency or ministry. The use of an alternative funding/administration modality would not be detrimental to the program, provided that MBLL remains a partner in the solution to optimize VLT revenue, including relocation of some VLTs as required.

Our recommended program is based on a high-level review of industry needs and governance/funding options. Government should consider the program objectives (sustainability, accountability) in light of existing oversight and funding controls.

Regardless of the option adopted (status quo, recommended program, hybrid) several priority issues must be addressed including;

- Long term funding
- Reduced regulatory burden
- Capital improvements at ASD

- Management/marketing of MGWHRC
- VLT revenue enhancement

1.21 RECOMMENDED RACING PROGRAM

Standardbred

Current Race Days	Location	Proposed Race Days	Location
10	Miami, Killarney, Glenboro, and Holland Ag. Societies	Up to 16	6 dates at RREx and 10 dates at optimal rural Ag. Society sites

Thoroughbred

Current Race Days	Location	Proposed Race Days	Location
50	Assiniboia Downs	50	Assiniboia Downs

2. METHODOLOGY

- This report will delve into the complex world of horse racing and will specifically provide recommendations for the sustainability of the sport in the province of Manitoba.

2.1 DETAIL ON APPROACH

- Our approach to this project was to utilize our experience in the areas of horse racing and public policy, and to focus on the specific market conditions that exist in Manitoba with both breeds of racing. This approach allowed for deeper insight into the differences that exist juxtaposed with what is expected from a healthy horse racing industry.
- The following are some additional details regarding our approach with each of the key deliverables with more specificity provided in subsequent sections of this document.

2.2 STAKEHOLDER ENGAGEMENTS

- The role that discussions with stakeholders played in developing this review cannot be overstated. As noted in several sections of this document, we met some fantastic people in this industry that are highly devoted to the overall success of horse racing in the province.
- We met with following groups, in many cases on several occasions:
 - Manitoba Great West Harness Racing Circuit (MGWHRC)
 - Manitoba Harness Horsemen Inc. (MHHI)
 - Manitoba Standardbred Sires and Breeders Association (MSSBA)
 - Agricultural Societies
 - Manitoba Jockey Club (MJC)
 - Horsemen's Benevolent & Protection Association (HBPA)
 - Canadian Thoroughbred Horse Society (CTHS)
 - Horseplayers from Assiniboia Downs
 - Red River Exhibition (RREx)
 - Peguis First Nation
 - Manitoba Liquor & Lotteries (MBLL)
 - Manitoba Liquor and Gaming Authority (LGA)
 - Manitoba Horse Racing Commission (MHRC)
 - Canadian Pari-Mutuel Agency (CPMA)
 - Tourism Winnipeg
- The purpose of connecting with these various groups was to provide a forum for their ideas and opinions to be heard, giving us some context as to what is working, what is not and what could be better in the future. We have engaged them periodically throughout the process to share some of our conclusions as they started to form and test some of the needs for the new model.
- We found these engagements very fruitful and we appreciate the openness of the stakeholders that helped to inform our recommendations.

2.3 ECONOMIC ANALYSIS

- Our approach to the economic analysis was to apply rational industry valuations along with local market conditions to determine reasonable impacts on the province. This included the analysis of the numerous previous reports to determine what are reasonable and logical benefits to apply for this purpose.
- To do this, we needed to do a separate analysis for each breed. While both are in the horse racing business, the purpose, size and scope of each breed is considerably different. We have addressed each breed separately in many areas throughout the report to account for this reality and to ensure clarity in the needs and benefits of each.

2.4 OPERATIONAL ASSESSMENT

- The operational assessment included extensive reviews of financial information and visits to various properties, including the rural harness racing circuit, to truly understand the conditions of each.
- In our assessment we have provided some educational background, analysis of what is currently done, expectations based on our experience and recommended considerations for improvement.

2.5 INTERJURISDICTIONAL REVIEW

- The interjurisdictional review involved researching various markets in Canada and the United States to determine how the industry operates and, where there is government support, how it is done. We have found that the vast majority of markets have some form of additional support for horse racing, and those that do typically involve gaming integration or payments.
- While there aren't many markets that match the Manitoba market in size and scope, we found there was useful information to inform the report.

3. BACKGROUND ON THE HORSE RACING BUSINESS

Origins

- Horse racing is an ancient sport, dating back to 4500 BC where nomadic tribesman of Central Asia first domesticated horses and then began, among other things, to race them against one another. Over the centuries, the sport spread across the globe to all manner of different cultures and geographies. Archaeological records show that horse racing occurred in many ancient civilizations from the ancient Greek Olympics to Babylon, Syria, Egypt and then to the Roman Empire. By the 12th century, the sport developed in England when English knights imported fast Arabian horses upon their return from the Crusades.
- The two broad types of horse racing – mounted racing where a jockey rides directly on the horse and chariot or harness racing where the driver rides in a cart the horse pulls – date back to these early versions of the sport hundreds, even thousands, of years ago.

England and The Sport of Kings

- Though it was in England where modern horse racing really began, it wasn't until the early 18th century when it became a professional sport. As the sport grew, it depended on the hard work of the working class, but really it existed for Britain's aristocrats and royalty. This relationship between the sport and society's upper crust beget the designation "the sport of kings". It was at once of and for society's elite while being aspirational for everyone else. Money poured into the sector to build racecourses, or tracks, to breed faster horses and to bet on the races.
- The earliest version of the sport in Britain is the foundation of the modern sport found in many countries all over the world.
- Critically, the economic dynamic that underpinned the sport then remains the same today: bettors were attracted to bet on the fastest horses which in turn created larger purses for the owners of those horses. The number and size of purses was, and is, the most important incentive to breed more top-level horses which in turn draws in more wager.
- This historic linkage between wagering and the sport is unique among all sports. It is a form of legal gambling throughout the world and the most important revenue source for the industry.

Early Days in North America

- As Europeans began to settle in North America, they brought with them horse racing. On July 1st, 1767 (exactly a century before Confederation) on the Plains of Abraham, a horse named Modesty won the first recorded horse race on soil that would become Canada. The total purse was equivalent to \$40. In the decades that followed, the sport grew. Canada's first race track – the Quebec Turf Club – was established in 1789.

Indigenous Peoples' Contributions

- Any story about the birth of Canada, would be incomplete without acknowledging Canada's First Nations. As it relates to horse racing, Canada's First Nations' relationship with horses changed as European settlers made horses a larger part of all aspects of life.
- By the 19th century, Indigenous people in the Red River area were riding horses to hunt buffalo.
- Across the prairies, horse racing in Indigenous communities grew on a roughly parallel path to those in North America and Britain. Most historians believe that the growth of horse racing among First Nations and European settlers was coincidental. That is, there is little reason to

believe colonial power influenced the sport's growth among First Nations. For millennia, the appeal of horse racing knew no cultural limitations.

- Closer to home, the Blackfoot of Manitoba owned horses that were raced among tribal neighbours. First Nations in Manitoba were racing horses before the settlers followed suit. Although settler breeding farms existed as far back as 1831 (established by the Red River colony's Governor), it was not until 1862 that the races comparable to the one Modesty won decades earlier began in what became Manitoba.

The Early Modern Era

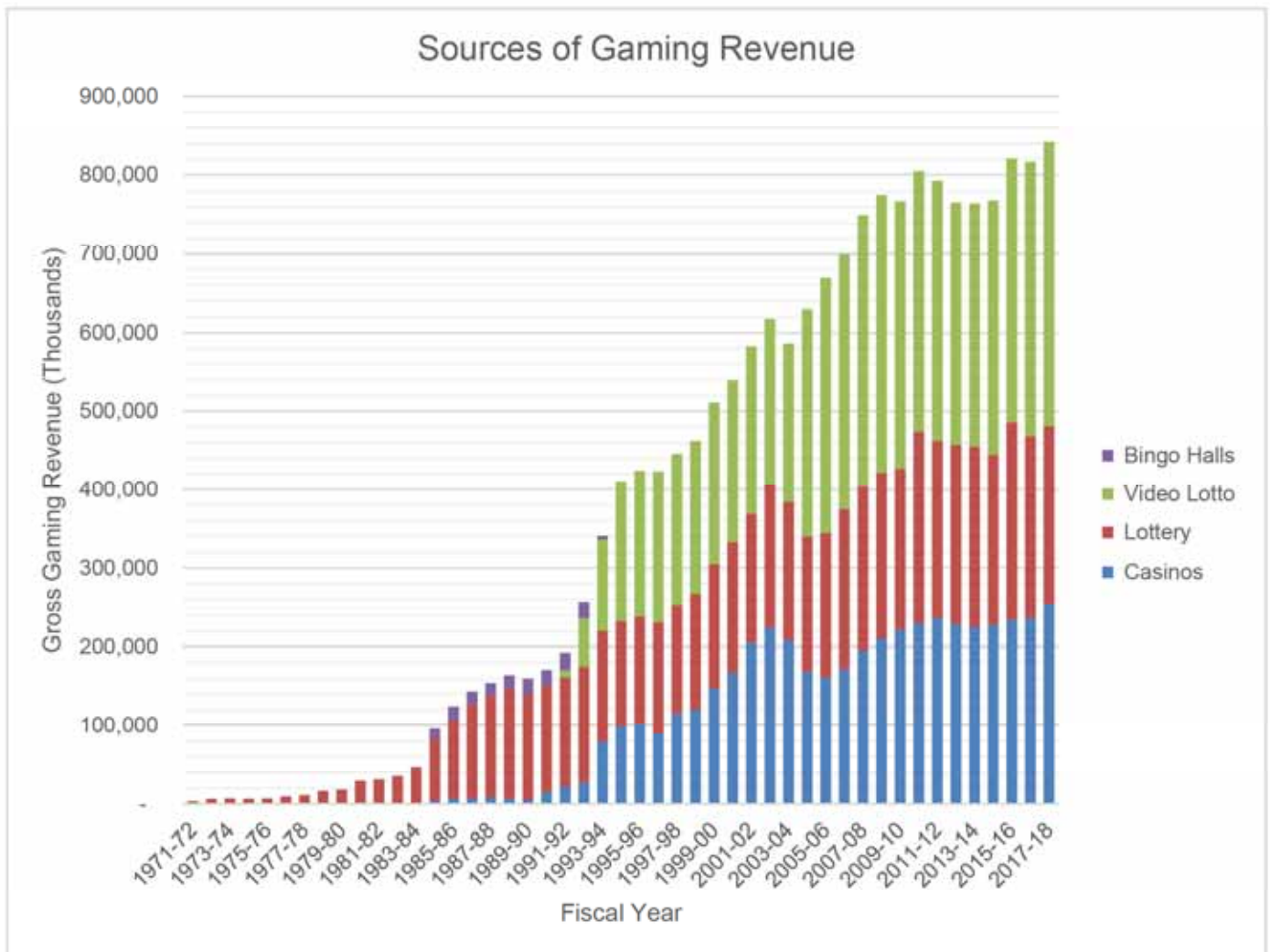
- During the 19th and early 20th centuries horse racing continued to grow, albeit with ebbs along the way. As political or economic events occurred (e.g. world wars) or as consumer tastes changed (e.g. anti-gambling sentiment) the scale of the industry occasionally shrunk, sometimes dramatically. For example, the number of tracks in the United States exploded to 314 in 1890 before shrinking to only 25 in 1908.
- Social mores changed markedly during this period as gambling became an object of much criticism and bookmaking was in fact banned, nearly killing the sport. More positively, during this period, The Jockey Club was created in 1894 in the United States to be the heretofore absent governing authority and to stamp out a large criminal element that had taken over the industry.
- The advent of pari-mutuel betting saved horse racing in 1908. Pari-mutuel betting is a form of betting where all bets on a given race are placed together in a pool and after taxes and 'house-take' are removed, payoff odds are calculated by sharing the pool among all winning bets. It has ever since that time been the economic foundation of the sport's success.
- The industry once again began to flourish until World War II. Although the sport was among the most popular spectator sports (it was second only to baseball in the United States), subtle signals of its coming nearly half century decline began to emerge.
- For instance, the advent of television was the catalyst for football to become a more mainstream sport. The television opportunity was not embraced early by the horse racing industry and once it was adopted, the TV experience of horse racing was not able to live up to the live experience. TV gave horse racing fans and potential fans, more sports entertainment options which started to impact attendance and participation.
- During this transition phase, Canada was making its own imprint on the sport at the highest level. Canada's most famous horse, and one the country's most famous athletes, Northern Dancer, won the Kentucky Derby, the Preakness Stakes and the Queen's Plate (at Woodbine Racetrack in Toronto) in 1964.

Recent History

- There was a rebirth of sorts in the 1970s where a series of competitive Triple Crown races – the Kentucky Derby, the Preakness Stakes and the Belmont Stakes – spurred interest in the sport across North America. In fact, the three separate Triple Crown winners within a few years – Secretariat (1973), Seattle Slew (1977) and Affirmed (1978) – was arguably one of the most stellar moments in time for horse racing.
- The importance of elite level thoroughbred racing to the success of the entire industry is instructive here. People and money are drawn to excitement and glamour of these races and the prospect of seeing a singularly great equine athlete compete.
- The industry was not able to produce a Triple Crown winner since Affirmed. From 1978 until 2015 (American Pharoah), there was no Triple Crown winner and this, among many other

things, contributed to the shrinking popularity and relevance of horse racing throughout the 1980s and into the 1990s. (It is ironic that Justify won the 2018 Triple Crown during the development of this report.)

- The industry was facing various competitive forces during this time. The rising popularity of other professional sports started to impact attendance at the tracks. More importantly from a revenue perspective, the industry in almost every market was also facing increased gaming being introduced by governments. It started with bingos, lotteries, slots and then full-on casinos through physical and online channels. The industry has not been able to modernize its offerings, for various reasons, to compete effectively. This contributed to significant declines in some jurisdictions, particularly in the 1990s and 2000s.



Horse Racing's Current State

- A confluence of interests occurred in the late 1990s and early 2000s that momentarily helped the sport. In many jurisdictions governments partnered with horse racing tracks to introduce video lottery terminals (VLTs) and other forms of gaming at race tracks.
- Both parties benefitted from new sources of revenue. And governments, by locating new forms of gaming at existing gaming sites (i.e. tracks), could claim, not unreasonably, that although

the volume of gaming was increasing, the number of places gaming occurred was not. They were serving their own financial imperative (revenue), meeting a growing consumer need, while protecting the public interest.

- Ontario's Slots At Racetracks Program, for example, was one of the most generous programs, giving that horse racing industry (and the provincial treasury) an artificial shot of revenue. (This program was discontinued in 2013, creating many challenges for the industry in that province from which it has not recovered.) Different jurisdictions – including New York and Manitoba – have implemented versions of SARP.

Uncertainty Creates Risks and Opportunities

- Nevertheless, the sport of kings still faces challenges in most places. Although the specifics vary across jurisdictions in North America, certain trends are common: fewer races, lower purses, lower wager, a growing reluctance of government to support (financially) the sport.
- The reasons are complex and not uniform, but certain commonalities can be found:
- **Gaming Industry:** Horse racing's pre-eminent position in the gaming industry changed dramatically. New types of gaming opportunities grew. Casinos, slots, lotteries and, more recently, online gaming expanded at the expense of pari-mutuel betting on horse races. These forms of gaming are simpler and quicker, and they appeal to more customers. It is notable that much of this gaming expansion was driven by government decisions, e.g. to create a lottery, approve construction of a casino, etc. Further, horse racing, compared to a lottery or even a casino, is an expensive form of gaming. In New York state, by way of illustration, horse racing's share of the gaming market shrunk from almost all of it, to almost none it over the last four decades.
- **Technology:** Apart from television, technology created a separation between the race and bettors. For a very long time, a bettor had to go to the track to place a bet. This created audiences and excitement and economic activity at the track. Telephone betting and now off-track betting (OTB) allows betting to happen away from the track. Technology has divorced the experience from revenue generation.
- **Perception:** Related, while off-track betting does facilitate wagering, it also exaggerates a perception problem for the sport. A successful racing program to an average person may be full stands, well-dressed fans and visceral excitement. The wider distribution of horse racing has served the core wagering customer better, but this availability leads to less attendance and atmosphere on-track.
- **Individual sports:** Some individual sports (e.g. boxing, bowling) have also declined. Others, like golf, tennis and track and field, only draw significant fan interest for the "major" events like Wimbledon, the Masters or the Olympics. This pattern where fan interest is narrowed to the elite events is not unique to, but may be most acute in, horse racing. These elite events are breaking all-time records for wagering and attendance in the sport, but it is challenging to create the same interest for the regular events that are essential for a successful racing program.
- **Urbanization:** The overall migration of people from rural to urban communities has reduced the number of people available to work in the industry and, just as important, to develop the first-hand love of the animals and the sport that is fundamental to any endeavour's success.
- **Economics:** As will be discussed at length throughout this report, the economics of horse racing has been trapped in a vicious cycle for decades. Fewer bettors and lower overall wager leads to lower purses and fewer competitive races, which leads to a still further decline in wager. And this is occurring in the ever more competitive context of other, newer, more

technologically compelling forms of entertainment in general and of gaming in particular. The direct role of government – the underlying purpose of this report – has increased everywhere to support a sport that has experienced declines, partially as a result of the highly competitive gaming market which governments have instituted. Finding the appropriate solution is unique to each jurisdiction and a difficult one to say the least.

Horse Racing's Potential Future State

- This report is built on the understanding that the Government of Manitoba, and indeed governments throughout North America, want a sustainable horse racing industry.
- Equally, our research, discussions with the horse people in Manitoba and our own experience demand that we are honest about the real challenges facing the industry to recommend a program that will be sustainable.
- We are optimistic that it is both possible and desirable to help this sport, whose successes and contributions in Canada predate the country itself, remains viable.

4. REVENUES OF HORSE RACING

- The details of the horse racing industry, overall and in Manitoba, are discussed comprehensively throughout this report. Below is a short overview that articulates how the industry generates revenue to grow.

4.1 WAGERING

- Pari-mutuel wagering is the driving force of horse racing. Whereas other sports rely on revenue from tickets, merchandising, TV rights and so on, horse racing holds a unique place between being a sport and a form of gaming. Wagering drives everything: more wagering revenue leads to higher purses which attracts more and better horses which produces better races and thus more wagering. Everything in horse racing can be measured on whether it helps or hinders wagering.

4.2 FOOD AND BEVERAGE

- A smaller source of revenue overall, but a material one at the tracks, is food and beverage. This revenue source includes group businesses – i.e. larger groups holding a function at the track, either on a racing day or not. Good races and good facilities attract more people to the tracks, benefiting the total revenue from food and beverage. It is important for racing to be compelling and exciting to attract wagering revenue (especially live wagering at the track) which helps finance the capital improvements to make track visits enjoyable. Capital investments in infrastructure help to attract visitors and the revenue they bring with them – wagering, food and beverage, other gaming and ancillary revenue.

4.3 OTHER GAMING

- Gaming (apart from pari-mutuel wagering on races) provides, in most North American tracks, significant revenue for horse racing. VLTs and slot machines are the most popular form of gaming located at race tracks. In some jurisdictions a casino is co-located with a horse racing track.
- Different public policy and industry choices have resulted in different gaming models to support and partner with horse racing across North America and around the world.
- This partnership – between horse racing and other gaming products – is a hallmark of a successful horse racing industry.
- The Government of Canada may consider permitting single-event sports wagering. Single-event sports wagering will affect the pari-mutuel market and the role of horse racing in the gaming milieu.

4.4 ANCILLARY REVENUE

- There are other sources (or potential sources) of revenue for horse racing that fall in this category, e.g.
 - Admissions
 - Parking
 - Parking lot rentals
 - Stall rentals
 - Sponsorships

- Advertising
 - Programs
- As the heading implies, these are not typically material to the overall business model of horse racing tracks.
- However, they are important potential sources of new or expanded revenue for an industry that certainly needs more revenue to be sustainable.

5. ECONOMICS OF WAGERING

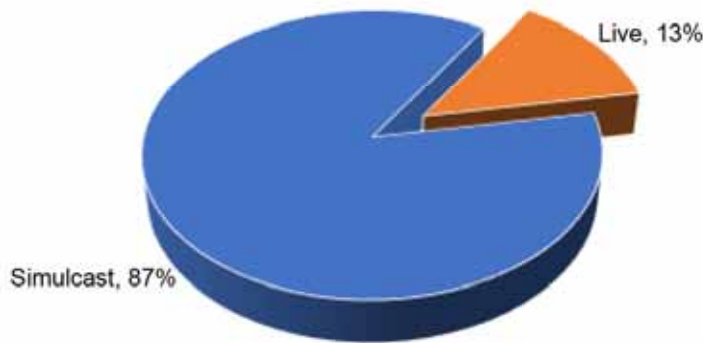
5.1 WHAT IS PARI-MUTUEL WAGERING?

- Pari-Mutuel wagering is well known but is often not officially defined in regulations or legislation, surprisingly.
- The Government of Canada defines pari-mutuel wagering on their website as:
 - “Pari-mutuel betting is an exchange of monies between the bettors, less a percentage of the total monies bet for the racetracks and the federal and provincial governments.”
- Pari-Mutuel wagering is defined in the Association of Racing Commissioners International (ARCI) Model Rules (US regulatory body) as:
 - “Pari-Mutuel Wagering is a form of wagering on the outcome of an event in which all wagers are pooled and held by an association for distribution of the total amount, less the deductions authorized by law, to holders of tickets on the winning contestants.”
- Wikipedia defines it as:
 - “Pari-mutuel betting (from the French: Pari Mutuel or mutual betting) is a betting system in which all bets of a particular type are placed together in a pool; taxes and the ‘house-take’ or ‘vigorish’ are removed, and payoff odds are calculated by sharing the pool among all winning bets.”
- These definitions are consistent and reflect the commonly held understanding of pari-mutuel wagering.
- This form of wagering does not represent any risk for the racing operator as it relates to the betting outcome. Regardless of the outcome or how much is bet on the winning combination, the operators’ commissions (known as “takeout”) are deducted from the gross pool which happens before the payout prices are determined. This makes the operator effectively agnostic to the results. Operators are only incentivized to increase wagering to earn more revenue as it is dependent on volume, not on the race results.
- The difference of pari-mutuel betting to that of casino betting where players are playing against each other and not against the house is an often-misunderstood concept. Put another way, with pari-mutuel wagering the losing customers are paying the winning customers.
- Tracks want players to win more often as they are more likely to “churn” or replay those winnings into subsequent races.
- Racing operators are incentivized to deliver full and competitive races with large pools. These conditions will appeal to more horseplayers, attracting them through the value of higher payouts or dividends. This will generate more wagering which in turn also attracts more wagering.

5.2 WHAT IS THE ROLE OF WAGERING?

- Pari-mutuel wagering in the horse racing business is the primary source of revenue.
- The wagering revenue from all pari-mutuel wagering on horse races (i.e. live and simulcast) is necessary to support the live racing program.

Live vs Simulcast

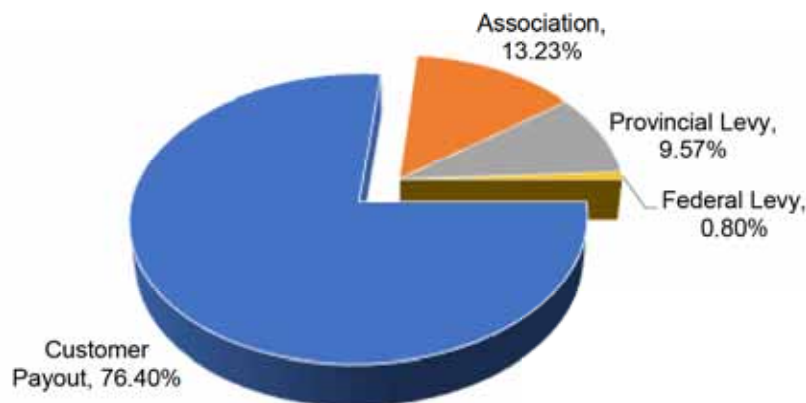


- Live racing is the introduction to horse racing and is the best opportunity to create new fans and deepen the relationships with existing ones. Live racing allows for more education and entertainment.
- Simulcast wagering participants are typically the core horseplayers that follow racing events from all over the world. The Triple Crown (i.e. Kentucky Derby, Preakness and Belmont Stakes) and Breeders' Cup industry events will bring out more casual racing fans looking to participate in the excitement, but those are exceptional events.

5.3 UNDERSTANDING THE NUMBERS

- This chart illustrates how the money bet into pari-mutuel pools is distributed.

Breakdown of the Par-Mutuel Handle



- For pari-mutuel wagering, it is the gross wagering that is reported, which is unlike the casino industry which is reporting on the Net Win or Gross Gaming Revenue which would be effectively the takeout in horse racing.
- In the case of Manitoba, 76.4% on average goes back to the betting customers in the form of winnings. The remainder is used for taxes and operational purposes.
- The average amount returned to customers in the industry is slightly higher at just over 79%, making the total takeout under 21%. The averages depend on the product and the specific market of course but the Manitoba experience is less favourable from a customer perspective.

5.4 REGULATION

- Pari-Mutuel Wagering in Canada is regulated solely by the Canadian Pari-Mutuel Agency (CPMA). This is a federal body regulating Section 204 of the Criminal Code and the accompanying regulations. See appendix C for the Criminal Code. The CPMA regulations can be found through the following link: <http://www.agr.gc.ca/eng/about-us/partners-and-agencies/canadian-pari-mutuel-agency/acts-and-regulations-canadian-pari-mutuel-agency/?id=1204672301124>
- The Regulations also incorporate the ARCI Model Rules by reference. These rules can be found through the following link: <http://www.arci.com/>
- The entire funding of CPMA is done through a 0.8% levy on all pari-mutuel wagering conducted on horse racing in Canada.
- Only provincially licensed racetracks can be approved by CPMA to conduct pari-mutuel wagering on horse races. No other form of betting on horse racing is possible in the country, legally.
- The federal legislation and regulations allow for the operation of Off-Track Betting (OTB) parlours (also referred to as Teletheatres) and Telephone Account Betting (TAB) which includes the use of digital devices for online and mobile betting through approved systems.
- Tracks are assigned Home Market Areas (HMAs) which provides for rights to operate OTBs and TAB in those regions, typically exclusively. The CPMA relies on the provincial regulators to determine the Home Market Areas for each track and will then approve applications made by those tracks based on those recommendations and other conditions as determined by the CPMA.
- In order to be considered for approval to operate OTBs and TAB, racetracks must meet the requirements set out in the regulations including a minimum number of race dates.

5.5 TYPES OF WAGERING POOLS

Common pools are:

- **Win:** the bettor must pick the horse that wins the race.
- **Place:** the bettor must pick a horse that finishes either first or second.
- **Show:** the bettor must pick a horse that finishes first, second or third.
- **Exacta or Exactor:** the bettor must pick the first two horses, in the exact order.
- **Quinella:** the bettor must pick the first two horses, in any order.
- **Trifecta or Triactor:** the bettor must pick the first three horses, in the exact order.
- **Superfecta:** the bettor must pick the first four horses, in the exact order.
- **Super Hi-5 or Pentafecta:** the bettor must pick the first five horses, in the exact order.

- **Double:** the bettors must pick the winners of two consecutive races.
 - **Pick 'n':** the bettor must pick the winners of 'n' consecutive races.
-
- Win, place and show wagers are considered straight wagers. Exacta, Quinella and Double are sometimes referred to as the features or included with all of the other pools which are considered exotic wagers.
 - The amount bet into each pool is called handle (most commonly in North America) or turnover (internationally).
 - Each of the pools listed above are distinctly separate pools and are calculated independently of the others. There is some correlation to them only because betting decisions are often made based on the win odds that are displayed along with the probable payouts (called "probables") displayed for the features. The exotic pool details (i.e. odds and probables) are not typically shown due to their vast number of permutations.
 - Some of the exotic pools have what are known as carryovers. These carryovers occur when there aren't any winning tickets and all, or a portion of the pool is then carried over to a future event where the pool is offered. These carryovers are typical on the Pick 6+ and the Super Hi-5 pools.
 - What has become popular over the last decade or so are single winner jackpot pools. These are just what the name implies. To win the current pool and the jackpot that has been carried over, the player must select the winning combination and have the only winning ticket on that pool. If the customer has selected the winning combination but is not the only winner, they will win a portion of the pool and the remainder will be carried over to the next day (as defined in the approved rules for the pool). This single winner jackpot pool is meant to improve the chances for a carryover which will generate more wagering from players that are seeking to claim that prize.
 - Often operators will let these carryovers build to a point in which they will offer the pool with a mandatory payout. The mandatory payout requires that there will not be a carryover and all proceeds from the day along with any amount carried over to that program must be paid out to winners. Even if there are no winners, the pool will payout on next-best tickets (subject to the specific rules). These mandatory days can become an event in themselves.
 - Depending on the carryover, the event typically generates substantial increases in wagering and can draw the interest of experienced horseplayers that may not typically follow that racing product.
 - It is not uncommon to see the wagering on these events be two or three times that of the carryover. Creating these scenarios is not as easy as it sounds, particularly with small pools and fewer horses per race, but there is the potential to create some excitement around them when it happens.

5.6 WAGERING GROWTH STRATEGIES

- Creating the necessary wagering growth strategies is part art and part science. It also takes time to realize the true effects of the efforts in this area.

- Customers spend a lot of time studying races from a select few favoured tracks. They become good at it, or at least comfortable with it, and to convince them that they need to start following a different track does not happen overnight. The changes need to be well communicated and the offer must be compelling enough for an extended period of time for horseplayers to give it a try.
- Determining and implementing new wagering strategies is effectively a three-step process: Analyze, Test, Repeat.
 1. **Analyze** – Operators must analyze wagering results (i.e. pools and payouts) on their racing product that of other tracks that are imported, along with talking to the horseplayer customer base to identify betting trends and develop strategies to find incremental wagering by changing up the mix.
 2. **Test** – Over an appropriate period (months to seasons) and monitoring along the way, test the changes that have been made along with the appropriate promotion around them to achieve or exceed the desired results.
 3. **Repeat** – Repeat the process from step one. There are many factors that play into optimizing wagering including pool sizes, jackpots, average field size, trends, etc. It is critical that operators are continually exploring and testing innovative offerings for customers to improve wagering results.
- The higher the pool's handle, the more attractive it is for players. The reason for this is that with more money in the pool, the odds are more stable and less affected by individual bets. This is particularly important for the larger players.
- Some factors that contribute to the amount of wagering generated are:
 - Competitive Races with Full Fields
 - Timing of the Races
 - Number of Pools
 - Minimum Bet
 - Takeout

Competitive Races with Full Fields

- The amount of money wagered on horse races is highly dependent on the competitiveness of the horses in the race along with the number of horses in the race (i.e. field). Horseplayers are looking for value in the products that they play. Offering large fields increases the number of permutations for the pools, leading to larger payouts.

Timing of the Races

- It is important for any racetrack operator to ensure that they are offering their races at the most appropriate times to achieve their objectives. Some of these objectives may be competing (e.g. large attendance vs. maximum wagering). If focusing on maximizing the wagering, the races need to be timed strategically. Essentially, a track will forego wagering revenue if it runs a race at the same time as a higher profile race is run elsewhere, because the latter race is where horseplayers will bet their money. We will elaborate more on that in the thoroughbred analysis below.

Number of Pools

- The pools that are offered on a card of racing is considered the wagering profile and it is important to tweak and adjust this profile to find the right mix.

- Operators need to deliver enough popular pools to provide attractive options for horseplayers, while avoiding dilution of the pools to the point of no longer being attractive. This is a delicate balance.
- This is much easier said than done, particularly for small track operators. This is particularly true with operators that are trying to compete with other tracks that are of similar or higher class that are offering the full menu. Sometimes less is more in this case.

Minimum Bet

- The minimum amount required to form a wager has traditionally been \$2.
- The gaming market has been moving into lower denominations. This has been true with the casinos offering penny and nickel slot machines. Racing operators have also moved to lower minimum bet requirements and Canada is typically offering twenty-cent minimums on many exotic pools.
- While that may appear to be risky to the business and ultimately lead to lower returns, it has shown to have the opposite effect. Overall wagering and the cost per ticket has typically gone up in most markets as a result. The lower minimums allow customers to play more combinations with complex exotic wagers.
- This also has the additional effect of improving their chances of winning, which is important to pari-mutuel betting as it is a much better experience for customers and they will typically reinvest these winnings into subsequent races.
- The straight bets are commonly still \$2, although some operators have moved to \$1 wagers. While these pools don't lend themselves well to multiple combinations, it does increase the likelihood of a casual player or someone that is willing to risk a smaller stake on a horse they aren't as confident with.
- Making this change has not shown to reduce the overall wagering in the pool as most players will bet more than the minimum to multiply the relatively small payouts of the straight pools.

Takeout

- The takeout is the commission that is retained from the gross wagering pool. Once the takeout is removed, the net pool is paid out to the customers in the form of winnings.
- The right level of takeout is a never-ending industry debate. There have been countless studies on the best takeout for pari-mutuel pools to attract the most handle while not jeopardizing the wagering revenue that is derived from them.
- It is logical that if there is more money that is returned to the players by way of a lower takeout, they are going to have more money to play with and will reinvest in subsequent races. The true effects of the takeout reduction are arguably not as clear as they once were as the reinvestment path may not be on the same racing product making it very difficult to determine accurately.
- There are claims that by reducing the takeout, the handle will rise accordingly, more than compensating for the reduction. While wagering may go up some as a result of having lower takeouts, our experience in this area along with others that have fully embraced the idea have found that it hasn't worked out exactly as planned. In most cases, operators have had to revert to more traditional levels to recover the lost revenue.
- Takeout matters to the serious horseplayers but is virtually irrelevant to the casual players.
- To realize the benefits of a lower takeout, customers need to win and even then, it is difficult to know what the high takeout is truly costing them in the way of a price differential unless that is shown.

- When there are imported simulcast races offered with differing local takeouts from the host (as is the case in Manitoba), the price differences are made very obvious. These price differences can create significant friction between the horseplayer and the operator.
- The average total pari-mutuel takeouts in the North American industry are as follows:
 - Win, Place, Show: 16-18%
 - Exacta, Quinella, Double: 20-22%
 - Trifecta, Superfecta, Super Hi-5, Pick 'n': 25%
- There are more and more exceptions to these traditional rates as tracks use promotional tactics (i.e. 15% takeout) to attempt to attract more wagering. Some use these low takeouts as a loss-leader essentially, believing they will make up the loss in that pool by customers playing the other pools.

5.7 STANDARDBRED WAGERING PROFILE AND GROWTH ANALYSIS

- The current SB wagering profile consists of Win, Place, Show, Quinella and Trifecta wagering.
- With the exception of the Quinella vs. the Exacta, this wagering profile is what is typically expected at most racetracks.
- While this is typical, the pools for these programs are exceptionally small. This sometimes creates erratic pricing of the pools (i.e. uncovered combinations, and prices affected by an individual bet).
- There is a goal of meeting customer expectations with the quantity and quality of the pools. At these levels, these are very much competing efforts.
- In a brief review of the prices for some of the pools, there is often difficulty in covering all of the combinations with the shallow pools that exist on this product. In our opinion, that is not good from a customer perspective.
- However, with the amount of liquidity that is available on the races, there are limited opportunities to make a material difference in the wagering profile. Considerations may include reducing the number of pools each race in an effort to increase the wagering in the pools that remain. Again, with the size of the pools and the level of betting sophistication of the customers, there is a risk that this may end up being counterproductive.
- It is recommended that the industry consider lowering the minimum wagering to \$0.20 for the Trifecta to hopefully encourage more combinations to be covered and minimize the occurrences of unbacked combinations.
- The industry will need to find ways to package the betting offerings to simplify the betting process and attract more participation from the regulars and new customers. For example, this could include having sellers offering customers packages of bets for a flat fee (i.e. \$5 or \$10 that would include selections from various pools and on various horses).
- This will take some creativity and some trial and error. There isn't much wagering to risk so taking some chances with some creative approaches is encouraged.
- Optimizing the times and days for the racing events will also improve the chances for wagering growth as outlined in the operational analysis.

5.8 THOROUGHBRED WAGERING PROFILE AND GROWTH ANALYSIS

- The pools offered on the ASD thoroughbred racing product are Win, Place, Show, Double, Exacta, Quinella, Trifecta, Superfecta, Jackpot Hi-5, Pick 3, and Pick 4.

- There are a lot of bet types offered for the size of the pools, but the ones used are very common. The Quinella is one that isn't quite as popular in other markets, but it isn't foreign to horseplayers.
- Unlike standardbred, the thoroughbred product is exported throughout North America which creates significant opportunities with some changes in strategic positioning.
- Acquiring market share for this product in other jurisdictions is challenging as they are competing with considerably larger tracks and markets. There is typically a higher expectation for pool size with thoroughbred racing. Customers have grown accustomed to larger pools with the thoroughbreds and some tracks can be discounted quickly because they don't meet those minimum expectations.
- The pools on the ASD racing product are on the low side of that expectation. That is not to say there isn't a market for them. In fact, it may represent a much bigger opportunity for ASD to continue to grow their overall wagering through claiming more market share from existing horseplayers with strategic positioning.
- ASD has already introduced minimum denominations for their pools which is important.
- They have introduced the single winner Jackpot Hi-5 on the last race which provides an opportunity to create a carryover that, may periodically become meaningful. The regular pool is not substantial and being that it is on one race, it doesn't risk diluting the other pools.
- Another opportunity is to reassess the days of the week and the times that the races are run. There are two, sometimes competing objectives when setting the racing schedule; to maximize on-track attendance and to maximize handle. We believe that the track needs to satisfy both of those needs.

Maximize Attendance

- The attendance is maximized by racing when most people are not working (i.e. nights, weekends and holidays). ASD has established itself primarily as a nighttime racing product, which is a good position to be in. It has typically been the time for harness racing, but more thoroughbred tracks are attempting to enter that timeframe to satisfy the thoroughbred horseplayer that isn't available during the day. This is even true of the major thoroughbred tracks as well. It is also a good time for attracting local customers to the track experience to cultivate that local fan base.
- This space is going to be increasingly more competitive and ASD needs to prepare for that. Strategically positioning the races and possibly looking at improvements to their production including upgraded track lighting should be considered.

Maximize Handle

- Among other factors, it is critical to find the optimal days and times to offer the racing programs to maximize handle. This approach should include strategically timing each race within the card as well.
- Making any changes to create additional handle by changing the dates and times to run the races requires careful consideration. Changes in this area may have negative consequences in other areas, such as attendance and Food & Beverage (F&B) revenues.
- Even the source of the wagering is important to consider. The revenue earned from wagering in the local HMA is significantly higher than that of the export wagering revenue.
- With this delta being upwards of four times, this must be factored into the equation to ensure that the net result will be better.

- Some tracks have found opportunities running as a “bridge” product (twilight timeframes, bridging the afternoon crowd with the night crowd) on early weekdays for example. Some have found staying away from the traditional days such as Fridays and Saturdays which is typically highly congested and moving to Thursdays or other nights of the week have proven to be very beneficial from a wagering and an attendance perspective.
- Racetracks also need to be cautious in frequently changing race dates. Changes part way through a season can create confusion for players and can be difficult to communicate to other wagering customers throughout North America, which may in turn negate any benefits of the change. This is not to say that it cannot be done but it is something that should be planned carefully.
- The specific race times are another important aspect to maximizing the wagering on the product. While changes of a few minutes for the off-time of a race to avoid being too close to races from other major tracks seems subtle, it can have a significant impact on the handle. These post time (scheduled times when the races are run) clashes can often lead to significant decreases in wagering (20-50%).
- Conversely, strategically running races in-between races at other tracks can lead to considerable increases in wagering. This needs to be actively managed throughout every racing program to respond accordingly to situations that occur throughout the card.
- This adjustment in the off-time requires coordination with the horsemen, starting gate crew and the stewards. As a result, it isn't a perfect science to properly time the races but tracks that manage this well reap the rewards.
- It is our recommendation that MJC re-evaluate their racing schedule to further optimize the potential of their racing meet. The wagering on the Fridays and Saturdays is significantly lower than that of their Wednesday races, suggesting that another day of the week may be better. It may not be prudent to change both days as it may minimize opportunities to develop local race goers, but there are believed to be some opportunities to move one of those days.
- It is also recommended that the irregularity of the racing schedule be revisited. Offering Sunday afternoon programs at the expense of one of the other regular days of the week can create confusion. It also appears to have negatively impacted the total wagering on some of those days. Sunday afternoons are highly congested in the North American market, and it is not likely that the ASD product will be able to compete effectively for attention and coverage.
- With respect to the takeouts, we find that the levels in Manitoba are considerably higher than many other jurisdictions. This is explained partly by the level of provincial levy (7.5% for up to two horses and 12.5% for three or more horses). The high takeout often creates much friction between horseplayers and operators but that was not as evident in Manitoba as we had expected, surprisingly. This is likely attributable to the fact that the differential has been in place for so long and customers, while not happy with it, have grown to accept that is just the way it is.
- MJC has attempted to address this issue by way of a rewards program for registered players. This program rewards customers for their wagering through cash back and the awarding of points. A program such as this is wise as it delivers the benefits of the rewards to those for which it matters most and contribute the most to the business. This is a program that should be continued and enhanced strategically to maximize the return on that investment.
- The organization is encouraged to test some innovative approaches to the rewards program with their player base. This will come through some trial and error along with some discussions with their influential players to inform those decisions. These programs are sometimes best

left fluid to allow for opportunities to exceed expectations with customers beyond the published program.

6. STAKEHOLDER CONSULTATIONS

6.1 GOVERNMENT

- Our primary contact with the Government of Manitoba has been through the Ministry of Agriculture.
- In addition to the Ministry of Agriculture we met with representatives from:
 - LGA
 - MHRC
 - MB Treasury
 - MBLL

6.2 REGULATORS

- There are two primary regulators of the horse racing business. We met with both of them to discuss the industry in Manitoba. We focused on both the current situation in the province and opportunities for improvements.

6.2.1 Manitoba Horse Racing Commission (MHRC)

- Consultation with MHRC was done early in the process and provided insight into their responsibilities, current conditions and possible outcomes.
- MHRC was formed in 1965 by the province to govern, direct, control, and regulate horse racing and the operation of all race tracks in Manitoba. This includes Thoroughbred, Quarter Horse, Standardbred, Arabian, and Appaloosa racing, although only Thoroughbred and Standardbred racing are offered in the province currently.
- The primary role of MHRC is the adjudication and regulation for live racing events. The Commission does not have any responsibilities with respect to the wagering operations as that is governed federally by CPMA.
- The organization is fully funded through the industry by way of a levy on all pari-mutuel wagering conducted in the province, fines and licensing fees. These funding sources are not directly related to the costs of regulation and are not fully in their control.
- For example, the primary source of pari-mutuel wagering in the province is based on 87% simulcast racing, and only 13% live racing due to the few live racing events that occur in the province. Whether the wagering is \$23M as it is today or a fraction thereof, the cost of regulation, assuming the same number of live events, is no different. Fluctuations in this primary funding source from year to year can put unwarranted pressure on regulatory operating budgets.
- The regulation requirements and related costs for the rural harness circuit are very difficult to justify. The cost to regulate these racing programs far exceeds the gross handle generated from them. We have recommended some solutions to consider in this regard.
- MHRC has responded accordingly over the years and implemented efficiencies in their operations and/or added additional licencing fees to make up the shortfalls.
- Coincidentally with the timing of this report, MHRC has been planning for some transition with its leadership and the reporting structure within government has recently changed with some recommendations from MHRC.
- With these factors in mind, the timing seems ideal to fold the MHRC in with the LGA to take advantage of a consolidated regulatory model. While the adjudication aspect of the

Commission would be new, LGA is best equipped to assume this responsibility as a regulatory agency focused on risk-based regulation.

- We also recommend that LGA initiate a review of the existing rules and regulations to work with the various stakeholders to get the feedback necessary and explore, to the extent possible, the opportunities for industry self-regulation. We expect that taking this opportunity to apply a fresh perspective would be welcomed by all stakeholders.
- With respect to the funding, we recommend that funding no longer be tied to fluctuating revenue from the industry and rely on funding through LGA. The level of such funding should be determined following a thorough review of future needs.

6.2.2 Canadian Pari-Mutuel Agency (CPMA)

- The CPMA is the federal governing body overseeing all pari-mutuel wagering in the country on horse racing, whether domestic or foreign. The purpose is to make sure that the pari-mutuel betting is fair to the betting public.
- Over the last several years, CPMA has been working to centralize much of their supervision through technology. This has created some efficiencies to their operations and changed what is required at the various racetracks. This philosophy has relied more on the track knowing what needs to be done and making sure that it happens. They conduct regular audits and reviews to ensure compliance and the new approach has been working very well.
- This is straightforward for the ASD operations as they are in the heart of the city and it is very similar to many racetracks in Canada with a knowledgeable staff. The rural operations of the harness meet are considerably more challenging due to the minimal activity and wide distribution of the events. As such, CPMA has scaled their operations accordingly for that market with periodic audits onsite and otherwise.
- There is an opportunity to improve some of the administrative challenges of dealing with the various Agricultural Societies for the rural circuit. Currently, each Ag Society makes application to host the live races and conduct pari-mutuel wagering. While everyone is well intentioned, most Ag Society operators are not overly familiar with the process, how it works and what to do. This makes for a frustrating and inefficient experience for the Ag Societies who want it to be right, for the CPMA who is trying to process everything and for MGWHRC who is simply trying to make everything work.
- The pending leadership role of Red River Exhibition to the harness racing circuit should provide some efficiencies in the administration of the licensing. We recommend that they work with CPMA and MGWHRC to simplify the process whereby RREx can apply on behalf of all locations once for the season.
- With respect to the growth in the industry, it is recommended that MJC actively pursue innovations and other new initiatives. This will require a close and positive relationship with CPMA, Woodbine and Racetracks of Canada, along with other racetracks. It is critical that the MJC be aware of progressive opportunities available and work with the CPMA through the necessary channels to influence their approval and implementation in Manitoba.

6.3 OPERATORS

- We have had extensive discussions with the operators of both breeds in an effort to fully understand their operations. We found the Manitoba horse racing sector open, honest, transparent and cooperative. The sector is eager to help find a reasonable future model for horse racing in the province.

- Our discussions included on-site visits to all the rural sites in the harness racing circuit, along with all areas of the ASD property.
- The operational analysis covered later in this document illustrates the operations in detail along with our respective recommendations.

6.4 BREEDERS

Overview

- Most jurisdictions where governments provide financial support to horse racing also support a domestic racehorse-breeding program.
- There are several factors that support the funding of breeding programs. Horse breeding contributes to rural economies, largely the effect of supporting a non-racing horse herd comprised of broodmares, stallions, weanlings and yearlings.
- More recently the issue of horse supply has provided the most compelling rationale for supporting a domestic breeding program. The financial crisis of 2008 perpetrated a significant reduction in the number of race horses bred in North America.
- While breeding has stabilized over the last decade, horse production continues below the 2008 benchmark, resulting in a shortage of qualified race horses at most North American tracks.
- While tracks in regions with dense horse populations can rely on hosting short meets and sharing qualified horses with other tracks in the region (e.g. thoroughbred racing in Kentucky and Standardbred racing in Ontario), the race programs in Manitoba are longer in duration with overlapping calendars that make sharing horse populations problematic (e.g. North Dakota Horse Park, Canterbury Downs, Century Downs, Northlands Park).
- Yearlings foaled in Manitoba ensure a steady supply of horses for training and racing. These locally produced horses are the foundation of the racing programs for both Thoroughbred and Standardbred breeds.

Breeding Fundamentals

- External reviews of the horse breeding sector frequently discover an important, if occasionally uncomfortable, fact: breeding horses is not financially rewarding.
- The total cost of producing a racing prospect (usually offered for sale immediately prior to beginning training as a late yearling) includes the cost of maintaining and depreciating a broodmare, stallion service fees, veterinary costs, the husbandry costs for weanling and yearling years and the cost of sale preparation routinely exceed the average yearling price at sale.
- Breeders are enticed by the notion of a steady return on investment. Much like the horseplayers who wager on races, they bet against high odds that they can produce an outstanding racehorse.
- Rarely do people set out to be breeders. Generally, people enter the racing industry as owners of a racehorse and then graduate to the breeding shed to furnish the next generation of horses for their own use or sale.
- Canada's most famous breeder, E.P. Taylor, began his extensive breeding program in this fashion, ultimately producing that elusive outstanding racehorse: Northern Dancer.
- The core elements of breeding and marketing racehorses are common in both breeds. The long lead times (four years from conception to racehorse) require a stable racing industry to justify investment.

- Breeders also require the financial wherewithal to withstand market downturns, substandard foals and empty seasons (the conception rate in horses is generally 60-70%).
- Encouraging people to make long-term investments in a business wrought with risk is never easy, but it is appreciably more difficult if the industry is unstable.
- There are three key factors that encourage breeders, including in Manitoba:
 - i. A stable, long-term racing industry;
 - ii. A market for horses (as demonstrated by yearling sales averages) bred in a jurisdiction; and
 - iii. The opportunities to have their offspring compete in prestigious races.
- If the industry seems stable (or growing) and sale prices for yearlings are reasonable, more people will breed better horses.

Breed Differences in Manitoba

- The breeding and marketing of Thoroughbred and Standardbred race horses differ in several important ways.
- The requirements for registry differ. Thoroughbreds must conceive by live cover (the stallion and mare physically united) while Standardbreds are allowed to utilize artificial insemination.
- Standardbred mares are routinely inseminated with chilled or frozen semen that has been collected in other provinces or states and shipped to the mare's location.
- This difference in regulations between the breeds has a profound effect on the marketplace.
- For Thoroughbreds, the live cover requirement has produced a North American industry with a dense core of breeding activity within a reasonable shipping distance of Lexington, Kentucky (the home of many prestigious stallions and mares). It is worth noting that even Northern Dancer was drawn to this breeding core, standing one season in Ontario and then moving to Maryland for better access to outstanding mares.
- This breeding density creates unique market challenges for horses outside of the core. External areas with reasonably large, quality herds of mares attract good stallions and produce desirable racehorses (e.g. Florida and California). Breeders in jurisdictions that lack density sometimes domicile their best mares in better markets.
- Thoroughbred breeders in Manitoba are outside of the reasonable shipping distance to large markets and must rely on local stallions to service their mares. This is challenging in the complicated business of genetics where diversity of available bloodlines is an attribute.
- Standardbreds do not face as significant a challenge. The North American Standardbred market is concentrated in the east (Ontario, Pennsylvania, Ohio, New York) but there are active and vital breeding sectors in many parts of the countries.
- Shipped semen provides for diversity of bloodlines, although the cost and uncertainty of international shipments add an element of uncertainty.
- In Manitoba the Standardbred breeding industry has been greatly influenced by the now terminated Pregnant Mare Urine (PMU) industry. PMU provided an unusual income stream for mare owners and Standardbred mares are well suited to the industry. This combination of factors created several large Standardbred breeding farms in rural Manitoba.
- While the PMU industry is no longer viable, two former PMU facilities continue to produce the majority of Manitoba Standardbreds.

The Canadian Thoroughbred Horse Society

- The Manitoba chapter of the Canadian Thoroughbred Horse Society (CTHS) represents the interests of Manitoba breeders.

- CTHS has historically received a portion of the pari-mutuel wager (e.g. \$345,000 in 2017) and, for the last four years, a special grant of \$100,000 from MJC.
- CTHS uses this funding to encourage breeding with three programs:
 - i. Breeder and Stallion Awards: Manitoba bred horses are awarded points for successful races. The breeders of these racehorses are paid a bonus based on the number of points earned. In 2017, \$240,000, or 54% CTHS funds, was allocated.
 - ii. Manitoba Incentive Program Purse Supplement: This program supplements regular race purses with additional purses for eligible Manitoba foaled horses.
 - iii. Stake Races: CTHS sponsors several high purse races for Manitoba bred horses including:
 - \$30,000 CTHS Sales Stakes (Canadian bred/graduates of CTHS sale)
 - \$25,000 Buffalo Stakes (Manitoba bred 2 yr. old)
 - \$25,000 Frank Arnason Sire Stakes (Manitoba bred 3 yr. old colt/gelding)
 - \$25,000 Hazel Wright Stakes (Manitoba sired 3 yr. old fillies)
 - \$25,000 R.C. Anderson (Manitoba bred 3 yr. old fillies)
 - \$25,000 J.W. Sifton (Manitoba bred 3 yr. old colts/geldings)
 - \$25,000 Phil Knives Stake (3+ Manitoba bred colts/geldings)
 - \$25,000 Distaff Stakes (3+ Manitoba bred fillies/mares)
- This is not an unusual combination of direct breeder awards and special purses for locally produced horses.
- Somewhat unique is the inclusion of Canadian bred horses in some stakes races. Given the herd size in Manitoba relative to the B.C. and Alberta markets, it is sensible to incent Canadian bred horses in the Manitoba program.
- Registered Live Foal Report:

Province	2017	2016
Ontario	900	858
Manitoba	49	60
Alberta	231	258
British Columbia	157	193

Source: The Jockey Club

- CTHS is a forward-looking organization running well-received programs.
- Manitoba Thoroughbred breeders have two overarching issues: the stability of the industry and the price at sale of yearlings. The stability issue is addressed elsewhere in this report.
- The price of Manitoba yearlings at sale (2017 average \$5,987) is the lowest in Canada. By comparison, Ontario yearlings averaged \$17,794; Alberta's yearlings averaged \$10,233 and B.C.'s yearlings averaged \$18,293.
- The price at sales is the product of many factors including local incentives, program stability and local trainers and facilities. However, the single most important factor is the ratio of available horses to interested buyers.
- Currently the Manitoba Thoroughbred foal crop value at sale (\$293,000) is less than the annual Manitoba breeder incentive program (\$450,000). Effectively, the market price for Manitoba yearlings is a discount from the incentives offered for racing Manitoba horses. Ideally, the market price for yearlings should be higher than the incentives offered.

- Clearly the CTHS and the entire Manitoba Thoroughbred industry need to find ways to bring more people into the industry as horse owners. A program to achieve this goal through fractional ownership is discussed elsewhere in this report.
- Given that broadening the number of people interested in owning a Manitoba bred Thoroughbred is the focus of all participants in the industry, we recommend combining the funds available from pari-mutuel wager to be distributed in overnight, stakes, Manitoba supplements and breeder awards in the ratio deemed most beneficial to the industry associations (i.e. MJC, CTHS and HBPA).
- This cooperative model recognizes the co-dependency of these elements and the overarching need to incent both the breeding and sale of Manitoba Thoroughbreds.
- While we have resisted being prescriptive in the allocation of available funds, we believe the industry should set a target of 25% for participation of Manitoba bred horses at ASD.

The Manitoba Standardbred Sires and Breeders Association

- The Manitoba Standardbred Sires and Breeders Association (MSSBA) represents Manitoba Standardbred breeders.
- MSSBA in conjunction with two additional Manitoba groups, Manitoba Great Western Harness Racing Circuit (MGWHRC) and Manitoba Harness Horsemen Incorporated (MHHI), manage the racing of Standardbreds in Manitoba including providing incentives to breed Standardbreds.
- The relative size of the industry (recent MGWHRC races have drawn about 60 horses) has required a great deal of cooperation between these organizations.
- Ownership, training and breeding of Standardbred horses in Manitoba is concentrated with a small group of dedicated horsepersons.
- There is a great reliance on Manitoba bred horses in the program (recently over 50%) and a correspondently large yearling crop (about 50 head) for a small program.
- MSSBA offers a robust series of stakes races for Manitoba bred horses, the details for which are outlined on the organization's website.
- The overriding issue for Manitoba Standardbred breeders is stability. After a decade of consolidation, the industry has been reduced to a core of breeders/owners/trainers who are enthusiastic about the sport of harness racing.
- Given that Manitoba bred horses dominate the available pool of racehorses, the current stakes program serves as an incentive to participate in the circuit with a few relatively high purse races.
- We recommend continuing to allocate available purse monies to open and stakes races as determined by the circuit management (RREx) with input from the combined executive of MHHI and MSSBA.

6.5 TRAINERS/OWNERS

- For a large contingent of people, horse racing is a vocation, avocation or hobby. Many come from deep roots in the sport, often carrying on traditions passed on through generations. Whether people are born into the industry or come to it later in life, they embrace the inherent challenges and risks with a deep, personal commitment.
- Horse racing is sometimes called the sport of kings, but the vast majority of the people employed in the industry are far from regal. This is a business rich in long hours and low pay.

- The many studies and reports on North American horseracing we examined frequently mention employment as an important contribution to the public good, often pointing to the work provided for people deemed difficult to employ. What is less frequently captured is the intense attachment horsepersons have to jobs that often pay little more than minimum wage. People are attracted to this industry because they are passionate about horses.
- Most of the people employed in the sector are represented by the Horsemen's Benevolent and Protection Association (Thoroughbred) or the Manitoba Harness Horsemen Incorporated (Standardbred).
- HBPA and MHHI also represent the interests of the people who own race horses. The organizations work with tracks and the regulator to establish a race calendar and protect the health and well being of human and equine athletes.
- On a daily basis, the organizations are challenged in similar ways. HBPA must help to ensure that horses have a reasonable opportunity to run in competitive races during a relatively short season. MHHI works hard to ensure that a sufficient number of horses are available to fill races on the rural circuit.
- Horsepersons groups face a long-term challenge; encouraging people, many from urban areas with no prior history of horse ownership, to participate as horse owners.
- North American race horse ownership has been trending away from large single owner farms that once dominated the industry, to small stables that frequently have three or less horses.
- Race horse ownership is an inherently risky proposition. A promising two-year old prospect might win a stakes race or succumb to injury and never make a track appearance.
- To help mitigate the risk horse owners often form partnerships in stables with two or three (or more) race horses.
- More recently the industry has explored fractional ownership (an individual buying a small percentage share in a horse or horses, usually for a defined period with fixed overhead costs).
- Fractional ownership provides ease of entry for people who have an interest in horses but do not have the knowledge to purchase a horse, or who have a limited budget.
- We were pleased to note that the Manitoba HBPA has introduced a fractional ownership model, the Assiniboia Racing Club. Now in its second year of operation, the club offers a fun experience for potential horse owners at a reasonable cost (a share in the club is offered for \$500).
- Expanding horse ownership is a key element in a sustainable industry. We encourage the regulator to embrace fractional ownership and trust that the expansion into the Winnipeg market will provide MHHI the opportunity to offer a similar product.
- The leadership model we recommend includes input from horsepersons groups. HBPA will play a critical role working with MJC and CTHS to ensure the KPIs monitored by MBLL are achieved.
- Similarly, MHHI will provide input into the expanded Standardbred program under the management of RREx.
- We are confident that MHHI and HBPA can fulfill these responsibilities.

6.6 COMMUNITY AND TOURISM REPRESENTATIVES

- Our research has found that horse racing is well-recognized in Manitoba. This was found through discussions with Tourism Winnipeg, review of unsolicited comments from residents and through our anecdotal tests

- We met with Tourism Winnipeg and learned that there has been a longstanding and productive working relationship with MJC. The racetrack represents another attraction for the city, a draw for visitors.
- Assiniboia Downs represents an interesting opportunity on a couple fronts to interest visitors: entertainment in racing and “convention” space.
- The racing is a draw for some visiting groups and has resulted in planned transportation to the site for groups with some regularity, which is good from both perspectives. These groups are typically not core horseplayers but rather entertainment seekers looking for something different. This creates some additional attendance and exposure for the track along with some opportunity for repeat visits as a result.
- The vast amount of floor space and food services operations at ASD allows for the opportunity to hold larger events as well. Tourism Winnipeg works with the track to coordinate some events that might be of interest. This relationship helps both parties find opportunities to service a greater number of customers.
- While anecdotal, we also tested recognition of ASD through various interactions with Manitobans during our visits (taxicab drivers, restaurant personnel and others).
- The majority of those that we asked responded with some personal experience at the track. For some, the experience involved a planned outing with family and friends every year, for others it was a more frequent part of their entertainment schedule. Regardless of the type of interaction, the feedback was positive and encouraging.
- We had similar exchanges regarding the harness racing circuit, which is a much different experience with the fair-like atmosphere and few events through the year. We found that racing was well regarded and highly recognized. These are close communities and many residents have some interaction through support or simply entertainment.
- The recognition levels and interactions were much higher than we would typically see in other jurisdictions, particularly in the urban core. We believe that this is a testament to the operators in that the experiences have resulted in repeat visits.

6.7 PEGUIS FIRST NATION

- We came away encouraged from our discussions with Peguis First Nation. They are keenly interested in developing the property and finding ways to draw more people to the site.
- Once implemented, the development should result in a meaningful increase in the number of visitors. This will not only generate meaningful additional revenue from the developed amenities but will also provide the opportunity for greater exposure for racing.
- The partnership with Peguis has already resulted in several additional groups coming to the track for meetings or simply entertainment filled evenings. The benefits extend to both parties. These group functions have left a positive impression on Peguis, leading to further bookings. These events also provide additional revenue and exposure for racing.
- We discussed the employment opportunities for First Nations people at ASD. Both parties see the value and are discussing ways to further develop training and employment at the track. The track generates considerable employment opportunities both in equine husbandry and general operations.

7. AN OPERATIONAL REVIEW

7.1 STANDARDBRED RACING

7.1.1 Introduction

- Standardbred racing, also known as harness racing, has been operating rural racing events through the summer months. The circuit is operated at various Ag Society locations throughout the province within a few hours of Winnipeg.
- The host Ag Societies are responsible for all of the upkeep and maintenance of the grounds and the track. They are compensated through a fixed fee per event from the Manitoba Great Western Harness Racing Circuit.
- As such, the tracks and grounds are not sophisticated but are sufficient in most cases provided the weather cooperates. Mother Nature doesn't cooperate 1-3 times per year typically and these dates are rescheduled if possible or cancelled.
- The circuit is currently offering 10 race days per year, spread across four locations (Miami, Killarney, Glenboro, and Holland). They offer eight to 10 races per event depending on the number of horses available.
- There are a few revenue sources for this industry but, unlike thoroughbred racing in the province, the vast majority is not from pari-mutuel wagering. The operations rely on food and beverage, parking and admissions revenue.
- The SB racing circuit has many benefits for the community and Ag Societies, which have come to depend on those racing dates. They attract visitors from outside the town, resulting in additional revenue for the Ag Societies and the local businesses servicing these participants and visitors.
- It is evident that participants in this industry are not motivated solely by financial rewards. This is a hobby for most and they have been able to keep their costs and expectations to a bare minimum to make it work over the last few decades. However, there are signs that it is becoming increasingly difficult to sustain without some confidence of a long-term solution.
- Despite the modest returns on investment and effort, the horsemen and participants are committed to the success and continuation of the sport for generations to come. The industry is built on a love for the animals and a passion for the sport. More than anything else, they are eager to find a solution that is practical and sustainable. Their approach and requests have been reasonable throughout the process of preparing this report. For the industry to survive and continue to serve Ag Societies and their respective communities, the participants must be confident in the future. A long-term program providing some certainty is their primary ask.

7.1.2 Primary Stakeholders

Manitoba Harness Racing

- Manitoba Harness Racing (www.manitobaharnessracing.com) is offered as a concerted effort by the Manitoba Great West Harness Racing Circuit (MGWHRC), Manitoba Harness Horsemen Inc. (MHHI) and the Manitoba Standardbred Sire and Breeders Association (MSSBA)
- This is a close group of individuals and organizations that have developed a cooperative working relationship.

- The organizations are made up of individuals that are participating often in every aspect of the business: breeder, owner, trainer and driver. This has evolved out of necessity and passion for the sport.

Agricultural Societies

- The MGWHRC selects and coordinates with certain Ag Societies to host the scheduled racing events.
- The current Ag Societies participating are located in Miami, Killarney, Glenboro and Holland.
- Horse racing provides benefits to the rural agricultural sector. The events draw people from surrounding areas to experience the horses through competition, showcasing the equine's power and speed.
- The Ag Societies rely on an extensive team of volunteers to pull off these events.
- We have learned that the Agricultural Societies are eager to embrace events that are more closely aligned to their core mandates and purpose.
- The *Manitoba Agricultural Societies Act* states the purpose of Ag Societies as:
 - Objects of a society*
 - 3 *The objects of a society are*
 - (a) to encourage improvement in agriculture, food production and rural living;*
 - (b) to provide leadership in sustaining the social structure of rural communities, including, but not limited to, maintaining educational opportunities and traditional activities in communities; and*
 - (c) to provide programs, services and facilities based on needs in rural communities.*
- The traditional activity of horse racing appears to be delivering on that purpose. The events attract crowds and earn revenue for the support of their operations.

Stakeholder Partnership

- The MGWHRC operates in partnership with the Ag Societies as it comes to operational decisions. The number of events, locations, program costs, admission fees, stake races, etc. are made in a cooperative fashion with the Ag Societies. Decisions are made for the greater good of the circuit. The parties are attempting to balance the needs of all within a finite budget and attract as many people as possible to the events.
- The Ag Societies' role is a significant one. They are the pari-mutuel license holder through the Canadian Pari-Mutuel Agency. They provide all facilities and ancillary services.
- The MGWHRC supplies the racing program of equine athletes along with their handlers and care providers. They also provide the money for purses (through the Pari-Mutuel Levy Fund payment), race programming, and have a coordination role that helps to ensure the events run smoothly.
- Due primarily to the uncertainty of their racing program funding and, therefore, the inability to commit to a long-term business plan, the organizations have had to focus on simply getting-by each year and trying to make it work. This approach has been successful in keeping things going year after year in light of those challenges, but everyone recognizes that some long-term certainty would allow for the proper planning and longer-term objectives to deliver an even more compelling product and attract more fans to the events.

7.1.3 Financial model

- The financial model for the harness racing business is supported through the Pari-Mutuel Levy Fund (PMLF) distribution and the various other revenue sources such as admissions, wagering and food and beverage (F&B).
- The admissions, wagering and F&B revenues remain with the Ag Societies to help them pay for their operations. The gross revenue from wagering at these events is commonly not more than \$1000 per day. It is not currently the main revenue driver for the business but is an integral part of the customer experience.
- The primary expense is the purse money required for these events.
- The annual financial results are targeted to break even. This has become increasingly challenging as the PMLF distribution has been inconsistent as it is based on wagering at other locations outside of their control.
- However, these expenses are made to fit within the money provided where possible. The purses have been the primary adjustable factor as all other costs are effectively fixed costs.
- The PMLF distribution is based on the 15% (\$336,000 in 2017) of the provincial levy collected from wagering throughout the ASD operations on simulcast and their live racing. The amount required for MHRC to regulate the Standardbred industry is deducted from these funds prior to distribution and the remainder is then distributed to MGWHRC for their operations.
- In 2018, there was a one-time grant provided to the industry of \$300,000 that was to be used to help transition them to a new program

7.1.4 Operational Comments and Recommendations

1. Improve the Customer Experience

The industry needs to focus on the customer experience and significantly raise the profile of the events. The customer experience today relies heavily on the racing activity itself without much to surround it to cultivate and attract new customers. Attendees are typically older, with most having some historical familiarity with the sport. This is not uncommon in horse racing where fans are often created through some introduction at young age by a father figure of some kind. Today's younger demographic is much more focused on a faster paced entertainment experience. There is a lot to offer with racing as it is a unique entertainment experience in itself, but the younger audience requires even more stimulation surrounding the races to keep them engaged.

This will require an experienced operator, such as RREx, that can create added value for customers through additional activities coordinated with the racing offering. These solutions should include engaging customers more directly with the equine and human athletes. Some will also include activities that are unrelated to racing (e.g. incorporating music, fair-type activities, fireworks, etc.)

The renewed experiential program should be coordinated with all host sites to ensure that there is a consistently valuable entertainment experience for customers regardless of which race they attend. It may not be important to have an identical experience at each event, but it is critical that the events are delivered in a way that is consistent with the brand as we will discuss later in this section. The experience package should target introducing a new experience every year. It is important that the offering doesn't get stale and customers have something new to experience and talk about. The public is seeking unique experiences and, properly presented, harness racing can deliver on that expectation.

Capital investment will be need for this renewed venture. The industry will need to take some chances and test some different approaches to see what works. These calculated investments are best advised by experienced operators in this space.

The experiential approach will attract new demographics. The operator will need to consider ways to introduce new experiences while not turning away customers that have been attending for years.

1. Grow Admissions and F&B Revenues

The admission fee for these events has been \$3 for the longest time and has been raised to \$5 this year to help generate more revenue. There has been a reluctance to turn away any customer because of the price of admission but it was believed by the committee that this \$2 increase at the door would have a negligible impact on the attendance.

While the approach to date has been prudent based on the offering, creating greater value for customers can demand higher admission fees to pay for more events and attract many more attendees at the right sites.

2. Develop Compelling Marketing and Branding for the Program

Creativity will be required to build the industry with limited resources.

The industry needs to have a clear, memorable and descriptive brand presence. All marketing efforts should consistently reinforce the brand promise at all locations utilizing the common brand elements (tittle, theme, logo)

3. Optimize the Racing Schedule and Locations

It is recommended that there be a coordinated and strategic approach to the race dates and locations selected for this circuit going forward. If the objectives of having a highly anticipated arrival in a community are to be achieved, the selection of the locations and the dates for which they are run, needs to be set such that the events don't become a repeat of the previous weekend a few kilometres down the road. It is recommended that there be a strategic look at these locations and dates to maximize attendance and the associated revenue that comes from the events.

The timing of when the races are run during the day needs to be reviewed as well to maximize the success of the program and the associated events. For example, a possible optimum solution could be to offer activities throughout the late afternoon along with racing, go to some music entertainment after the races and then end with fireworks. Another example could be conducting the races along with the fair or some other event that is already drawing a lot of people. This will maximize exposure and overall value to the customers.

The locations need to be selected wisely as well. Ideally, there will be communities willing to host these events that have the appropriate facilities and have a population that can maximize the success of the show. Exploring communities with larger populations and those that are not as close together will lead to more successful events (e.g. Selkirk and Dauphin). However, it is noted that the location and schedule for the events will need to be balanced with the

practicalities of the participants transporting to these events. The costs and ability for full participation from the industry is essential to the success of the operation.

4. Focus on Finding Operational Efficiencies and Opportunities

Industry should work together with MJC to see if there are any synergies to operations such as shared tote services to help reduce costs. Sharing tote services may provide the opportunity for MJC players to bet on the rural harness racing with video supplied through internet video streaming where connections permit and the cost can be justified. It is not expected to generate any meaningful wagering but should be worth considering a pilot to test the interest, particularly with some days of racing offered in Winnipeg.

5. Simplify Pari-Mutuel Wagering to Grow Revenues

There is pari-mutuel wagering available for all racing events, however, the wagering is conducted onsite and is very minimal. Events such as these do not attract the sophisticated players that are necessary to drive significant wagering and the pools are not large enough to attract them. The clientele at these events attends because of the experience of horse racing and does not go for the sole purpose of the betting opportunity. This will produce some wagering activity that adds to the harness racing event experience, but it is not currently a large part of the revenue contribution to operations.

Wagering has an opportunity to be a greater part of the operations. The key is to make it simple and design the offerings for the audience (non-horseplayers) and product. As mentioned earlier in this report, each bet type is a separate pool. The more pools that are offered, the more the pools are diluted. Pari-mutuel pools are most attractive when they are as large as possible. That becomes a delicate balance. It is important to have enough bet types that will be interesting for the players to want to participate but counterproductive to have wager options with little money to distribute, making them unattractive to players. Unsophisticated bettors (the vast majority of people who attend Standardbred races) are often intimidated by the complexity of the betting system and consequently avoid wagering. The organization may want to consider some consolidation of the pools to simplify the wagering system.

Since there are many new or casual players attending these events, it is preferable to have the straight bets such as Win, Place and Show, however even this range of bets may not be necessary. The feature and exotic pools are more difficult to support because they are higher risk, higher reward wagers. Offering these pools selectively throughout the racing program might be the way to provide customers with some interesting bet types but will better manage the liquidity concerns.

Furthermore, the organization should consider changes to the bet minimums. While this sometimes seems counterintuitive, the approach of lowering the bet minimums, allows customers to affordably play more combinations, giving them a better chance of winning, particularly on the more complex wagers. This is a tactic that has proven to be very successful on slots floors with these low denomination games often producing some of the highest play on the floor. Racing has implemented lower denominations as well over the years and it has been very appealing for players. Taking a similar approach here may help to support more participation in the wagering at these events and as a result will minimize uncovered combinations.

6. Replace the Pari-Mutuel Levy Fund Distribution

The PMLF distribution is created from the provincial levies collected from wagering at MJC wagering channels and then returned to the industry, net of regulatory costs. The Standardbred industry receives 15% of these monies, less the MHRC costs for regulating this circuit, and is the primary means of funding their operations. This funding is an inherently inconsistent amount that is derived from pari-mutuel operations outside of the industry's control or influence.

It is our recommendation that the funding for the Standardbred industry no longer be derived from wagering not conducted at rural locations and should instead be funded through a fixed grant subject to clear KPIs.

7. Make Government Funding Simpler and More Consistent

The government funding model is currently complex and should be reset with a new program that is both simplified and objective driven. The government has provided additional funds to the industry at times to help ensure the continuation of racing. The amount in 2018 was noted as being exceptional in an effort to assist the industry in transitioning to a new model that will be informed by this report.

7.2 THOROUGHBRED RACING

7.2.1 Introduction

- Thoroughbred racing has been an integral part of the community in Winnipeg for generations.
- The racing attracts two primary forms of attendees; guests and horseplayers.
- Guests are the entertainment seekers looking for an experience of dining, watching the races and possibly placing a bet or two.
- Horseplayers are the customers that are there primarily for the purpose of betting on the races.
- The racing product is exported to other national and international markets and competes along side some of the most well-known tracks in the world.
- The principal industry organizations (MJC, HBPA, CTHS) work cooperatively to provide a quality racing product.

7.2.2 Primary Stakeholders

Manitoba Jockey Club

- The Manitoba Jockey Club is a non-profit corporation that was founded in 1993 to operate Assiniboia Downs and help to protect the future of thoroughbred racing in the province.
- There are no shareholders of the corporation and all profits generated from the business are reinvested back in the business.

HBPA

- The Horsemen's Benevolent and Protective Association of Manitoba (HBPA) is one of five regional associations that forms the HBPA of Canada.

- Anyone who becomes licensed as an owner or trainer at Assiniboia Downs becomes a member of the Manitoba Division.
- The HBPA serves to protect and maintain the interests of the owners, trainers and their employees who have an investment in the thoroughbred racing industry.

CTHS

- The Canadian Thoroughbred Horse Society was incorporated under the Animal Pedigree Act as the official registry of Thoroughbred horses in Canada.
- The purpose of the CTHS (Manitoba Division) is to encourage the ownership and breeding of Thoroughbreds in Canada.

7.2.3 Understanding the Business

The racetrack operations for thoroughbred racing can be complex due to the nature and scale of the business and what it is required to run a successful operation. We have grouped the various elements of the business into the following five sections and will provide some detail and context for each.

1. Backstretch and Core Racing Operations

- The backstretch and racing operations are responsible for putting on the racing programs.
- The racing business is much like the iceberg analogy, where there is much more to it than it appears. The size of the property and the facilities that are required are often not fully appreciated.



The red box identifies the property and its infrastructure necessary for racing operations.

To add perspective to the size of the racing and training surfaces, the section circled at the bottom of the diagram is the running track (i.e. 400 metres) at John Taylor Collegiate to the west of the facility.

- Each racing program requires several weeks of preparation by the participants for the chance to be able to enter into a race. Horses are trained regularly to ensure peak health and performance for upcoming races for which each particular horse is best suited (class and distance).

- The track puts out a condition book of races that they are planning to card on a particular day several weeks in advance and trainers work toward those races throughout the season to maximize the opportunities for the horse.
- Unlike Standardbred racing where most horses are shipped in from local farms, thoroughbred racetracks typically are required to provide the training and stabling facilities on-track as there aren't many operations that can reasonably afford the infrastructure that is required to properly train and condition horses for racing. As a result, thoroughbred racing requires this significant infrastructure to facilitate those needs and ensure that there are enough horses ready to fill the racing programs scheduled throughout the season.
- The facility includes amenities such as:
 - 10 barns on the property that were designed to hold approximately 900 horses
 - A main track
 - A training track
 - Exercise facilities
 - Veterinarian facilities
 - Blacksmith facilities
 - Temporary dorms/camping area for horsemen
 - Child care facilities
 - Ambulance services
 - Heavy equipment to maintain the track surfaces, property and buildings
- The condition of the racetrack surfaces is critical for the safety for equine athletes as well as the professionals riding these horses. These surfaces require constant attention throughout the racing season as well as considerable preparation before the start of the season to allow for the necessary training and conditioning of the horses leading up to the actual races.
- The climate for racing in Canada is challenging. The ASD race meet starts with the extreme cold of the tail end of winter through the extreme heat and humidity of the summer months.
- The main racing surfaces are made of a sand composition with a base that allows for drainage to better manage the moisture content in the track.
- The grounds crew is required to work the track regularly while monitoring weather conditions and forecasts. The objective is to avoid any surprises that may jeopardize the condition and safety of the track and ultimately adversely affect the live racing schedule.

2. Pari-Mutuel Operations

- Pari-mutuel wagering is the main source of revenue generated by the racetrack.
- The track offers pari-mutuel wagering through multiple channels in the Manitoba market. These channels include the Assiniboia Downs racetrack property, currently seven off-track locations through the Winnipeg area, Telephone Account Betting (includes teller-based telephone account betting, Interactive Voice Response (IVR) TAB, and digital platforms such as desktop, tablet and mobile devices).
- The digital platforms are offered through a service arrangement with Woodbine Entertainment Group. The HPIbet.com suite of services provides customers in Manitoba access to the sophisticated solution and integrates it into their physical locations as well.
- The revenue from pari-mutuel operations comes from three primary sources.

A. **Live HMA Wagering** - Wagering commissions earned on bets on Assiniboia Downs races in the province or Home Market Area. This is the wagering through all available channels within the province.

- Live Racing attracts the largest attendance and the largest wager per event. This wagering makes up only 13% of the total wagering within the HMA due to the short 50-day race meet.

Pros – Generates the most wagering per racing product; used to cultivate new fans through the live racing experience; activates food & beverage and group sales for the events; creates atmosphere and liveliness to the racing program due to the additional fans it attracts.

Cons – Cost of putting on a live racing program is very high as it relates to the purses necessary and the infrastructure required.

B. **Simulcast Import Wagering** - Wagering commissions earned on bets placed within the HMA on races from outside the province (both domestic and international).

- This form of wagering on other products represents the remaining 87% of the wagering within the province. The number of racing programs offered for simulcast wagering averages about 25 programs per day or over 9,000 racing programs a year from tracks all over the world. This form of wagering makes up the majority of the wagering revenue earned by the track.

Pros – plenty of product to choose from and future opportunity for extended hours at some locations.

Cons – quality of product is not in their control, the cost to wager on the product is going up for the highest quality and highest volume tracks.

C. **Live Export Wagering** – Share of wagering revenues generated on betting on Assiniboia Downs races at locations outside the province.

- With this type of wagering, Assiniboia Downs is considered the race host and is selling their races to others.
- The agreements with these other entities outside of the province allows for sharing of the revenue. These sharing arrangements typically amount to about 3% on the total wagering that occurs at these other locations.
- Export wagering is typically much higher than the HMA wagering. In the case of ASD, 72% of the total wagering on their live racing product comes from the export or “remotes” business. The remaining 28% of the reported daily handle is from Live HMA Wagering.
- This has been steadily increasing over the last few years while they have been increasing the amount wagered in the HMA. The export market for the ASD races is other parts of Canada and the United States.

Pros – opportunity to sell to many locations; grow market share from other competing racing products (provided product is competitive and optimally scheduled); and benefit from positive currency exchange fluctuations.

Cons – finding ways to differentiate the product from other competing products, low revenue from the wagers, and risk of negative currency exchange fluctuations.

- Optimal wagering occurs with large, competitive fields (a.k.a. number of horses per race). This is something that is within their reasonable control for live racing but is not with respect to simulcast products.
- Creating meaningful improvements to the average field size in live racing is no easy task. Making races attractive enough for horsepersons, having horses ready for that particular class of race and having a substantial enough purse relative to other opportunities for horsepersons is critical. Every racing operator attempts to balance these factors. Even well-informed program changes can sometimes take several months to seasons to fully realize the full potential.
- Pari-mutuel wagering activity is governed by the federal regulator, the Canadian Pari-Mutuel Agency. There is a 0.8% levy applied to all wagering to fund their operations.
- The MHRC is funded for their role in adjudicating and overseeing the racing operations through a portion of the provincial levy on wagering throughout the province. The total provincial levy is 7.5% on wager types that require up to 2 horses (e.g. Win, Place, Show, Exacta, Quinella) and 12.5% for all wager types that required 3 or more horses (e.g. Trifecta, Superfecta, Pick 4, etc.)
- We have found through our interjurisdictional review in addition to our experience in the industry that taxation is rarely this high. There is no opportunity to grow revenues by increasing the tax on wager.
- MHRC funds its operations from the provincial levy which amounts to 1% of the total wagering in the province. The remainder is distributed back to the industry through the Pari-Mutuel Levy Fund to support purses, breeders and Standardbred racing. We have made recommendations for these funds in other sections of the report.

3. Food & Beverage Operations

- These operations support live racing, group sales, special events, simulcast racing and gaming operations.
- The full suite of offerings will be available typically on live racing events including the concessions stands, dining room(s) and any groups that are booked for the evening.
- Simulcast and gaming operations demand minimal F&B services and would typically be just one concession stand on the second floor.
- This business unit is essential to the operations and has the potential to draw additional customers through group sales of dinner packages and other special events.
- To deliver a quality and effective food & beverage program in-house, operators require dedicated culinary professionals, supported by some part time or seasonal staff.
- The F&B business at racetracks is unlike traditional restaurants. The customers all come at the same time and are there for the night. Traditional restaurants will turn tables several times through the dinner hours generating many more covers per table than is possible for event-based F&B operations.

- Furthermore, customers will all expect to be serviced at roughly the same time, making an à la carte solution a very difficult proposition. Racetracks have found that buffet style offerings, sometimes with à la carte options are the best solution to meet those demands.
- Having been to many racetracks, we were quite impressed with the quality of the food offerings at ASD. Further research validated our views with many favourable customer reviews for the service and food quality at the facility.
- ASD has found a way to provide a positive contribution from this business unit as well which is not common.
- We commend MJC, their achievements here are not common at many racetracks.

4. VLT Gaming Operations

- This operation consists of 140 Video Lottery Terminals (VLTs) located on the second floor of the grandstand.
- The hours of operation are from 9 am to 2 am, 365 days per year.
- The revenue model from these machines has varied over the years but is currently mirroring other standard VLT arrangements with roughly an 80/20 split (government/track) of the net win per machine.
- The machines have the opportunity to perform significantly better than they are today. Operated at industry norms this volume of VLTs could produce sufficient revenues to offset MJC funding requirements
- The second-floor location for the gaming area is logical from an operations standpoint as it is located near all amenities and the main simulcast racing area.
- From the perspective of the customer experience, the gaming floor is not ideal. The operation is not obvious when entering the grandstand and it does not have the atmosphere one would expect in an operation of this scale.
- From a service perspective, the operation appears to be run sufficiently lean. We found the staff to be available when needed and very helpful when engaged. This level of customer service was also evident in the other operations.
- It is in the best interest of both MBLL and MJC to optimize the performance of these machines.
- Our recommendations conclude that MBLL is best positioned to realize the true potential of these gaming machines with their experience and resources to properly market the operation.

5. Programs, Admissions and Special Events

- Programs in this context are the booklets of past performance chart lines for the horses racing on a given day. Customers depend on that information to study the data to make their informed decisions for betting. They are required for both live and simulcast racing.
- This business unit is not typically a profit centre at most race tracks. The information is essential, but the required selling price is often fully offset by the cost of acquiring, producing and delivering the programs to customers.
- Customers tend to be very price sensitive with programs, so operators need to be cautious with their pricing strategies.
- ASD has moved away from the traditional printing presses that were used to produce these programs in high volumes, to now offering print-on-demand solutions. The cost per unit is typically somewhat higher with the self-serve print-on-demand solutions but it

effectively eliminates the returns (unsold programs). These unsold programs have no value once the races have run so proper management of the unsold programs is essential.

- Admissions and parking fees are not charged for live racing, gaming or simulcast events. They are only charged for certain special events.
- Charging for admissions and parking was a meaningful part of racing operations historically. The introduction of gaming at these facilities resulted in the elimination or regular admission charges.
- Special events such as music entertainment (i.e. Unreal), fireworks (Canada Day), tradeshow, other events such as the Manitoba Night Market and Festival are being offered at ASD to maximize the activity onsite and produce additional financial contribution to the business. The racetrack is a very large facility with many amenities and there is a significant opportunity to capitalize on that business through additional utilization of the plant.
- Our review of the operation suggests that there has been a significant amount of effort by the organization to attract additional business to the property. MJC should be looking at ways to scale up this effort (potentially adding event management staff) further where it is economically prudent to do so.
- Working with their land development partner, Peguis may open up further opportunities with First Nations by providing meeting and convention space. Strategic hotel and transportation partnerships may create opportunities beyond local events and solve some logistical challenges for the event organizers that they are seeking to attract.
- Efforts to expand these operations may further prepare the property for future development with convention space and hotel amenities.
- The Occupancy Rate of the property should be one of the success measurements for the organization. It should be measured for live race days, non-live race days and major event days.
- Experience shows that it takes a few years before the investments around these ventures pay off, that time lag should be factored into the KPI expectations.

7.2.4 Financial Model – Revenue

The revenue model of thoroughbred racing currently comes from Racing Operations (Pari-Mutuel Wagering, Racing and Food and Beverage revenues, Pari-Mutuel Levy Fund Distribution), Gaming (VLT revenue), Government Grants/Settlement, and other revenues (events and facility rentals outside of racing).

Below is a look at each revenue source in more detail.

1. Racing Operations

- Pari-Mutuel wagering as described earlier comes from Live HMA Wagering, Live Export Wagering and Simulcast Import Wagering.
- The gross wagering produced from these products within the HMA has been relatively flat over the last several years.

- The Live Export Wagering has been increasing steadily due to the increased distribution of the racing product as well as favourable currency exchange factors for foreign operations.
- F&B revenues have been climbing at a rate of about 10% per year over the last few years due to efforts in growing their group business and offering other special events.
- The amount that comes back to the MJC as part of the Pari-Mutuel Levy Fund distribution is included in this section as part of the pari-mutuel revenue.

2. Gaming

- The revenue generated through the 140 VLTs at the property has been relatively flat over the last few years.
- The machines at this location are not currently distinguishable from other VLT operations in the community.
- The live racing and special events have a positive affect on the gaming floor results. We believe that there are further opportunities to capitalize on these synergies.

3. Government Grants and Settlement

- The settlement was the result of a court ruling from 2013 between the MJC and the previous provincial government.
- The result was a 10-year program of diminishing subsidies to coincide with the anticipated development with Peguis First Nation.
- Unfortunately, such development has not occurred.
- MJC is now experiencing the reduced payments from the settlement, presenting risk to the operation.
- In recognition of this situation, government has provided additional support for MJC until a new model can be introduced.
- Peguis and MJC remain very bullish on the prospect of development on the land to generate additional revenues that will support the business. However, the development plans have been slow to implement for a multitude of factors.
- While the MJC remains an active partner in the development plans with Peguis, they do not control the execution.

4. Other

- This portion of the business represents the parking, admissions and special events that are conducted at the track.
- The parking and admissions elements have risen approximately 11% since 2015 and the Special Events business has risen over 70% during that same period.
- Our analysis of the operations shows that the management team has made it a priority to find additional revenues through the increased utilization of the property and its associated amenities.

7.2.5 Financial Model – Expenses

The major expense buckets are as follows:

Purses

- The second largest expense for the corporation is the cost of the prize money offered for the races, referred to as the purses. This amounts to about 24% of their overall expenses.
- The amount of money provided depends on a host of factors such as the class of the race, number of racing programs, and competitiveness within the broader industry in order to attract horses from other jurisdictions to race for the season.
- The purses are typically funded through a share of the wagering revenues generated by the organization on all racing products. In North America, this share of revenue is usually defined in the track's agreement with the horsemen and has been commonly a 50/50 split. With the advent of gaming, this model has expanded to a share of those revenues as well. The market in Manitoba is no different.
- The organization reviews its purse program throughout the year and during the offseason to determine if there are changes that could be justified to attract more horses.
- The average field size (number of horses per race) at ASD has been approximately 6.6. This is not ideal.
- MJC has made some changes to the classes and purses offered in 2018 generating some positive improvements to the field size.
- The average field size in the US was 7.7 in 2017 and has been flat to declining over the last few years with horse population challenges throughout the industry.
- When the number of horses per race is below eight, the betting on those events falls more significantly, particularly when certain exotic wager types cannot be offered because there are simply not enough horses. Increasing this number over eight horses per race will have a significant positive impact on wagering as it becomes more valuable from a horseplayer perspective.
- Tracks typically get classified for their average field size and that perception is not quickly changed. The true benefits from increased field size will be realized with consistency and time.

Management Team

- Our analysis found the organization making full use of its management team. Smaller organizations tend to have their people wear multiple hats and this was evident at MJC.
- The team is professional and eager to do whatever it takes to make the business work. This was not only evident as we witnessed them preparing for the press event at the start of their live racing meet but also clear through our many interactions with the MJC management over the years through Racetracks of Canada and other industry interactions.
- Efficient operating models are required for tracks of this size, but it is important to ensure that growth opportunities are not missed as a result.
- Should MBLL assume the gaming responsibilities as recommended, MJC's management team will be better able to focus on the core business.

Pari-Mutuel Operations

- It was found that the mutuel tellers, who are the people that process the wagers from customers, exhibited exemplary customer service. That is not common in the industry.
- The industry is moving to more automation with the use of self-serve terminals and digital devices. MJC has accommodated automation by modifying their mix of terminals and services accordingly.

- The company has introduced full automation at certain times and locations. This has provided for savings from a labour perspective, making it more cost effective to operate during times in which the business would not ordinarily be able to support full service.
- This trend is likely to continue and the MJC may want to consider being more aggressive on that front.
- There are ways to utilize automation without reducing the overall service to customers. Automation ratios are reaching levels that will make this easier to do as there are fewer customers using the current teller-based services.
- There are organizations that have successfully implemented more automation. These tracks should be examined for best practices.
- Automation is a delicate issue and must be implemented strategically to be effective. The focus will need to be on providing added value for customers while the services offered change.
- There are also ways to improve MJC's efficiency by focusing on creative scheduling of staff. For example, scheduling shifts of varying lengths to better reflect the attendance patterns of customers will further maximize the number of tickets issued per teller.
- The costs of the simulcast racing products, particularly those that are most popular, have been increasing significantly over the last decade. The impact of this is felt directly on the bottom line of the company.
- These increases can be passed along to the consumer through the increase in the total takeouts. Unfortunately, the current takeouts are at the top end of tolerance for the betting public and further increases may result in the loss of customers.
- MJC may need to look at reducing player rewards to offset some of the increases. However, these reductions would then target the top horseplayers that generate most of the handle.
- The company should prepare strategies for creative ways to mitigate the impact on the business because the trends suggest it is going to continue.

Food and Beverage Operations

- This is an area of the business that requires skilled and dedicated leadership. It is an integral part of the overall experience with customers for live racing and the special event business.
- Typically racing operators, particularly those with short race meets, struggle to make this part of the business make sense financially. Everyone becomes part-time and there simply isn't the necessary experienced personnel to make for a successful food program. As a result, many end up doing a poor job and/or outsource the operations.
- The MJC has created a program that is producing a product that is highly regarded by customers with competitive pricing. They have done this in a way that is also profitable.
- The demands for the F&B operation vary widely from day to day, depending on the type of event, and the number of people to be serviced. A comparable operation may be something like a convention centre, where they are servicing several hundred customers at a time.
- These operations usually perform best on volume as the economies of scale start to be a factor in the overall success of the program. The growth over the last few years is a move in the right direction.

Maintenance Operations

- There are a number of skilled trades that are required to operate the heavy machinery and perform many other roles throughout the facility.
- Our review did not reveal any obvious inefficiencies of this group.
- With a short 50-day meet, it is difficult to keep the skilled staff. The company appears to be operating efficiently yet maintaining a stable, experienced staff. This is done by having fewer people do more, which seems to be a consistent approach throughout the organization.
- The company is encouraged to continue exploring and testing creative solutions to control labour costs while maintaining the appropriate standards.

Gaming Operations

- The labour required for this gaming operation is very minimal. Our review did not reveal material savings in this area from a labour perspective.
- With the implementation of our recommendations, MJC and MBLL will need to negotiate the new terms for the operation of the floor.

7.2.6 Operational Comments and Recommendations

1. Optimize Wagering Through a Revised Racing Schedule

Review different scenarios for the racing schedule to maximize wagering. Wednesdays appear to have about 75% greater total wagering than on the weekend. A significant portion of that is off track but it is worth analyzing whether running on a Thursday would be better than the Friday for example. It is necessary to find ways to maximize wagering so that the pools are more attractive to players and it increases the overall wagering revenue.

2. Leverage External Expertise to Create Additional Capacity

Explore contracting with an entity such as Woodbine Entertainment Group to sell the ASD racing product, perform track settlements and provide sophisticated reporting.

While it may not translate into significant headcount reductions, it should result in additional export sales revenue and should free up time for some key individuals to focus on other areas that will help with the operations. Some of these other areas could be group sales, creating and securing more special events, and supporting management with efficiencies and growth opportunities.

3. Take Advantage of Technology to Improve Processes and Decision-Making

Automated and sophisticated reporting systems will be important for ASD to understand, track and manage its business better. More time can be spent on improved implementation based on findings from deeper analysis making for better business decisions.

4. Expanded distribution of OTBs in Manitoba

Consider cost effective ways to open up off-track betting parlours (OTBs) in areas outside of the Winnipeg area (i.e. Brandon and other places with sufficient population). MJC will need to proceed cautiously in this area and focus on profitable models. This will require some creative solutions to minimize cost and improve the chances for incremental pari-mutuel wagering revenue.

5. Introduce an Admission Charge to Create a Revenue Stream to Enhance the Customer Experience

Consider charging admission to generate additional revenue to support enhancements to the customer experience and draw more customers to the live events.

It is not likely that the track could successfully do this initially for every day of live racing. Successfully delivering on the objective selectively through the week, month or season initially is ideal. Options could include introducing admission fees for big events, or simply one night of the week or month (e.g. the first Saturday of every month or Saturdays of the holiday weekends) where special entertainment (e.g. music) events could attract customers that would normally not attend.

The number of events can be scaled up cautiously based on the success of the initial experiences.

8. AN INTER-JURISDICTIONAL REVIEW

- To inform this report's analysis, five jurisdictions were reviewed in detail, while the experiences in many others also contributed to our fact base and analysis.
- Two provinces (Ontario and British Columbia) and three states (Pennsylvania, Ohio and Florida) were examined across six criteria:
 - i. Gaming revenue to support horse racing;
 - ii. Other public financial support;
 - iii. Wager levels;
 - iv. Breeding programs;
 - v. Governance; and
 - vi. Takeout rate.
- While there is no perfect comparison for Manitoba (or any other jurisdiction), the five jurisdictions share a number of comparable attributes to the province.
- Manitoba is both smaller and more remote than these other jurisdictions which creates structural challenges noted elsewhere in the report. But overall, these five locations have sustainable horse racing industries that enable insights to be drawn to inform the present analysis.
- Other jurisdictions also provide some valuable insight to the analysis of Manitoba. In particular, there are five jurisdictions we looked at to test whether government support is a necessary pre-condition for a sustainable horse racing industry.
- In Saskatchewan, Michigan and Quebec, the respective governments eliminated programs that directed public funding to the horse racing industry. In each instance, the horse racing industry effectively disappeared. The underlying economics of the sport in these places were not viable.
- In California and Texas, however, the industry is doing well without public funding. The size of these markets, the history of the sport and other structural differences (e.g. owned by operators of many properties) allow for this viability.

8.1 ONTARIO

- Ontario is, by a large margin, the largest horse racing industry in Canada and among the biggest in North America. Three breeds compete – Thoroughbred, Standardbred and Quarter Horse – in that province. There are 15 tracks (two Thoroughbred, 12 Standardbred (at different levels) and one Quarter Horse). This is the highest number of tracks in any jurisdiction in North America.
- Government policy since 2013, has changed significantly causing substantial disruption to the industry. With short notice, the Slots At Racetrack Program was cancelled during a period of fiscal restraint. The effect was the removal of a \$350 million subsidy from the sector, without any kind of transition plan.
- SARP was, to be sure, a flawed program. The subsidy was too generous and had too little accountability. The original policy objective – to expand gaming to the benefit of the provincial treasury and the industry without adding new gaming sites – produced revenue that far exceeded all expectations. Furthermore, the gaming success in certain regions was greatly out of proportion to the horse racing business in those regions.

- Neither government nor the industry acquitted themselves particularly well in the latter years of the program. Both grew very comfortable with the flow of monies, but more could have been done to make the industry sustainable while reducing pressure on the province's finances.
- After reviewing the decision to cancel SARP, extensive consultations with the industry and a change in leadership in the government (in 2014), a new long-term program was launched in 2018.
- This new program, unlike most other funding programs, is a direct grant to the industry. It is a 19-year program averaging \$105 million per year. In addition, there is a \$6 million annual government investment for horse improvement programs.
- While this is a significant financial commitment, it is important to note that Ontario's market and industry is substantially larger than Manitoba's and the overall support is substantially smaller than SARP was.
- In respect of governance, a new industry organization (Ontario Racing) was created to manage the industry and properly allocate the government's funding. Ontario Lottery and Gaming (OLG) oversees the province's still evolving gaming program and works with Ontario Racing to measure the performance of the industry. The Ministry of Agriculture, Food and Rural Affairs is also involved, focusing in particular on the Standardbred program.
- OLG is the funding agency for the program and is responsible to set and monitor KPIs. To fulfill these responsibilities OLG has created a horse racing division, initially funded at \$10M per annum.
- Ontario Racing, a reformed industry association, is funded through a Transfer Payment Agreement with the regulator, Alcohol and Gaming Commission of Ontario.
- Wagering in Ontario has turned the corner in the last few years as it has pulled out of some considerable restructuring. The financial crisis, the cancellation of SARP and the related uncertainty undermined an industry that demands stability to thrive.
- The Horseplayers Association has a methodology to measure the competitiveness of 63 different thoroughbred tracks in North America. This measure is a valuable data point for serious bettors, the ones who play a critical role in driving wager and therefore the economic health of the sport. Of the two thoroughbred tracks in Ontario, one (Woodbine) ranks very high on this measure and the other (Fort Erie) ranks very low.
- This is not surprising as Woodbine is among the most successful tracks in the world and Fort Erie has for many years struggled to remain viable.

8.2 BRITISH COLUMBIA

- British Columbia also has a stable industry. In part, this is the result of a comprehensive review undertaken by the provincial government and the BC horseracing industry approximately five years ago.
- Like Manitoba, BC has both Thoroughbred and Standardbred racing. Thoroughbred horses race at Hastings Racecourse in Vancouver and Standardbred horses race at Fraser Downs Racetrack in Surrey. Both tracks are owned and operated by Great Canadian Gaming Corporation which also operates several casinos in BC and has racetrack and casino operations in Ontario.
- The BC industry, like the Manitoba industry, is more geographically isolated than other jurisdictions. BC thoroughbreds could race in Seattle, but most do not.
- In 2009, the BC government initiated a program to support horse racing, once again by sharing revenue from slot machines at race tracks. Initially, 15% of slot machine revenue would go to

the industry and the government would top up that amount to \$10 million. If that 15% equalled or exceeded \$10 million, there would be no government top up.

- There is no revenue sharing with the industry for other gaming activities, e.g. table games, located at facilities with a race track.
- More recently, the government changed the funding arrangement to provide the industry with 25% of the slot machine revenue (approximately \$12 million in each of the last two years). However, there would no longer be a government top up.
- The industry also receives support from the portion of the provincial levy on each pari-mutuel wager, after the cost of regulating the industry has been deducted. This equals about \$4 million annually.
- The overall trend in the BC industry has been stability, neither growing nor contracting in any material way. Breeding is expanding at a reasonably healthy rate. Purse levels are good. The industry isn't thriving, but it is proving the virtuous circle described earlier in this report – where wager leads to better purses which leads to better breeding which leads to higher wager.
- Fraser Downs has expanded slightly but is limited in the live wagering they can attract by a relatively small viewing area at the track.
- Hastings is stable and is showing signs of some growth, although there are other casinos (not race tracks) nearby that attract the gaming consumers who could otherwise be potential horse racing fans and bettors were they to gamble at Hastings and not another gaming location.
- BC has more casinos, per capita, than any other province which creates more external pressure on the two tracks. For example, parking is free at casinos but not at tracks; alcoholic beverages are now allowed on gaming floors. These are competitive challenges to race tracks.
- For horseplayers, Hastings is an above average track with a very competitive takeout score.
- The governance of the industry occurs through the Horse Racing Management Committee (HRMC) comprised of representatives from both breeds, the tracks and the Chair who is also the chair of the BC Lottery Commission. The BC government is also represented in a non-voting capacity.
- The HRMC is responsible for approving the racing calendar proposed by each breed. BC's breeding programs are managed through the breeding organizations and overseen by the HRMC.

8.3 OHIO

- Like Ontario, Ohio horse racing features all three breeds: Thoroughbred, Standardbred and Quarter Horse.
- Races occur at seven different tracks. Two tracks feature both Thoroughbred and Quarter Horse racing; a third hosts only Thoroughbred racing; and four are Standardbred tracks.
- Of the three Thoroughbred tracks, the horseplayers' association ranks them squarely in the middle of the back.
- In respect of wager, total handle is relatively flat year over year and down significantly – like most jurisdictions – since the financial crisis of 2008-2009. Pari-mutuel wagering in 2009 was \$270 million (USD), compared to \$170 million (USD) in 2016.
- Ohio also has breeding programs designed similarly to other jurisdictions. The Ohio Thoroughbred Race Fund features broodmare and stallion awards, purses for stakes races featuring exclusively Ohio-bred Thoroughbreds and other incentives.
- The Standardbred Development Fund runs a similar set of programs for that breed.

- Funding for breeding programs and purse support comes largely from VLT revenue. Ohio mandates that tracks direct between 9-11% of VLTs located onsite to support horse racing. In practice, the amount of VLT revenue is approximately 10.5%, i.e. near the upper end of the mandated range.
- At a minimum, 80% of the VLT revenue transferred to horse racing is dedicated to purse support. The remaining 20% is dedicated to breeding programs and other supports (e.g. education, advertising, research).
- This program, that began in 2011, has resulted in improved purses and, related, improved levels of breeding in the state. By way of example, the previously high end of the range of purses at one Standardbred track (Scioto Downs) is now the low-end of the purses; in some cases, purses are five times what they were before the VLT program.
- The Ohio Horsemen's Benevolent and Protective Association administers the VLT revenue on behalf of that breed. As part of that agreement, the thoroughbred tracks agree not to run overlapping race days to strengthen the entire industry.
- The Standardbred program is managed by the Ohio Harness Horsemen's Association.

8.4 PENNSYLVANIA

- Thoroughbred and Standardbred racing occurs in Pennsylvania at six tracks (three for each breed).
- The state government in Pennsylvania has made a conscious choice to provide robust support to horse racing. Through the Horse Racing Development and Gaming Act (2004) the state increased gaming activities and formally directed proceeds from gaming to horse racing.
- In 2017, the state further expanded gaming operations, in part to provide further support to horse racing.
- Approximately 10% of slot machine gaming revenue at 12 operating casinos (both standalone and located at racetracks) are directed to horsemen. The assessment is variable but is capped at 12%.
- This is a significant amount of funding (i.e. \$239 million (USD) in 2017) which is important, as is the stability of the funding.
- Pennsylvania also mandates that a portion of the slot machine revenue be directed towards capital improvements at the tracks.
- While the absolute levels of funding are strong, the relative performance is a little shakier. For example, from 2016 to 2017 gaming revenue for horse racing in Pennsylvania was down 2.5%
- Live racing handle is in fact up 3%, for the first time since 2013. This growth was driven not by live wagering but by simulcast wagering. As noted elsewhere in this report, simulcast wagering represents the vast majority of the pari-mutuel activity. This is a result of the sheer number of races available and the quality betting opportunities for horseplayers. By and large, horseplayers, not average bettors, produce the highest overall levels of wagering and demand quality races and large betting pools for which simulcast racing delivers.
- Pennsylvania measures live attendance, and it is showing slight declines that can be partially explained through customers migrating to off-track venues and platforms (i.e. OTBs and digital).
- The governance of the industry, including managing the VLT revenue is the responsibility of the Pennsylvania Horsemen's Benevolent and Protective Association which administers the Pennsylvania Race Horse Development Trust Fund (i.e. where the slot machine revenue is directed).

- The Horseperson's Association of the takeout rates at the three thoroughbred tracks in Pennsylvania – Parx, Penn National and Presque Isle – assess them as effectively average.

8.5 FLORIDA

- Florida is home to three Thoroughbred tracks, one Standardbred track and five Quarter Horse tracks. The vast majority of wagering, like all other jurisdictions is in the Thoroughbred program, i.e. \$437 million in thoroughbred; \$38 million in Standardbred; and \$93 million in quarter horse.
- These numbers mask some of the changes year over year. Thoroughbred wager was down 1%, the most resilient of the breeds. Standardbred wager dropped by 26%. Quarter Horse wager dropped by 95% in 2016-2017 as that breed was beset by complicated governance challenges that led to fewer races being run with fewer horses.
- After dropping in 2009, the total pari-mutuel handle for horseracing in Florida has stabilized. While it is not shrinking, it isn't growing either.
- Gulfstream Park is located between Fort Lauderdale and Miami. It is one of the pre-eminent thoroughbred tracks in North America, hosting among other races, the Pegasus World Cup. Horseplayers rank Gulfstream among the best tracks in the US and Canada.
- Like most places, a portion of the revenue from slot machines located at the tracks are directed to horse racing.
- Florida is also different from the other jurisdictions we reviewed in a number of respects. Most obviously, the warm weather in Florida provides horsemen and track operators more flexibility in designing the racing calendar.
- Pari-mutuel wagering is regulated by a division of the Department of Business and Professional Regulation. In Florida, pari-mutuel wagering covers both Thoroughbred, Quarter Horse, and Standardbred horse racing, as well as greyhound racing, jai alai games and card room poker games.
- Florida has breeding programs run by the Florida Thoroughbred Breeders' and Owners' Association. Funding for this is funded through a percentage of all wagers (in-state and out-of-state). Total rewards in this program continue to grow – a positive sign.

8.6 INTER-JURISDICTIONAL FINDINGS

1. The experiences in Ontario, BC, Pennsylvania, Florida and Ohio all underline the observations noted elsewhere in this report, i.e. we did not learn of any data or experience to challenge our key recommendations. For example:
 - Stability and modest growth are the best case for horse racing in these jurisdictions. There is nothing wrong with this. Growth is possible. But larger changes – e.g. the financial crisis, labour shortages, gaming innovations – are challenging horse racing everywhere.
 - The Thoroughbred and Standardbred breeds operate very differently in every jurisdiction.
 - The overriding requirement, beyond essential government support, for a sustainable industry is stability.
 - The industry and the government must work collaboratively for a sustainable industry. The HRMC in BC is a successful model, whereas Ontario is only now on more stable footing after years of uncertainty and finger pointing.

- Close and effective partnerships with gaming operations are a critical component of almost every jurisdiction we examined. There are many different models, but partnerships between gaming operators and horsepersons are critically important.
- 2. Manitoba is a relatively small jurisdiction in the North American horse racing industry and as such, it has a lower margin for error in how it organizes, operates and funds the industry.
- 3. Manitoba is a relatively remote jurisdiction within the North American industry. This makes it harder to attract horses, particularly elite horses, to both race and breed.
- 4. The takeout rate at ASD is a disincentive for horseplayers to wager on races at that track.
- 5. All things being equal, Manitoba's future would be more like Saskatchewan, Michigan and Quebec (i.e. the end of a viable industry) than Texas and California (i.e. a viable industry without government support) if material but reasonable support is not provided.

9. ECONOMIC IMPACT OF HORSE RACING

9.1 CURRENT AND FUTURE ECONOMIC IMPACT

- Horse racing produces economic activity – jobs and investment – in every jurisdiction in which a quality product is produced. Like all contributors to the economy, the industry also generates tax revenue for each level of government.
- The manner in which horse races drive economic activity is broadly consistent across jurisdictions. This is not to say, however, that the ways in which this occurs is straightforward; it is not. This section outlines the positive, if complex, economic impact of horse racing beginning with insights on Manitoba's industry in particular and then placing those insights in a larger context.
- There are countless economic impact studies of the horse racing industry across North America and internationally. Many have been reviewed to inform this report. (See Appendix B)
- Many economic impact reports, though methodologically sound, are written to validate the industry's contributions to an economy rather than to provide dispassionate data to inform public policy decisions about the industry. Accordingly, the data and analysis, more than commentary around it, have been utilized presently.
- However, the overriding conclusion that the data and analysis below show, is that public investment in horse racing – with the proper accountability framework built in – will produce a much larger economic impact.

9.1.1 Current State

- While precision of measuring the economic impact of horse racing is more challenging than other industries (where data is more abundant and robust), we developed a range of the economic impacts that the industry provides and will provide to Manitoba.
- To do this, we used the data and methodologies contained in reports authored by some of the very best individuals and firms in the field of economic impact analysis. These are noted in the footnotes and in Appendix B.
- We measured the economic impact analysis in three ways: gross output (the sum of all expenditures generated in and by the horse racing industry), jobs (full time equivalents) and taxes generated (for all three levels of government).
- Using different variables, we calculated the economic impact using different methodologies (found in these other reports) and applied them to Manitoba. The variables used were:
 - Average expenditure per participant³
 - Number of participants⁴
 - Multipliers⁵

³ "Data Collection for Horse Racing Economic Model", Deloitte, 2016 (Ontario).

⁴ MHRC 2016-2017 Annual Report, MHRC, 2017. Total licenses issued: Thoroughbred (479) + Standardbred (41). Schedule C.

⁵ "Manitoba Lotteries Corporation, Manitoba Jockey Club Horse Racing Study, Economic Impact Analysis", PWC, 2008. "The Economics of Horse Racing in 2010", Strategic Equine Inc., 2012, (Canada). "The Economic Impacts of Horse Racing and Breeding in Ontario, 2010", Econometric Research Limited, 2011. (Ontario)

- Horse herd⁶
- Annual cost per horse⁷
- Average economic impact per job⁸
- Ratio of gross output to FTE⁹
- Jobs per horse¹⁰
- Initial expenditure¹¹
- Percentage of initial expenditure generating tax revenue¹²
- Overall, we estimate the following current economic impacts of horse racing in Manitoba:

Economic Impact of Horse Racing in Manitoba	
Economic Impact	\$125 million – \$142 million
FTE ¹³	1100 – 1750
Total taxes generated	\$34.5 million – \$40.7 million

- These ranges are not insignificant. They reflect the lack of precision in estimating what will happen in the future based on the past, particularly in an industry with so many informal practices.
- However, what these data show clearly is that the return on the government’s investment is very positive. Further, the alternative, not investing, would lead to the end of horse racing in Manitoba.

9.1.2 Future State

- This report recommends a high level of transparency and accountability in how the horse racing industry operates and, candidly, how government (partially) funds it. Horse racing makes meaningful contributions to the Manitoba economy, but the industry’s finances are unnecessarily complex.
- We believe the operational and public policy changes proposed herein, plus a new robust performance management system centred on various key performance indicators, will help stabilize and then grow the industry.
- We are not forecasting a “boom” to horse racing. But we believe modest and sustained growth is possible. Based on the best information available to us, and the methodologies used by a variety of experts, we believe the following growth is possible over the next several years.

⁶ BluSlate Inc., 2018. Strategic Equine, 2012.

⁷ Deloitte, 2016.

⁸ Average of five of seven separate economic impact studies (Canada, Ontario, BC, Pennsylvania, Virginia, Massachusetts, UK).

⁹ Econometric Research Ltd, 2011.

¹⁰ Strategic Equine, 2012.

¹¹ Deloitte, 2016. MHRC.

¹² Econometric Research Ltd, 2011. PWC, 2008.

¹³ Direct and indirect jobs.

- These projections are based on very conservative assumptions.

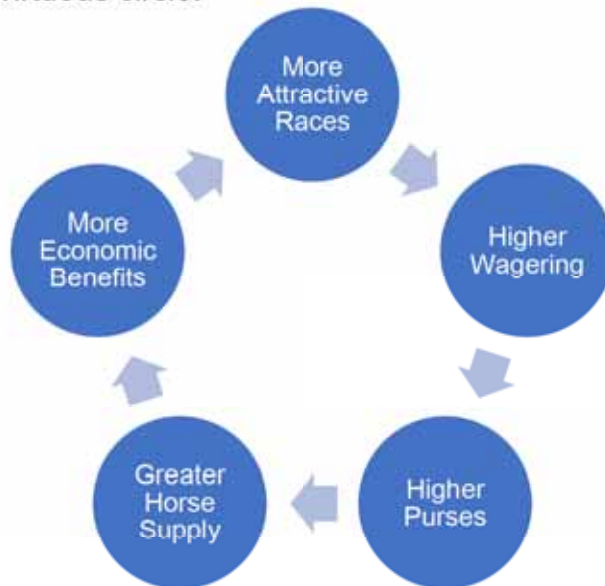
	Current	3 years	5 years	7 years
Economic Impact	\$125M - \$142M	\$142M - \$149M	\$154M - \$160M	\$159M - \$175M
FTE	1100-1750	1200-1800	1280-1980	1350-2160
Taxes Generated	\$34.5M - \$40.7M	\$36.2M - \$42.6M	\$37.3M - \$44.0M	\$38.5M - \$45.4M

- The remainder of this section of the report examines in more detail the strengths and weaknesses of horse racing’s economic impact and the challenges in accurately measuring that.
- But the most important conclusion is that there is a positive economic impact, one that this report’s recommendations will solidify.

9.2 BACKGROUND AND ANALYSIS OF ECONOMIC IMPACT

Wagering drives economic impact

- Wagering underpins the horse racing ecosystem, including all the stables and training facilities scattered across North America. The more wagering at the tracks, the greater the economic impact throughout the industry.
- This report outlines the importance of wagering to a sustainable horseracing in detail in Section 5.
- At the highest level, a strong horse racing industry, even with its inherent economic challenges, can be a virtuous circle:



- Wagering on Thoroughbred racing is often much larger than Standardbred racing and that is very true in Manitoba. While a handful of bettors will make a small wager on a harness race at a rural fair, sophisticated bettors (who drive most of the wagering) are more attracted to Thoroughbred racing which provides for better value for their wagering. These wagering pools are typically larger and can withstand larger bets to be placed without affecting the odds as much. That is to say, in a smaller wagering pool, a single large bet will fundamentally change the odds thereby creating a disincentive for these large bets to occur in the first place. Large pools attract more wagering and those occur at the best tracks that race the best horses. More competitive races allow for better pricing of risk for this sophisticated money which in turn attracts more wagers.
- Both breeds offer wagering on-track for their respective live racing events. MJC also offers wagering at other locations throughout the Home Market Area (e.g. OTB sites in the Winnipeg area, TAB and digital channels) and exports their product to other markets (domestically and internationally). There is also simulcast racing available on other tracks throughout the world via MJC's HMA channels.
- Simulcast wagering far surpasses the wagering on the live racing due to the sheer number and quality of betting opportunities on horse racing around the world.
- The relationship between live racing wagering and simulcast wagering is complex but fundamental to horse racing's underlying economics.
- On the one hand, the revenue generated from simulcast wagering is much larger than live racing wagering. Simulcast produces significantly more revenue. However, all the proceeds from simulcast wagering are used to support the operations to conduct live racing and that is where the majority of the economic impact occurs across Manitoba.
- On the other hand, live racing is legally required to host simulcast racing (otherwise the track would effectively be an OTB site). Much more important from an economic impact perspective, live racing creates jobs on and off site. The Horse Racing Industry Transition Panel in Ontario noted that "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." Live racing is necessary to maintain and attract new fans to the sport of horse racing and the betting activities related to it.
- Further, the economic impact is larger than that which occurs only at the track on race days. There is the training, grooming and countless other activities that prepare equine athletes to race on the 50 race days which occurs throughout the year.
- Another important benefit of live racing at ASD is that it is the only Manitoba gaming product that is exported internationally.
- The importance of high quality thoroughbred racing, more than grass roots activity, is a strength of the industry. It is the foundation of the economics of horse racing where a strong foundation exists at the top: without a superior product at the high end, the trickle-down benefits are unlikely to be felt by the thousands of men and women who work, or would like to work, in horse racing.
- Over time, however, the wagering in most jurisdictions has not kept pace with inflation and in many cases has declined, sometimes precipitously. The reasons for this are many and are described elsewhere in this report. This decline has put pressure on the industry and provincial and state governments to develop policies to support horse racing and protect the economic impact it produces.

Horse racing and gaming

- While some governments have addressed economic challenges in the sector through direct financial support, many governments in North America with a viable horse racing industry have tied other forms of gaming to horse racing as a form of support for the industry. The reasons for these policy choices include the social benefit of adding gaming (e.g. video lottery terminals, poker rooms) to facilities (i.e. race tracks) that already offer a form of gaming. That way the overall gaming footprint in a community isn't any larger. Sometimes these sites that offer horse racing and casino games are called "racinos".
- The economic imperative of horse racing partnering with other gaming products is critical. Additional gaming activity overall at these sites leads to greater attendance which in turn provides additional exposure to horse racing and potentially more pari-mutuel betting. The additional revenue generated supports higher purses. For example, in a review of the economic impacts in New Jersey, Thalheimer Research Associates, Inc. found that "[e]vidence from major racino states shows that gaming revenues produced large increases in purses, the maintenance of live racing and large increases in the breeding industries there."
- The point here is that horse racing is not typically economically viable on its own in most places without some external support. This support, for many good reasons, is in the form of partnerships with other gaming activities.

The high-level economic impact of horse racing is instructive, but can be overstated

- Horse racing is a very dynamic industry. It is dynamic, of course, in that it is exciting for participants, the audience and bettors. It is dynamic, too, in the sense that many variables interact in a variety of ways. Time, in particular, is a critical part of this complexity: "The links of this industry to the rural economy are substantive and complex. A significant horse breeding industry is needed to produce the horses for the racing phase. Thousands of acres of agricultural land and many workers are needed to care, train and groom the animals and maintain the farms where they reside. The gestation period of horses is over 11 months and horses do not start to race until they reach the age of two or three. This means that about three to four years of time and resources are spent on producing and training each horse before it ever reaches the track." (Econometric Research Ltd.).
- Related, Thalheimer Research Associates, Inc. points out that breeding and racing decisions are often not based on what current purses are but what expected purses will be when horses are ready to race. For policymakers, horsemen, race tracks and really all stakeholders, then, stability is paramount. People need to be confident in what the context will be several years out.
- When considering economic impact, it's important to look beyond only the direct jobs in an industry. Those are the most important jobs, but they are not the only ones. The economic impact of every industry – and horse racing is no exception – is greater than simply the employees who work directly in it. Indirect employment refers to the employees or workers who do not directly produce goods or services, but who make their production possible or more efficient (e.g. racetrack operations, transportation of horses, industry associations). Further, induced employment results from employees in the horse racing industry purchasing goods and services at a household level. So, for example, the groceries an employee purchases helps to employ people at the grocery store and its suppliers.
- Typically, when experts are hired to measure the economic impact of horse racing in a jurisdiction, they state the dollar value of that impact (gross output) and jobs expressed as full-time equivalent positions (FTE). So, for example:

- Canada: \$5.7 billion in economic activity and 47,000 FTE (Strategic Equine Inc., 2010)
- Ontario: \$2.3 billion in economic activity and 31,000 FTE (Econometric Research Ltd., 2011)
- British Columbia: \$350 million in economic activity and 3,600 FTE (IER Pty Ltd., 2008)
- Pennsylvania: \$1.6 billion in economic activity and 23,000 FTE (Pennsylvania Race Horse Development Fund, 2018)
- Virginia: \$103 million in economic activity and 1,100 FTE (University of Virginia, 2011)
- Massachusetts: \$116 million in economic activity and 1,500 FTE (Christiansen Capital Advisors, LLC, 2013, note: Thoroughbred only)
- United Kingdom: £3.45 billion in economic activity and 85,200 FTE (Deloitte, 2013)
- A 2008 study undertaken by Price Waterhouse Coopers (PWC) for the Manitoba Jockey Club found that that segment of the industry produced \$11.5 million in economic activity and 232 FTE.
- The amount of economic activity generated by investment in a variety of things including: training, boarding, hay, horse feed, vitamins, bedding, feed supplements, grooming and horse care products, veterinary services, farrier services, horse dental care, horse therapy services, property improvements, paid labour on-form, value of non-cash labour, insurance, travel, shoeing and licenses. Per Deloitte, horse costs are the highest source of expenditure.
- It is true that many of the studies noted herein are a few years out of date. However, the overall scale is broadly similar across them. Further, there is no reason to believe that anything has happened in any jurisdiction for a dramatic change in horse racing's economic impact to have occurred. Even in Pennsylvania, where government and industry participants have trumpeted the economic impacts of that state's Gaming Act, there are still many larger and problematic trends (e.g. flat or declining wager) occurring. In most places, most industry indicators (wager, yearling sale prices, race days) have stagnated or declined over recent years.
- It is also important to note that while the order of magnitude of the economic impact and jobs may sound large, in reality they are very small. For example, the Rutgers study on New Jersey noted ominously to policymakers that "at stake in New Jersey if competitive purses are not offered and too few racing days are allocated to sustain a viable race horse industry, is the loss of up to 13,000 jobs and \$1.1 billion in spending by the equine industry in New Jersey." Obviously, nobody wants that outcome. And leaving aside whether or not the industry would immediately go to zero and that not one of those 13,000 people could find other employment, this analysis masks the fact that in the year of the report, horse racing's economic impact in New Jersey was about one quarter of one percent of the overall state economy.
- The point is not that the industry isn't important, but that policymakers should be informed by the facts, even if other considerations come into play when decisions are made.

Jobs-per-horse is a useful if imperfect measure

- One measure that is used occasionally, including in our analysis, to analyze horse racing's economic impact is jobs-per-horse. That is, how many people are employed relative to the number of race horses. In 2010, Strategic Equine Inc. calculated this ratio for each province in Canada. The national average was slightly above one job per horse. Provincially, the range was wide, from 0.3 in Nova Scotia to 1.39 in Alberta. Manitoba was 0.85.

- The structure of horse racing itself works against a straightforward quantification of overall employment since the workforce is far more dispersed than many other sectors. Relatively few people work each day at the tracks or in an office building. They are found in countless stables and barns across the province.
- Ultimately, the utility of this measure is sub-optimal. Accurately counting the number of active race horses is difficult. (So, for that matter, is accurately capturing the number of jobs.) There are different reasons for this: the definition of a race horse can vary (e.g. Does an injured horse count? Does an aged race horse that only recently stopped training count?) Further, the expense involved to capture the size of the horse herd accurately would be immense.
- For present purposes, we estimate the horse herd in Manitoba to be approximately 1300. Our estimates were based on industry projections of the average box/backstretch count estimated for the 2018 season (TB 525, SB 80, total 605), average yearlings registered/available for sale (TB 50/SB 50, total 100), breeding inventory (120 weanlings, 160 broodmares, 20 stations, total 300), estimate of horses in training/rehab/rest 120, and the estimate of horses in transition to retirement 200 (30% of active racing herd). The total of those estimates is 1,325 and we rounded down to 1,300.

Relative economic impact is more useful for policy makers

- Counting the total number of horses and jobs masks the variations that occur within each provincial horse racing industry. And it is those variations that provide the valuable insights to policymakers at the provincial or state level.
- The indirect and induced employment created by horse racing is not insignificant, but these are not the focus of this report. Veterinarians, farriers, hay providers and so on are more or less consistent across the different segments (i.e. the breeds and levels of racing). Their contributions are significant, but these contributions do not tell us much about the relative employment differences between, say, a trainer at ASD and an owner of two Standardbred horses that race occasionally at on the Manitoba Great Western Harness Racing Circuit.
- As noted throughout this report, horse racing's underlying economics are challenging. A strong, resilient industry is possible – by identifying the component parts of the sport that can be self-sufficient.
- So, for example, as Deloitte notes, active race horses are, unsurprisingly, far more expensive and therefore drive more economic value than inactive race horses.
- Overall, training produces more jobs than breeding, the Thoroughbred segment produces more jobs than Standardbred segment and higher-level racing produces more employment than lower levels.
- It is also important to note that thoroughbred racing generates more economic activity as it requires more spending to produce higher quality horses, including through stabling the horses at the track during the entire season. (Standardbred horses typically travel to different tracks but are resident at the stables and farms of their owners.)
- In Manitoba, as elsewhere, the value of the thoroughbred racing product vis-à-vis Standardbred is seen in large differences in wager levels. In 2016-17, Standardbred racing

averaged \$2,500¹⁴ in wagering per race day. Thoroughbred racing average \$200,000¹⁵ (excluding simulcast wagering).

- Thoroughbred racing at Assiniboia Downs, then, produces a far greater economic impact.
- The other division within horse racing is between breeding and racing. The ability to breed top equine athletes will produce better races, more wagering and thus higher purses which will produce still further breeding of top horses. Conversely, the opposite is true: lower quality breeding undermines the races, wagering and purses.
- From an economic impact standpoint, however, the racing sector produces more jobs and generates more economic activity than breeding. Econometric Research Ltd. stated it this way: "The highest employment multiplier (2.29) is that generated by the expenditures in the racing phase ... Alternatively, the highest direct employment per one million dollars of expenditure is associated with the track operations expenditures..."
- Further, Econometric Research Ltd in its review of Ontario goes on to state: "Expenditures on horses during the breeding phase are not as large as the expenditures during the racing phase but they involve a rich mix of services and products. While the expenditures during the racing phase have increased measurably as the purses increased with the injection of slot revenues into live racing. The breeding phase expenditures have yet to pick up given the typical five-year cycle of this phase. A large number of these expenditures are made in the rural communities where horses are trained and prepared for the races. A good share of these expenditures involve [sic] manufacturing products, but the majority of the expenditures are on agriculture and services."
- For policymakers, the largest bang for the buck is in the Thoroughbred racing sector. As noted in the Executive Summary and elsewhere, Standardbred racing's contributions are at least as much cultural and social as they are economic. Jobs and investment are driven by (typically elite level) Thoroughbred racing because it draws significantly higher levels of wager, i.e. the lifeblood of horse racing's economic viability.
- Another variable that drives economic impact is, of course, race days. On the one hand, most segments of the horse racing industry cannot viably race every day or even on many days. On the other hand, if there are too few race days, too few quality horses will be bred and trained to compete. It is a fine line for the industry and government to walk. Put differently, Thalheimer Research Associates, Inc. observes: "...the number of jobs and spending created by the race horse industry are directly proportional to the number of live race days at the state's racetracks. Jobs and spending by horsemen (owners and trainers) and breeders are also dependent on adequate funding from purses maintained at competitive levels to those of racetracks in competing states."

Horse racing's contributions are only partially economic

- A sensitive but critical fact is that many, perhaps most, people who work in horse racing, do not do so primarily for economic reasons. They love the sport and the equine athletes; they are not doing it to get rich or even simply to make a good living. So, for example:

¹⁴ Source: Manitoba Racing Commission 2016/17 Annual Report, Schedule B. Standardbred Race Days = 18. Total wager = \$46,286. Average = \$2,571.

¹⁵ Source: Manitoba Racing Commission 2016/17 Annual Report, Schedule A. Thoroughbred Race Days = 49. Total live wager = \$9,830,923. Average = \$200,631.

- “A significant proportion of respondents [in Ontario] derive either less than 15% or between 15% and 50% of their annual income from their horse racing activities.” (Deloitte)
- “Those involved in horse racing are horsemen first, with a passionate attachment to their horses. It is apparent from the numbers that those in the racing business are not chasing profits.” (Strategic Equine Inc.)
- “This per horse revenue and expenses analysis indicates that horse ownership is generally not undertaken as a profit-making operation.” (Deloitte)
- “The enjoyment and appreciation of raising or racing a horse cannot be assigned a dollar value. There is no amount of money that will reflect accurately this utility.” (Econometric Research Ltd.)
- The passion of horse people is compelling. More than anything else, it has sustained the sport in Manitoba and elsewhere. The industry could not survive without it.
- However, dispassionate analysis reveals that horse racing is unable, in many jurisdictions, to operate on a truly self-sufficient basis. Accordingly, it is important to measure how big the gap is or could be between a non-viable industry and a viable one, supported in some manner by government. This is the difficult challenge for policymakers that this report will help address.
- Overall, then, notwithstanding different operational challenges, horse racing in Manitoba can be a viable industry producing economic activity, jobs and tax revenue that warrant improved and accountable public support.

10. ALTERNATIVE MODEL OPTIONS

- The details of various models to support horse racing in other jurisdictions and that we considered in developing this report are almost limitless. Program criteria include, but are not limited to:
 - i. Total value of funding
 - ii. Program governance
 - iii. Duration of funding arrangements
 - iv. Percentage of gaming revenue directed to horse racing
 - v. The breadth of gaming products captured in the program
 - vi. The number of breeds
 - vii. The number and type of breeding incentives
 - viii. The number and type of key performance indicators
 - ix. The entity responsible for and scope of regulation
 - x. How the regulator is funded
- We have outlined in detail the considerations that informed our recommended public policy and operational options.
- The terms of reference set by the Government of Manitoba for this report, which we followed in good faith, required an open-minded and comprehensive review. Our recommendations were not pre-ordained.
- Below we outline three additional options that were considered but did not recommend. The descriptions of these models are purposefully at a high level, as is the explanation for why we did not recommend them. These options represent the spectrum of policy decisions for supporting horse racing; from no support to support for only targeted elements of the industry to levels of support exceeding the recommended model.

10.1 ELIMINATE FINANCIAL SUPPORT

- In this scenario, horse racing in Manitoba would be weaned off of support – both direct government grants and a share of gaming revenue. This could happen immediately over a short period of time, e.g. 2-3 years.
- The Thoroughbred program, MJC in particular, would still receive the annual, though diminishing, settlement with the government.
- Over the next decade, then, both breeds would be required to remain viable effectively on their own.
- We did not recommend this approach for two reasons:
 - i. We believe the industry, like the Saskatchewan, Quebec and Michigan experiences showed, would eventually collapse. This would result in issues such as the loss of employment for hundreds of people, loss of tax revenue, disruption of business to suppliers, etc. We have not received any indication in our review – inside or outside government – that this is the desired outcome.
 - ii. Related, if one accepts that the government/MJC settlement payments are insufficient to finance a viable industry, it would be a waste of tax dollars to pay the settlements to an industry that no longer exists.

10.2 SUPPORT THOROUGHBRED PROGRAM ONLY

- As noted often in this report, Standardbred racing is not about economic growth, job creation or strong returns on investment. It is a passion project that has, for generations, played an important cultural role in rural communities in many provinces and states.
- But Standardbred generates insignificant wagering revenue – the financial lifeblood of most horse racing industries.
- Conversely, the Thoroughbred program in Manitoba and elsewhere, has the potential to remain viable, and even grow modestly, under a new program. ASD is a good facility that puts on a decent product that is exported throughout North America. MJC has developed a significant distribution network in the province for horse racing.
- In every jurisdiction we reviewed, Thoroughbred racing is always stronger, producing higher revenues and economic activity than the other breeds.
- Having said that, it is also true that in every jurisdiction with viable horse racing programs there are always two, and sometimes three, breeds that comprise the industry.
- Without support for Standardbred racing, the operations would cease. This would result in the dismantling of the business and the sell-off of the horse stock.
- We believe modest support to the Standardbred program, with clearer objectives, strong leadership, better governance and KPIs, serves the economic and cultural requirements of the communities and individuals across Manitoba who, together, are the Standardbred industry.
- We recommend developing a rigorous accountability framework and a relatively modest amount of money to strengthen the Standardbred program.

10.3 HIGHER LEVEL OF SUPPORT

- Since, in our opinion, financial support is required for a viable industry, one model would be to increase the amount of funding above what we are proposing.
- Effective partnerships between horse racing and gaming agencies produce better strategic and operational synergies than direct government funding.
- Therefore, one potential model would be to increase the absolute amount and the relative share of gaming revenue directed to horse racing.
- So, for example, how revenue could be shared could be changed so the government and potentially the operators received less, while horsemen receive more.
- In addition, the types of gaming could be expanded beyond VLTs, e.g. larger casinos, more gaming products like table games, so that the overall pool of money is greater.
- It is important to underscore that we consider gaming revenue, beyond that of the commercial agreements offered to others in the market, “public support”. These monies are not direct government grants and therefore, it is true, allocating them to horse racing does not directly impact the provincial treasury. However, these are revenues that are being transferred because government rules require it. Further, much of this revenue would otherwise go to the provincial treasury, absent funding arrangements like those described above.
- As the Ontario experience showed, overly generous government-mandated gaming partnerships can lead to disproportionate funding and weak success metrics.
- As demonstrated in Ontario and other markets examined in this report, dependence on a percentage of gaming revenues inevitably focuses the attention and resources of the industry on gaming at the expense of promoting and marketing the horse racing product.

- We believe this model would not be ideal in Manitoba. MJC's purpose is for the betterment of horse racing and we believe it is critical that their undivided attention should be on fulfilling that mandate by growing the business. Having them become more of a gaming operator than a racing operator would not be in the industry's best interest.
- We reviewed the models for support generated by the Manitoba industry and found them deficient in that they included revenue from expanded gaming and relied on optimistic revenues from the pari-mutuel wager.

- The government, appropriately we believe, gave us the mandate to develop a program to provide a prudent but workable model for a sustainable horse racing industry in Manitoba.
- While there are a handful of potential models and a nearly infinite number of variations within them, our recommendations attempt to balance the different financial, economic, operational and cultural considerations of the stakeholders of the horse racing industry in Manitoba.

11. RECOMMENDED MODEL AND PLAN

11.1 RECOMMENDED RACING PROGRAM

Standardbred

Current Race Days	Location	Proposed Race Days	Location
10	Miami, Killarney, Glenboro, and Holland Ag. Societies	Up to 16	6 dates at RREx and 10 dates at optimal rural Ag. Society sites

Thoroughbred

Current Race Days	Location	Proposed Race Days	Location
50	Assiniboia Downs	50	Assiniboia Downs

11.2 PROPOSED GOVERNANCE

- A few key objectives inform the recommended governance model:
 - Clarity of responsibility and authority is essential in a governance structure that is accountable for investment of public funds.
 - Transparency and accountability are enhanced by clear reporting structures and measurable outcomes.
 - All of the principle stakeholders in Manitoba horse racing are aligned on the success of the program. The industry has consolidated to the point where often-divergent views from internal stakeholders (breeders, trainers, owners) are more aligned than might otherwise be the case.
- Given the common perspectives of stakeholders within the industry’s two divisions (Standardbred and Thoroughbred) we see little value in structuring a traditional industry governance model that would concentrate on balancing interests of owners/breeders/trainers.
- Sustaining horse racing in Manitoba will require aligned leadership at many levels.
- In the Thoroughbred division, horse owners, breeders and trainers must align behind the common objectives of increasing pari-mutuel wager, attracting new horse ownership and ensuring a supply of quality horses.
- The Standardbred division also requires unity of purpose in diversifying horse ownership, increasing horse supply and improving the appeal of the racing product.
- The governance model proposed reflects the unique alignment of purpose we found in the Manitoba horse racing industry.

11.2.1 Standardbred Racing

- The Standardbred program will be funded by and report to MBLL.
- The program will be managed by RREx who will be accountable for the program and report as required to MBLL.
- RREx will be advised by a Standardbred Racing Advisory Council comprised of representatives from MHHI and MSSBA and other stakeholders as required.
- RREx will lead Standardbred industry events on behalf of Ag Societies.
- Government funding will flow to RREx for distribution to the industry.
- MBLL/RREx will establish Key Performance Indicators (KPIs) that support the defined objectives.
- Suggestions for KPIs are included under Section 1.18 of this report.
- To ensure accountability, reporting and reviewing of KPIs will be done annually. Should the stated targets not be reached, RREx will determine plausible reasons why and implement strategies to improve the results going forward.
- MBLL/RREx will establish a 5-year business plan to be updated annually along with the other reporting on results.
- The provincial government should review the program after four years. The review will analyze the results to date and determine the future plans for the industry under the Program.
- The review is meant to provide an opportunity to reassess the progress of the Program and work to formulate plans for the next five years.

11.2.2 Thoroughbred Racing

- The Thoroughbred program will be funded by and report to MBLL.
- MJC will be the lead agency of the Thoroughbred industry, accountable for the program and reporting to MBLL as required.
- MJC will be advised by a Thoroughbred Advisory Council comprised of representatives from HBPA, CTHS and other stakeholders as required.
- MBLL/MJC will establish Key Performance Indicators (KPIs) that support the defined objectives and will be approved by Manitoba annually
- Suggestions for KPIs are included under Section 1.18 of this report.
- Reporting and review of KPIs will be done annually. Should the stated targets not be reached, MBLL/MJC will determine plausible reasons why and implement strategies to improve the results going forward.
- Government to do a program review after four years. The review will analyze the results to date and determine the future plans for the industry under the program.

11.2.3 Regulation

- MHRC will operate through LGA with the goal of finding administrative efficiencies and providing oversight for the regulator.
- MHRC will be funded solely by LGA, not from the industry revenues. Monies collected from any fines issued by the MHRC shall be directed to the general government fund and not to the direct benefit of MHRC or LGA.
- The Pari-Mutuel Levy and the associated Levy Fund should be eliminated. All monies earned from wagering other than the federal levy of 0.8% will be retained by the industry and used to fund operations and related obligations (e.g. purses, etc.).
- MHRC and RREx (working with CPMA) will propose/implement a new regulatory model to better reflect the nature of that operation with a target of reducing the cost of regulation for

that sector to no more than \$2,000 per race day and ideally less. Considerations should include self-regulation, reduced drug testing (occasional to none), industry provided judges, etc. The regulator can perform periodic checks on the industry to ensure compliance. The approach should become more objective based regulation.

- Racing must provide the regulator with the ability to appropriately audit their operations (e.g. recording the races and providing those recordings to the commission electronically for selective review, access to performance data, access to purse payment details, etc.
- MHRC should work with MJC to provide means in which to regulate appropriately without disrupting the racing program and related KPIs.

11.3 OPERATIONAL PLAN

- MBLL is the lead agency in the execution of the sustainable horse racing program. We recommend MBLL create a transition plan and budget to achieve specific goals:
 - Stabilize the industry through a transition year (2019),
 - Execute the agreements (RREx, MJC) necessary to initiate the sustainable program,
 - Consult with industry organizations in the initiation phase including the transition of regulation to LGA, and
 - Formally adopt the KPIs and reporting and revenue structure.
- To assist in this transition, we recommend MBLL retain external project management for the transition period.
- If this report is adopted in its entirety we envision the 2019 racing season as a transition year with an extension of current funding agreements.
- The new sustainable racing program would be initiated in 2020, subject to successful negotiation of required contracts and agreements.
- Pari-mutuel wagering is a cornerstone of Thoroughbred racing. It is apparent that the Government of Canada will, at some point in the near term, consider amending the Criminal Code to permit single-event sports wagering. If passed into law, single-event sports wagering could, depending on regulations and implementation, have a detrimental effect on pari-mutuel wager.
- MBLL should monitor this and other developments (e.g. off-shore wagering) that might potentially erode the revenues of the Thoroughbred program, rendering it unsustainable. Implementation plans for single-event sports wagering in the province should consider the potential of an integrated approach with racing to minimize the impact and maximize the opportunities to create incremental gaming revenue in the province.

11.4 RECOMMENDED FUNDING MODEL

Standardbred

- It is recommended that the Standardbred racing program will consist of the following funding model.

Proposed	Source of Funding	Receiver of Funding
Up to \$450,000 annually	MBLL	RREx

- This funding replaces the current funding from the Pari-Mutuel Levy Fund as well as the supplemental grant (\$300,000) and will support six additional days of racing. RREx will be responsible for the distribution of those funds to operators, race hosts, purses and breeders.
- We developed this proposed funding model based on the following information and assumptions.
- We are recommending a 16-day racing season with 10 races per day. We are recommending a total of \$450,000 in annual support for the 16 race days at an average daily cost of \$28,125.
- A few additional points are worth highlighting:
 - This report notes that the financial cost of the regulatory burden is too high. These costs should be reduced through self-regulation and focused testing.
 - Race events should be marketed and monetized to provide revenue to host communities from wager, food and beverage and admission, eliminating need for direct contribution from the program.
 - 10 races per day is an estimate of the current field strength available.
- The recommended model assumes that purses will vary dependent on race conditions and location.
- Improved circuit coordination, marketing and production under the leadership of RREx, and the provision of up to six days in the Winnipeg market, will provide efficiencies and improved revenue to Ag Societies.
- The program cap of \$450,000 allows for enhanced marketing and repayment of capital expense incurred by RREx and/or increasing purses as market conditions (horse supply) warrant.
- RREx will incur capital cost to construct a track for racing and other events at the RREx site and operating costs to refresh and market the rural circuit.
- The recommended program provides approximately \$50,000 per annum to offset these costs over the anticipated 10-year operating time frame.
- Early termination of the program will require some recapture of capital and marketing investment.
- Program success at the funding levels prescribed requires significant regulatory cost restructuring (industry self-regulation) and material improvements in the revenues from circuit management and marketing.

Thoroughbred

- It is recommended that the Thoroughbred racing program consist of the following funding model.

Proposed	Source of Funding	Receiver of Funding
\$7.8M annually	MBLL	MJC

- This funding replaces all of the previous funding including the \$5.4M settlement, \$1.15M (plus an additional \$100,000 in 2018/2019) in supplementary grant(s), and the VLT revenue generated from the commercial agreement with MBLL. This, along with the levy recommendations, will provide the necessary operational and reinvestment funds (\$0.5M-

\$0.7M) to address the capital requirements for infrastructure and growth. It will be offset by the VLT revenue (~\$1M) that will be reclaimed by MBLL when they assume operations of the gaming floor. MJC will be responsible for satisfying the purses and breeders supports necessary to achieve the primary objective of growing wagering revenue for the industry.

MHRC

- It is recommended that the MHRC funding program be based on an annual grant that is derived from MBLL through to LGA.

Proposed	Source of Funding	Receiver of Funding
\$0.300M annually	MBLL	MHRC/LGA

- This model replaces the funding that was received through the Pari-Mutuel Levy. This approach removes the reliance on a model that fluctuates annually based on wagering, providing certainty for the regulatory requirements. The quantum contemplates some efficiencies with the LGA operations and some significant changes to standardbred regulatory model.

Overall Financial Impacts

- As stated elsewhere in this report, we consider all forgone taxes (tax on pari-mutuel commissions), direct grants and extraordinary commissions from wagering as public support for horse racing.
- Each of these support elements effect the provincial treasury by reducing revenues from tax, reducing income to the gaming agency through preferential gaming commissions or outright grants that are a direct expenditure to the treasury.
- We have attempted to identify the net effect to the government of Manitoba of a sustainable funding model. We understand that these various forms of subsidy are reported in different formats within government and its agencies, however we believe it is important to focus on the overall impact of the recommendations.
- The complexities inherent in accurately describing and accounting for these different funding modalities are magnified by the application of calendar years in industry economic reporting/planning and fiscal years in government programs and reports (i.e. the industry's fiscal year is the calendar year. Government's fiscal year begins on April 1st).
- We have attempted to provide an "apples for apples" comparison of impacts, however there are undoubtedly some elements of the funding/timing matrix that can be debated. For example, we have attempted to fairly report the economic impact of transferring revenues from VLT gaming at ASD from income on the MJC balance sheet to revenue at MBLL. A portion of commissions earned in a given fiscal year may be recovered in the next fiscal year if a predetermined threshold is achieved. When the excess commission is recovered in a subsequent fiscal year the financial impact appears as increased current year revenue to MBLL and a corresponding decrease in current year income for MJC.
- Most of these fiscal impacts are not material to the impacts reported. However, there are two specific current grants that have a material impact on the current and future impacts to treasury.
- MJC received a grant of \$1.15M in fiscal 2017/18 to alleviate a structural deficiency in revenue during the transition period.

- The MJC 2017 racing season (the season benefiting from the \$1.15M grant) is budgeted as the fourth year of the settlement agreement and reflects settlement income of \$5.4M. However, this season overlaps with fiscal 2018/19, a period when the settlement agreement reduces to \$5.25M.
- Assuming that the one-time grant will not be duplicated, the year-over-year fiscal impact to treasury would see funding fall from 2017/18 level of \$6.55M to 2018/19 funding of \$5.25M – a reduction of \$1.3M.
- While we understand that the funding of \$1.15M was issued on a one-time basis to provide an opportunity to inform public policy on this file, the underlying pressures that made the funding essential will not be erased in fiscal 2018/19.
- We believe the most accurate description of funding impacts is on a steady state basis – assuming the required grant would continue absent a new funding modality (in fact, absent a new arrangement, the grant would increase by the amount the settlement declined year over year).
- Similarly, the one-time grant of \$300,000 to the Standardbred industry, also provided to allow for an informed decision on public policy, crosses fiscal and calendar year ends.
- These funds were provided in fiscal year 2017/18 to stabilize the industry. The MHRC annual report for 2016/17 provides the following funding for the rural circuit:

MGWHRC

Purse	\$129,600
Breeders	\$69,950
Ag Societies	\$54,000
Administration	\$15,950
Total	\$269,500

MHRC

Administration	\$37,500
Drug Testing	\$25,000
Total	\$62,500

- The total program funding was \$332,000.
- This funding is provided by a fixed percentage (15%) of a variable fund (pari-mutuel levy). The funding fluctuates from year-to-year dependent on the amount of wagering.
- Therefore, the actual amount of support received in fiscal 2017/18 will vary from the latest MHRC report (fiscal 2016/17).
- The supplemental funding of \$300,000 was accrued in fiscal 2017/18 but will be used for purse supplements and other requirements in 2018/19.
- Our inquiries covered a period of time when the allocation of these supplemental funds was still under consideration by MGWHRC. The final distribution of the fund may not be complete in calendar 2018.
- Our recommendations for the Standardbred circuit were made based on a review of 2017 races and empirical data from our attendance to various MGWHRC locations in Manitoba, interviews with industry participants and the standard funding for rural Standardbred racing in other jurisdictions.

- We did not rely on the distribution of special funding in 2018 to inform the recommendations.
- Our recommended program places a cap on per race funding (\$30,000) and annual program funding (\$450,000).
- If the special funding of \$300,000 is considered one time funding, the net impact to treasury for implementing our recommendations is \$450,000 (levy funding is deferred to other parts of the horse racing program).
- If the funding is considered steady state, the impact is \$150,000.
- Unlike the funding provided to MJC, properly assessing the funding impact of Standardbred racing requires forecasting the final distribution of funding in the current and subsequent racing seasons. Clearly the funding provided solely through the levy was insufficient to sustain the industry.
- Precisely calculating the impact of recommended changes to funding for the regulatory agency – MHRC – requires forecasting of several in-year factors and the implementation of recommended efficiencies.
- Currently MRHC is funded through a grant, a percentage of the pari-mutuel levy and fees and fines collected from the industry.
- The levy account is variable. Reductions in the levy account are reflected in pressure to increase the operating grant.
- Similarly, the collection of fees and fines are variable. Fines reported in fiscal 2016/17 are considerably higher than 2015/16 (TB +79%, SB +78%).

2016/17 MHRC Budget*

Fees & Fines	\$172,680
Grant	\$62,500
Balance from Levy	\$314,251
Total	\$549,431

- We understand that the 2017/18 MHRC budget may reflect a material increase in the grant provided along with some other differences, however as at this writing the 2017/18 MHRC annual report has not been published.
- The recommended program places MHRC under LGA, presumably funded through a charge to MBLL.
- This funding modality would direct fees and fines to treasury and eliminate the requirement for grant funding, exposing LGA to the portion of budget currently provided by the levy.
- The recommendation also requires a reduction in regulation and associated costs for the Standardbred program (industry self-regulation) reducing the regulatory burden to not more than \$2,000 per race day. This recommendation reduces the regulatory budget by \$30,000.
- The impact to treasury, through an increase in fees paid to LGA, is the portion of regulatory cost now provided through the levy (2016/17 - \$314,251) less budget reduction from industry self-regulation (\$30,000) for a total impact of \$284,251.
- This impact estimate does not reflect other efficiencies that will be generated through consolidation of MHRC and LGA. It assumes steady state collection of fees and fines, a variable with considerable fluctuation.

- Calendar overlaps and other factors conspire to challenge forecasting the impact of the recommended racing program, however the complexities of current program funding underpin, in part, the recommendation to simplify the model.
- An alternative modality of calculating the impact is to examine deviations in current and future funding requirements. This is the modality used to provide impact guidance in Section 1.14 of this report.
- The recommended model requires the transition of 140 VLTs and associated revenues from MJC to MBLL, mitigating the payment of support required for MJC by, at least, the current revenue generated. The calculations in Section 1.14 estimated that revenue transfer at \$1M.
- Forecasting the future state cost to treasury (total impact on public accounts) requires addressing two additional factors: the gain (or loss) of direct and indirect revenue generated by the industry and the gain (or loss) of revenues from 140 VLTs currently operating at ASD.
- In Section 9 of this report, we have provided an estimate of economic impacts from horse racing in Manitoba. Maintaining these financial benefits requires sustaining a healthy horse racing industry; presumably this has been a factor in the decision to provide the additional funding in 2017/18 as noted earlier.
- We have noted in the report that the Manitoba horse racing industry is at or below the level of sustainability required to ensure the financial benefits from horse racing continue. Any estimate of future state cost/benefit should include a loss of these benefits if funding for the industry falls below the recommended levels.
- As noted in this report the revenues from the 140 VLTs currently represent a material contribution to the operations of MJC. In a mature gaming market, the performance of these machines is also a significant factor in assessing impacts to the revenues of Manitoba.
- It is clear from our study that the performance of the 140 VLTs is well below the market average.
- In our view, the product offering at ASD is substandard, a situation that can not be remedied absent a capital investment and/or redeployment of some of the VLTs.
- Our recommendation to transfer ownership/management of the VLTs to MBLL provides an opportunity to redeploy as required and upgrade the gaming floor at ASD.
- We have calculated the mature state revenue from improved gaming at ASD in Section 1.13 of this report.
- This calculation should be refined by MBLL and reflect the recovery of capital improvements to the gaming floor at ASD and the quantum and time frame for redeployment of some VLTs.
- While we acknowledge the complexities of calculating impacts of a program with complex funding arrangements, there is no doubt that the cost to the treasury of industry failure greatly exceeds the recommended funding for a sustainable industry.

11.5 PROGRAM OPTIONS

The recommended option features supports for the industry from one government agency, MBLL.

This option is recommended for two reasons; it provides a clear path for program accountability and it allows for optimization of VLT revenue.

We note that government may prefer to fund and/or administer the program through an alternative agency or ministry. The use of an alternative funding/administration modality would not be

detrimental to the program, provided that MBLL remains a partner in the solution to optimize VLT revenue, including relocation of some VLTs as required.

11.6 RISK ANALYSIS

11.6.1 Thoroughbred Racing Program

Risk	Chance	Impact	Suggested Mitigation
<p>Decreased Margins</p> <ul style="list-style-type: none"> • Cost of simulcast products getting higher • Cost of decoders and communications • Pressure to decrease takeouts 	Med	Med	<ul style="list-style-type: none"> • Continue as part of buying group(s) to increase negotiating leverage • Provide targeted rewards for key customers
<p>Notes: Supply costs are not in the control of MJC. It is important to be doing everything possible to strengthen negotiating position with simulcast fees as well as communication/uplink costs.</p> <p>MJC needs to continually find ways to innovate operations and keep other controllable costs to a minimum. These costs need to be managed in a manner that does not limit the growth potential of the racing program.</p>			
<p>Horse Supply</p> <ul style="list-style-type: none"> • Horse population in MB decreases • Number of horses entering decreases • Purses become uncompetitive with US markets due to currency exchange and other factors 	High	High	<ul style="list-style-type: none"> • Evaluate and adjust program proactively • Setting field size is responsibility of all stakeholders • Be proactive and strategic about the use of purse pool with strong recruitment practices
<p>Notes: Horse supply for the MJC racing programs has not been plentiful to date. It has seen some increases this year with strategic measures made to the purses/conditions as well as some effective recruiting.</p> <p>It is the role of all stakeholders to work together to deliver a program that will produce competitive full fields for racing. This will have a dramatic benefit for the total wagering on the live product.</p>			
<p>Unplanned Major Capital Exp.</p> <ul style="list-style-type: none"> • Major capital repair or replacement required for track, lighting or other major infrastructure 	Low	Med	<ul style="list-style-type: none"> • Assess and plan for regular capital upgrades to avoid disruption to the business financially and operationally

<p>Notes: The assessment will be able to predict many of the major capital spends that will be required. It is recommended that this assessment be revised at least every three years to allow for MJC to plan accordingly. It is known that there are watermain issues in the backstretch and barns that need replacement/refurbishing. Track resurfacing and track lighting are maintenance/refurbishing issues that need to be included in the plans.</p>		
<p>Financing Improvements</p> <ul style="list-style-type: none"> Reasonable financing options for major capital expenditures is not available 	<p>Low</p>	<p>Med</p> <ul style="list-style-type: none"> Continue to build relationships with current and prospective financiers
<p>Notes: The recommended program is predicated on the ability of MJC to secure the necessary financing for the required projects. The funding program is delivered in set annual amounts that are sufficient to service the debt required to deliver these improvements at the outset. We understand that MJC has a strong, long-term relationship with their financial institution and there is not a significant concern regarding achievability.</p>		
<p>Governance</p> <ul style="list-style-type: none"> Governance participants are not cooperative Decisions are made that don't align with the KPI objectives Publicly show signs of disagreement 	<p>Low</p>	<p>Med</p> <ul style="list-style-type: none"> Continue with frequent, open and respectful discussions about direction Make it very clear at the outset what the objectives are and that all decisions will be measured by Disagreements remain private and decisions are supported by all
<p>Notes: Governance should be structured in a way that provides clarity of purpose and only decisions that support those overall objectives should be acted upon. It is fully expected that there will be healthy debates on the best approaches to achieve those objectives. However, it is very important that the industry remains united in the decisions with a common commitment to fulfill the direction. Destructive divisiveness among stakeholders, a condition we found in other jurisdictions, is not helpful in fulfilling on the industry KPIs.</p>		
<p>Additional Gaming</p> <ul style="list-style-type: none"> Single-event sports betting Gaming expansion that further competes 	<p>Med</p>	<p>High</p> <ul style="list-style-type: none"> Encourage involvement and integrated operations Government to work with MJC on potential and discuss possible mitigations
<p>Notes: The advent of legalized sports betting in the United States in 2018 is likely to spark interest in pursuing the legislative changes necessary for single-event sports wagering in Canada. Should this wagering be legalized, any implementation strategy in Manitoba needs to consider the</p>		

impending impact to racing as it appeals to the same target audience. An integrated strategy that includes racing may best maximize the net revenue potential for the province.

11.6.2 Standardbred Racing Program

Risk	Chance	Impact	Suggested Mitigation
<p>Horse Supply</p> <ul style="list-style-type: none"> • Horse population in MB decreases • Number of horses entering decreases • No increase in number of owners and breeders 	High	High	<ul style="list-style-type: none"> • Evaluate and adjust program proactively • Setting field size is responsibility of all stakeholders • Be proactive and strategic about the use of purse pool with strong recruitment practices

Notes:

Horse supply for the harness racing program has not been strong particularly in 2018. The new program needs to promote additional participation of owners, breeders and participants to better fill the planned program. The minimal aspects of the purse pool and number of race dates will continue to make it challenging to attract horses from other jurisdictions. However, there is opportunity to develop and attract owners locally with the certainty of the program, particularly as the programs become bigger events in the new program. This should be encouraged by all stakeholders.

<p>Governance</p> <ul style="list-style-type: none"> • Governance participants are not cooperative • Decisions are made that don't align with the KPI objectives • Publicly show signs of disagreement 	Low	Med	<ul style="list-style-type: none"> • Continue with frequent, open and respectful discussions about direction • Make it very clear at the outset what the objectives are and that all decisions will be measured by • Disagreements remain private and decisions are supported by all
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Notes:

The Governance structure should be set up to provide clarity of purpose and focus on program objectives. It is fully expected that there will be healthy debates on the best approaches to achieve those objectives. However, it is important that the industry is united, and all parties work together to fulfill the objectives.

<p>Weather</p> <ul style="list-style-type: none"> Excessive inclement weather forcing cancellations and poor results 	<p>Low</p>	<p>High</p>	<ul style="list-style-type: none"> Plan for make-up dates from cancellations to improve effectiveness
<p>Notes: Extended racing seasons in the climate of Manitoba create scheduling challenges. Advance planning will improve the results of any makeup date(s). The industry should also consider reasonable upgrades to the tracks and event sites that may reduce the chances of cancellations due to weather disruptions.</p>			

12. IMPLEMENTATION RECOMMENDATIONS

Throughout this report, several recommendations have been made to help create a sustainable horse racing industry in Manitoba. These recommendations fall within two broad categories: public policy and operational. The public policy recommendations articulate a policy and financial program to balance the needs of the government to support the industry with the prudent investment of tax dollars. The operational recommendations are designed to help the industry stakeholders build a sustainable industry.

We recommend targeting the 2020 racing season for the implementation of the new program, providing a limited time frame for the development and execution of contracts between MBLL and RREx/MJC. Successful execution also requires a regulatory review in this time period.

Given the timeframe we recommend utilizing the expertise of an external management team to implement the program including providing required racing expertise to MBLL as the contracts are developed, guidance on the transition season (2019) and advice to LGA on efficiencies in regulation.

12.1 PUBLIC POLICY RECOMMENDATIONS

12.1.1 Integration with Manitoba Gaming

ASD gaming floor should be focused on two markets; horseplayers (historical racing, poker, event live poker room) and track guests (historical racing, Konami's Fortune Cup, VLT).

Deployment of the current 140 VLTs should be optimized by MBLL.

MJC and MBLL should work cooperatively to increase attendance and revenues at ASD for both gaming and racing as part of the new funding agreement with MBLL. Utilizing the experience and resources of both parties in areas such as events, food and beverage, and marketing will be crucial.

- **KPI to be determined by MBLL**

12.1.2 Regulation

MHRC should be administered and funded by LGA. The commission should work with CPMA to reduce the regulatory burden on low wager, non-simulcast racing (Standardbred rural circuit) and to reduce hearings arising from racing.

Fines and fees should be returned to Manitoba government general revenues.

- **KPI to be determined by MBLL**

12.2 OPERATIONAL RECOMMENDATIONS

12.2.1 Standardbred Program

Rural racing circuit should be expanded from 10 days to up to 16 race days – 10 days of rural racing and up to six days of racing at RREx.

This program should be focused on supporting the agricultural societies and communities that host races. RREx should administer the program.

Government funding should be limited to up to \$30,000 per race day (up to \$450,000 annually).

Program should be funded for five years with annual reporting and a full review in year four.

Funding should be provided by MBLL as part of their promotional/community support budget.

KPIs

Licensed Owners

- 2017/18 MHRC reported 31 licensed owners. Program should demonstrate annual growth in licensed owners.

Individual Starters

- Program requires 60-80 available horses for each race day. Program should report available horses (box) for every race day and demonstrate growth in field strength

Attendance

- Program should record attendance for each race day (estimate of crowd size at mid-point of daily race program). Program should demonstrate growth in attendance.

Revenue

- Program should measure direct revenue generated (gate receipts, program sales, wager, food & beverage). Program should demonstrate growth in revenue.

12.2.2 Thoroughbred Program

Thoroughbred program should be maintained at 50 race days at ASD.

Total purse/breeder support should be budgeted at \$4.34M with the balance of revenue from pari-mutuel wager (estimated at \$5.4M) committed to capital improvements, horseplayer benefits and MJC operating requirements.

Racetrack operations should be supported by MBLL, subject to a management agreement between MBLL and MJC.

Program should be funded for five years with annual reports and a full review in year four.

KPIs

- Program should demonstrate growth in pari-mutuel revenue.
- Program should demonstrate increase in average field size.
- Program should demonstrate reduction in individual races with prohibitive favourites.
- Program should demonstrate increase in number of Manitoba based horse owners.

12.2.3 Breeding Supports

Standardbred breeder supports should be sourced by agreement between horsepersons and breeders from the funds provided for purses in the rural racing program. Manitoba bred stakes races should only be offered when conditions (number of unique owners and unique horses) allow for competitive fields.

Support for Manitoba Thoroughbred breeders should be determined by agreement between horsepersons and breeders. The program costs should be sourced from the pari-mutuel revenue.

KPIs

- Program should demonstrate growth in number and value of yearlings at CTHS sale.
- Program should maintain number of Manitoba bred horses at 20-25% of unique starters at ASD.
- Standardbred program should demonstrate growth and diversity of breeders/owners.

13. CONCLUSION

Our task in preparing this report was to provide advice to the Manitoba Ministry of Agriculture to create a framework for a sustainable horse racing industry in the province.

Our direction from the ministry was to provide an unbiased external report. Over the time of our consultations, while we have worked collaboratively, we have not been directed or influenced by any agency of the government.

That is not to say that we are unaware of the public policy issues at play in this arena. Our team has extensive experience in global pari-mutuel and gaming markets, the global equine market and a variety of complex public policy issues. We understand the challenge of developing good public policy and the demands on the treasury to provide for the public good.

Horse racing exists on the fringe of good public policy. The industry positively contributes to the economy and a reasonable argument can be made for public investment to support the employment, tax revenue and economic impacts attributed to racing.

The economic multipliers, however, are not as well established as in other industries (e.g. agriculture, manufacturing) and therefore the extent of reasonable public support for horse racing is open for considerable debate. In our experience, the economic impact analyses inform, but rarely resolve, the public policy issues that determine the extent of public support provided to the industry.

We are unequivocal in our determination of the level of public support required to sustain horse racing in Manitoba. The industry requires support to be viable.

Related, we are equally certain that the market forces that determine success and failure of the industry are challenging.

We found the Standardbred industry in Manitoba to be unsustainable at current levels. The industry has been shrinking over the last two decades and is now only barely able to offer a minimal racing program.

We believe the only viable option for sustainability is to reorganize the industry under the management of RREx. This option provides a window to stabilize and modestly grow the industry, at the cost of a modest long-term investment of public funds.

We found the Thoroughbred industry in Manitoba to be operating at a sustainable level, albeit with uncertain levels of public support.

For the industry to prosper, it requires a change in funding modalities, management of the gaming portion of the business, considerable capital improvements and long-term, predictable public investment.

Our estimates of the public investment required to sustain the industry are outlined in detail in this report.

The benefits to the public of this investment are both qualitative and quantitative. We caution that the economic impact should be weighed in combination with other non-economic impacts.

For example, Assiniboia Downs is a Winnipeg landmark that is an important part of Manitoba history. The Downs and the long history of quality racing in Winnipeg is a point of pride for many Manitobans. It is worthy of support.

Our forecasts for sustainability are based in the economics of horse racing, the strength of character of the individual Manitobans who constitute the industry and the support of communities the industry serves.

Clearly the industry would not have survived the uncertainty of the last decade without the resolve of horsepersons and without the support of communities big and small.

In our experience, few horse racing industries would have continued under the uncertainty that the Manitoba industry has experienced. It is to the credit of many individuals that difficulties have been overcome and racing persists.

Manitoba horsepersons are tough, committed and determined. Given the opportunity, we believe they will proudly carry on the traditions of horse racing in Manitoba.

But they can't do it alone.

In recent years, government has acknowledged both the value of the industry and the requirement for additional support.

This report was commissioned to quantify, to the extent possible, the industry's needs, challenges and opportunities and to inform public policy.

We note that the government is currently committed to provide support for the industry in three streams, tax forgiveness on pari-mutuel wagering (the levy), commercial agreement for the operation of 140 VLTs at ASD and the remaining five years of the settlement agreement.

The total of the support provided through these funding streams is clearly below the levels required to support a sustainable industry.

Effectively, the government is committed to providing support at less than sustainable levels, thereby investing public funds in an industry that will quickly reduce the financial and other benefits to the public (employment, tax, pari-mutuel wager). This is not an ideal public policy outcome.

Our task has been to identify the funding required to sustain the industry and the benefits it provides to Manitoba.

The industry model we recommend meets the test of good public policy. It provides clear accountability by reducing the funding modality to one government agency (MBLL) and two industry groups (MJC, RREx), recommends specific KPIs and provides a pathway to growth for the industry.

Importantly, the model puts the future of the industry in the hands of the industry.

We believe it is essential that the industry be allowed to succeed or fail on the strength of its ability to generate increased levels of customer support.

Funding at levels materially greater than those recommended would not, in our view, incent the industry to build customer support as an entertainment (Standardbred rural racing) or pari-mutuel wagering (Thoroughbred) product.

If it is determined that the industry is unable to build a sustainable customer base at the levels of public support outlined in this report, good public policy requires that the industry be allowed to sunset.

In brief, the recommended model is the last, best chance for the industry to succeed.

We believe, given the stability of a long-term funding agreement and clear KPIs, the industry will succeed.

The resilience and determination of the industry is built on a commitment to preserve what is best about the long history of horse racing in Manitoba.

Horsepersons have a responsibility to honour those who came before them, improve the industry as best they can and pass on the best traditions to the next generation.

We believe Manitoba horsepersons are up to this task.

APPENDIX A – LIST OF ACRONYMS

ARCI – Association of Racing Commissioners International

ASD – Assiniboia Downs

CPMA – Canadian Pari-Mutuel Agency

CTHS – Canadian Thoroughbred Horse Society

HBPA – Horsemen’s Benevolent Protective Association

HMA – Home Market Area

KPI – Key Performance Indicator

LGA – Liquor and Gaming Authority of Manitoba

MBLL – Manitoba Liquor & Lotteries

MGWHRC – Manitoba Great Western Harness Racing Circuit

MHHI – Manitoba Harness Horseman Inc.

MHRC – Manitoba Horse Racing Commission

MSSBA – Manitoba Standardbred Sires and Breeders Association

MJC – Manitoba Jockey Club

OTB – Off-Track Betting

PMLF – Pari-Mutuel Levy Fund

PMU – Pregnant Mare Urine

RREx – Red River Exhibition

SARP – Slots at Racetrack Program

SB – Standardbred

TAB – Telephone Account Betting

TB – Thoroughbred

VLT – Video Lottery Terminal

APPENDIX B – ECONOMIC IMPACT ANALYSIS

Sources

In addition to the extensive stakeholder consultations, review of online sources and ad hoc discussions with participants all across Manitoba and North America, this report relied heavily on the numerous studies of horse racing that have been undertaken over recent years. Some of these reports include:

- *2014 State of the New Jersey Horse Racing Industry: Post-Report of the Governor's Advisory Commission on New Jersey Gaming, Sports and Entertainment*, Rutgers University, 2014.
- *Building a Sustainable Future Together: Ontario's Five-Year Horse Racing Partnership*, Horse Racing Industry Transition Panel, 2013.
- *Data Collection for Horse Racing Economic Model*, Deloitte, 2016.
- *Direct Employment and Wager in Ontario Horse Racing, An Evaluation Framework*, Geoff Owen and John Snobelen, 2016.
- *The Economic and Social Contribution of Horseracing in Europe*, EPMA (Pari Mutuel Europe), 2009.
- *Economic Impact Analysis, Manitoba Jockey Club Horse Racing Study*, Price Waterhouse Coopers, 2008.
- *Economic Impact of British Racing*, Deloitte, 2013.
- *The Economics of Horse Racing*, Strategic Equine Inc., 2010
- *Economic Impact of the Horse Industry in Florida (Thoroughbred Industry)*, American Horse Council Foundation, 2017.
- *The Economic Impact of the Horse Industry in Virginia*, University of Virginia, 2011.
- *The Economic Impact of the Horse Industry in the United States*, Deloitte, 2005.
- *The Economic Impacts of Horse Racing and Breeding in Ontario*, Econometric Research Limited, 2011.
- *Economic Impact of the Massachusetts Thoroughbred Equine Industry*, Christiansen Capital Advisors, LLC, 2013.
- *National and New Jersey Race Horse Industry Trends and Events and the Outlook for the New Jersey Thoroughbred Race Horse Industry*, Thalheimer Research Associates, Inc. (TRA, Inc.) Lexington, Kentucky, 2010
- *The New Jersey Equine Industry, 2007 Economic Impact*, Rutgers University, 2007.
- *Pennsylvania Race Horse Development Fund Fact Sheet*, Pennsylvania Horsemen's Benevolent and Protective Association, 2018.
- *Size and Scope of Horse Racing in British Columbia*, IER Pty. Ltd., 2008.

Background Calculations

The range of economic impact outlined in Section 9 were derived from the following calculations. The methodologies and data points used below are derived from the studies noted above and the other sources in the footnotes. The multipliers, for example, which are very similar to one another and were originally produced and used by PWC and Strategic Equine Inc. in their reports were used in our analysis.

Gross Output						
			Current	3 ¹⁶ years	5 years	7 years
Average expenditure per participant	Number of participants	Multiplier	Total (thousands)			
\$170,000 ¹⁷	520 ¹⁸	1.42 ¹⁹	\$125,528	\$142,809	\$156,758	\$171,323
\$170,000 ²⁰	520 ²¹	1.45 ²²	\$128,180	\$145,827	\$160,080	\$174,943
Total Expenditure						
			Current	3 years	5 years	7 years
Total expenditure	Multiplier		Total (thousands)			
\$98,290,497 ²³	1.45 ²⁴		\$142,521	\$149,472	\$154,293	\$159,270

¹⁶ Assume expenditures increases by 1.6% annually (RBC, Government of Manitoba budget forecasts) and Number of participants grows 3% annually (BluSlate Inc.).

¹⁷ "Data Collection for Horse Racing Economic Model", Deloitte, 2016 (Ontario).

¹⁸ MHRC 2016-2017 Annual Report, MHRC, 2017. Total licenses issued: Thoroughbred (479) + Standardbred (41). Schedule C.

¹⁹ "Manitoba Lotteries Corporation, Manitoba Jockey Club Horse Racing Study, Economic Impact Analysis", PWC, 2008.

²⁰ Deloitte, 2016.

²¹ MHRC.

²² "The Economics of Horse Racing in 2010", Strategic Equine Inc., 2012, (Canada).

²³ Strategic Equine, 2012. Appendix 2. Total Expenditure \$98,290,497.

²⁴ Strategic Equine, 2012.

FTE					
		Current	3 years	5 years	7 years
Gross Output	Average economic output per job²⁵	FTE			
\$125,528	\$81,000	1550	1763	1935	2115
\$128,180	\$81,000	1582	1800	1976	2160
Horse herd					
Horse herd	Jobs per horse	Current	3 years	5 years	7 years
1295 ²⁶²⁷	0.85 ²⁸	1101	1202	1276	1354
1295 ²⁹	1.04 ³⁰	1347	1428	1516	1608

Taxes Generated					
Initial Expenditure (thousands)	% of initial expenditure	Total (thousands)			
		Current	3 years ³¹	5 years	7 years
\$88,400 ³²³³³⁴	39 ³⁵	\$34,476	\$36,157	\$37,323	\$38,527
\$88,400 ³⁶³⁷³⁸	46 ³⁹	\$40,664	\$42,647	\$44,023	\$45,443

²⁵ Average of five of seven separate economic impact studies (Canada, Ontario, BC, Pennsylvania, Virginia, Massachusetts, UK).

²⁶ BluSlate Inc., 2018.

²⁷ Assume 3% annual growth in horse herd. BluSlate, 2018.

²⁸ Strategic Equine, 2012. (Manitoba)

²⁹ Assume 3% annual growth in horse herd. BluSlate, 2018.

³⁰ Strategic Equine, 2012. (Canada)

³¹ Assume 1.6% annual revenue growth. Government of Manitoba, 2018.

³² Deloitte, 2016.

³³ MHRC.

³⁴ Assume no increase in out-year calculations.

³⁵ Econometric Research Ltd, 2011.

³⁶ Deloitte, 2016.

³⁷ MHRC.

³⁸ Assume no increase in out-year calculations.

³⁹ PWC, 2008.

APPENDIX C – IMPACT ON TREASURY

Impact on Treasury (Thousands)

2017 Wagering: \$ 23,389

	Current (2017/18)*	Proposed	Difference	Notes
Thoroughbred Program	\$ 9,218.3	\$ 10,037.9	\$ 819.6	
Settlement	\$ 5,400.0	\$ -	-\$ 5,400.0	Reduced to \$5.25M in 2018/2019
Supplemental Grant	\$ 1,150.0	\$ -	-\$ 1,150.0	Initial grant to offset impact of advance of \$1.35M
PMLF: TB Purse Contribution	\$ 1,320.1	\$ -	-\$ 1,320.1	Dependent on wagering levels through MJC
PMLF: TB Breeders Contribution	\$ 348.2	\$ -	-\$ 348.2	Dependent on wagering levels through MJC
New Grant	\$ -	\$ 7,800.0	\$ 7,800.0	MJC Grant replaces all other funding
Operator VLT Revenue (20%)	\$ 1,000.0	\$ -	-\$ 1,000.0	MBLL will recapture this through ownership of gaming floor
Pari-Mutuel Levy (~\$9.6% of handle)	\$ -	\$ 2,237.9	\$ 2,237.9	All Provincial Levy monies remain with MJC
Standardbred Program	\$ 573.2	\$ 450.0	-\$ 123.2	
PMLF: MGWHRC	\$ 273.2	\$ -	-\$ 273.2	\$335,688 (15% of PM Levy)-\$62,500 (MHRC SB Admin)
Supplemental Grant	\$ 300.0	\$ -	-\$ 300.0	One-time grant
New Grant	\$ -	\$ 450.0	\$ 450.0	
MHRC Program	\$ 390.2	\$ 300.0	-\$ 90.2	
PMLF: Regulatory Funding	\$ 233.9	\$ -	-\$ 233.9	Regulatory funding from Provincial Levy
PMLF: SB Regulatory Operations	\$ 62.5	\$ -	-\$ 62.5	Incremental cost of running the SB program
Supplemental Grant	\$ 93.8	\$ -	-\$ 93.8	Treasury covered additional shortfall by MHRC
New Grant	\$ -	\$ 300.0	\$ 300.0	Remaining funding through fines, license fees, efficiencies
Total Cost to Treasury	\$ 10,181.7	\$ 10,787.9	\$ 606.2	

Notes:

* 2017/18 wagering data is based on calendar 2017 results.

APPENDIX D – SECTION 204 OF THE CRIMINAL CODE

Exemption

204 (1) Sections 201 and 202 do not apply to

(a) any person or association by reason of his or their becoming the custodian or depository of any money, property or valuable thing staked, to be paid to

(i) the winner of a lawful race, sport, game or exercise,

(ii) the owner of a horse engaged in a lawful race, or

(iii) the winner of any bets between not more than ten individuals;

(b) a private bet between individuals not engaged in any way in the business of betting;

(c) bets made or records of bets made through the agency of a pari-mutuel system on running, trotting or pacing horse-races if

(i) the bets or records of bets are made on the race-course of an association in respect of races conducted at that race-course or another race-course in or out of Canada, and, in the case of a race conducted on a race-course situated outside Canada, the governing body that regulates the race has been certified as acceptable by the Minister of Agriculture and Agri-Food or a person designated by that Minister pursuant to subsection (8.1) and that Minister or person has permitted pari-mutuel betting in Canada on the race pursuant to that subsection, and

(ii) the provisions of this section and the regulations are complied with.

Exception

(1.1) For greater certainty, a person may, in accordance with the regulations, do anything described in section 201 or 202, if the person does it for the purposes of legal pari-mutuel betting.

Presumption

(2) For the purposes of paragraph (1)(c), bets made, in accordance with the regulations, in a betting theatre referred to in paragraph (8)(e), or by any means of telecommunication to the race-course of an association

Exemption

204 (1) Les articles 201 et 202 ne s'appliquent pas :

a) à une personne ou association en raison du fait qu'elle est devenue gardienne ou dépositaire de quelque argent, bien ou chose de valeur, mis en jeu, devant être payés, selon le cas :

(i) au gagnant d'une course, d'un sport, d'un jeu ou d'un exercice légitimes,

(ii) au propriétaire d'un cheval engagé dans une course légitime,

(iii) au gagnant de paris entre dix particuliers au plus;

b) à un pari privé entre des particuliers qui ne se livrent d'aucune façon à l'entreprise de parieurs;

c) aux paris faits ou aux inscriptions de paris faites par l'intermédiaire d'un système de pari mutuel sur des courses de chevaux, des courses de chevaux au trot ou à l'amble si :

(i) d'une part, les paris ou les inscriptions de paris sont faits à l'hippodrome d'une association, relativement à une course tenue à cet hippodrome ou à un autre situé au Canada ou non et, dans le cas d'une course qui se tient à un hippodrome situé à l'étranger, le ministre de l'Agriculture et de l'Agroalimentaire ou la personne qu'il désigne a, en conformité avec le paragraphe (8.1), agréé l'organisme chargé de réglementer la course et permis le pari mutuel au Canada sur cette course,

(ii) d'autre part, les dispositions du présent article et des règlements sont respectées.

Exception

(1.1) Il est entendu que tout acte visé par les articles 201 ou 202 peut s'accomplir dans le cadre du pari mutuel autorisé par la loi.

Présomption

(2) Pour l'application de l'alinéa (1)c), les paris faits soit dans une salle de paris visée à l'alinéa (8)e), soit à l'aide d'un moyen de télécommunication à l'hippodrome d'une association ou à une telle salle de paris, en conformité

or to such a betting theatre, are deemed to be made on the race-course of the association.

Operation of pari-mutuel system

(3) No person or association shall use a pari-mutuel system of betting in respect of a horse-race unless the system has been approved by and its operation is carried on under the supervision of an officer appointed by the Minister of Agriculture and Agri-Food.

Supervision of pari-mutuel system

(4) Every person or association operating a pari-mutuel system of betting in accordance with this section in respect of a horse-race, whether or not the person or association is conducting the race-meeting at which the race is run, shall pay to the Receiver General in respect of each individual pool of the race and each individual feature pool one-half of one per cent, or such greater fraction not exceeding one per cent as may be fixed by the Governor in Council, of the total amount of money that is bet through the agency of the pari-mutuel system of betting.

Percentage that may be deducted and retained

(5) Where any person or association becomes a custodian or depository of any money, bet or stakes under a pari-mutuel system in respect of a horse-race, that person or association shall not deduct or retain any amount from the total amount of money, bets or stakes unless it does so pursuant to subsection (6).

Percentage that may be deducted and retained

(6) An association operating a pari-mutuel system of betting in accordance with this section in respect of a horse-race, or any other association or person acting on its behalf, may deduct and retain from the total amount of money that is bet through the agency of the pari-mutuel system, in respect of each individual pool of each race or each individual feature pool, a percentage not exceeding the percentage prescribed by the regulations plus any odd cents over any multiple of five cents in the amount calculated in accordance with the regulations to be payable in respect of each dollar bet.

Stopping of betting

(7) Where an officer appointed by the Minister of Agriculture and Agri-Food is not satisfied that the provisions of this section and the regulations are being carried out in good faith by any person or association in relation to a race meeting, he may, at any time, order any betting in relation to the race meeting to be stopped for any period that he considers proper.

avec les règlements, sont réputés faits à l'hippodrome de l'association.

Fonctionnement du système de pari mutuel

(3) Aucune personne ou association ne peut utiliser un système de pari mutuel relativement à une course de chevaux, à moins que le système n'ait été approuvé par un fonctionnaire nommé par le ministre de l'Agriculture et de l'Agroalimentaire et que ce système ne soit conduit sous la surveillance de ce fonctionnaire.

Surveillance du système de pari mutuel

(4) La personne ou l'association qui exploite un système de pari mutuel en conformité avec le présent article à l'égard d'une course de chevaux, qu'elle organise ou non la réunion de courses dont fait partie la course en question, paye au receveur général un demi pour cent ou le pourcentage supérieur, jusqu'à concurrence de un pour cent fixé par le gouverneur en conseil, du total des mises de chaque poule et de chaque poule de pari spécial tenues à l'égard de cette course.

Pourcentage qui peut être déduit ou retenu

(5) Lorsqu'une personne ou une association devient gardienne ou dépositaire de quelque argent, pari ou mise en jeu en vertu d'un système de pari mutuel, relativement à une course de chevaux, cette personne ou association ne peut déduire ni retenir aucun montant sur le total de l'argent, des paris ou des mises en jeu à moins qu'elle ne le fasse conformément au paragraphe (6).

Idem

L'association qui exploite un système de pari mutuel en conformité avec le présent article, ou son mandataire, peut déduire et retenir un pourcentage, égal ou inférieur au pourcentage maximal fixé par règlement, du total des mises de chaque poule et de chaque poule de pari spécial tenues à l'égard de chaque course; cette retenue est arrondie au multiple de cinq cents supérieur.

Arrêt du pari

(7) Lorsqu'un fonctionnaire nommé par le ministre de l'Agriculture et de l'Agroalimentaire n'est pas convaincu qu'une personne ou une association observe de bonne foi les dispositions du présent article ou des règlements relativement à une réunion de courses, il peut à tout moment ordonner l'arrêt des paris relatifs à cette réunion de courses pour toute période qu'il juge à propos.

Regulations

(8) The Minister of Agriculture and Agri-Food may make regulations

(a) prescribing the maximum number of races for each race-course on which a race meeting is conducted, in respect of which a pari-mutuel system of betting may be used for the race meeting or on any one calendar day during the race meeting, and the circumstances in which the Minister of Agriculture and Agri-Food or a person designated by him for that purpose may approve of the use of that system in respect of additional races on any race-course for a particular race meeting or on a particular day during the race meeting;

(b) prohibiting any person or association from using a pari-mutuel system of betting for any race-course on which a race meeting is conducted in respect of more than the maximum number of races prescribed pursuant to paragraph (a) and the additional races, if any, in respect of which the use of a pari-mutuel system of betting has been approved pursuant to that paragraph;

(c) prescribing the maximum percentage that may be deducted and retained pursuant to subsection (6) by or on behalf of a person or association operating a pari-mutuel system of betting in respect of a horse-race in accordance with this section and providing for the determination of the percentage that each such person or association may deduct and retain;

(d) respecting pari-mutuel betting in Canada on horse-races conducted on a race-course situated outside Canada; and

(e) authorizing pari-mutuel betting and governing the conditions for pari-mutuel betting, including the granting of licences therefor, that is conducted by an association in a betting theatre owned or leased by the association in a province in which the Lieutenant Governor in Council, or such other person or authority in the province as may be specified by the Lieutenant Governor in Council thereof, has issued a licence to that association for the betting theatre.

Approvals

(8.1) The Minister of Agriculture and Agri-Food or a person designated by that Minister may, with respect to a horse-race conducted on a race-course situated outside Canada,

(a) certify as acceptable, for the purposes of this section, the governing body that regulates the race; and

Règlements

(8) Le ministre de l'Agriculture et de l'Agroalimentaire peut, par règlement :

a) fixer, pour chaque hippodrome où se tient une réunion de courses, le nombre maximal de courses pour lequel un système de pari mutuel peut être utilisé pendant toute la réunion ou seulement durant certains jours de celle-ci et déterminer les circonstances où lui-même ou son représentant peut approuver l'utilisation de ce système pour des courses supplémentaires tenues à un hippodrome pendant une réunion de courses déterminée ou une journée déterminée de celle-ci;

b) interdire à toute personne ou association d'utiliser un système de pari mutuel à un hippodrome où se tient une réunion de courses, à l'égard d'une course qui est en sus du nombre maximal de courses fixé en conformité avec l'alinéa a) et de toute course supplémentaire, s'il y a lieu, à l'égard de laquelle l'utilisation d'un système de pari mutuel a été approuvée en conformité avec cet alinéa;

c) fixer le pourcentage maximal que peuvent déduire et retenir en vertu du paragraphe (6) les personnes ou les associations — ou leurs mandataires — qui exploitent un système de pari mutuel sur des courses de chevaux en conformité avec le présent article et prendre des mesures concernant la détermination du pourcentage que peut déduire ou retenir une personne ou association en particulier;

d) prendre des mesures concernant le pari mutuel au Canada sur des courses de chevaux qui se tiennent à un hippodrome situé à l'étranger;

e) autoriser et régir, notamment par la délivrance de permis, la tenue de paris mutuels, et déterminer les conditions relatives à la tenue de ces paris, par une association dans une salle de paris lui appartenant, ou louée par elle, dans toute province où le lieutenant-gouverneur en conseil, ou toute personne ou tout organisme provincial désigné par lui, a, à cette fin, délivré à l'association un permis pour la salle.

Approbation

(8.1) Le ministre de l'Agriculture et de l'Agroalimentaire ou la personne qu'il désigne peut, à l'égard d'une course de chevaux qui se tient à l'étranger :

a) agréer, pour l'application du présent article, l'organisme chargé de réglementer la course;

(b) permit pari-mutuel betting in Canada on the race.

Idem

(9) The Minister of Agriculture and Agri-Food may make regulations respecting

(a) the supervision and operation of pari-mutuel systems related to race meetings, and the fixing of the dates on which and the places at which an association may conduct those meetings;

(b) the method of calculating the amount payable in respect of each dollar bet;

(c) the conduct of race-meetings in relation to the supervision and operation of pari-mutuel systems, including photo-finishes, video patrol and the testing of bodily substances taken from horses entered in a race at such meetings, including, in the case of a horse that dies while engaged in racing or immediately before or after the race, the testing of any tissue taken from its body;

(d) the prohibition, restriction or regulation of

(i) the possession of drugs or medicaments or of equipment used in the administering of drugs or medicaments at or near race-courses, or

(ii) the administering of drugs or medicaments to horses participating in races run at a race meeting during which a pari-mutuel system of betting is used; and

(e) the provision, equipment and maintenance of accommodation, services or other facilities for the proper supervision and operation of pari-mutuel systems related to race meetings, by associations conducting those meetings or by other associations.

900 metre zone

(9.1) For the purposes of this section, the Minister of Agriculture and Agri-Food may designate, with respect to any race-course, a zone that shall be deemed to be part of the race-course, if

(a) the zone is immediately adjacent to the race-course;

(b) the farthest point of that zone is not more than 900 metres from the nearest point on the race track of the race-course; and

b) permettre le pari mutuel au Canada sur cette course.

Idem

(9) Le ministre de l'Agriculture et de l'Agroalimentaire peut prendre des règlements concernant :

a) la surveillance et la conduite de systèmes de pari mutuel en rapport avec les réunions de courses et la fixation des dates et des lieux où une association peut tenir de telles réunions;

b) le mode de calcul du montant payable pour chaque dollar parié;

c) la tenue de réunions de courses quant à la surveillance et la conduite de systèmes de pari mutuel, y compris les photos d'arrivée, le contrôle magnétoscopique et les analyses de liquides organiques prélevés sur des chevaux inscrits à une course lors de ces réunions et, dans le cas d'un cheval qui meurt pendant une course à laquelle il participe ou immédiatement avant ou après celle-ci, l'analyse de tissus prélevés sur le cadavre;

d) l'interdiction, la restriction ou la réglementation :

(i) de la possession de drogues ou de médicaments ou de matériel utilisé pour administrer des drogues ou des médicaments aux hippodromes ou près de ceux-ci,

(ii) de l'administration de drogues ou de médicaments à des chevaux qui participent à des courses lors d'une réunion de courses au cours de laquelle est utilisé un système de pari mutuel;

e) la fourniture, l'équipement et l'entretien de locaux, services ou autres installations pour la surveillance et la conduite convenables de systèmes de pari mutuel en rapport avec des réunions de courses par des associations tenant ces réunions ou par d'autres associations.

Zone de 900 m

(9.1) Pour l'application du présent article, le ministre de l'Agriculture et de l'Agroalimentaire peut à l'égard d'un hippodrome désigner une zone qui est assimilée à l'hippodrome lui-même si les conditions suivantes sont réunies :

a) la zone est contiguë à l'hippodrome;

b) chacun des points de la zone est situé à une distance égale ou inférieure à 900 m de la piste de l'hippodrome;

(c) all real property situated in that zone is owned or leased by the person or association that owns or leases the race-course.

Contravention

(10) Every person who contravenes or fails to comply with any of the provisions of this section or of any regulations made under this section is guilty of

(a) an indictable offence and is liable to imprisonment for a term not exceeding two years; or

(b) an offence punishable on summary conviction.

Definition of "association"

(11) For the purposes of this section, *association* means an association incorporated by or pursuant to an Act of Parliament or of the legislature of a province that owns or leases a race-course and conducts horse-races in the ordinary course of its business and, to the extent that the applicable legislation requires that the purposes of the association be expressly stated in its constating instrument, having as one of its purposes the conduct of horse-races.

R.S., 1985, c. C-46, s. 204; R.S., 1985, c. 47 (1st Suppl.), s. 1; 1989, c. 2, s. 1; 1994, c. 38, ss. 14, 25; 2008, c. 18, s. 6.

c) la personne ou l'association qui est propriétaire ou locataire de l'hippodrome est aussi propriétaire ou locataire de tous les biens immeubles situés dans la zone.

Infraction

(10) Est coupable :

a) soit d'un acte criminel et passible d'un emprisonnement maximal de deux ans;

b) soit d'une infraction punissable sur déclaration de culpabilité par procédure sommaire,

quiconque contrevient au présent article ou à ses règlements d'application ou omet de s'y conformer.

Définition de « association »

(11) Pour l'application du présent article, *association* s'entend d'une association constituée en personne morale sous le régime d'une loi fédérale ou provinciale, qui est propriétaire ou locataire d'un hippodrome, qui organise des courses de chevaux dans le cadre de son activité commerciale normale et, dans la mesure où la loi applicable l'exige, dont l'un des buts mentionnés dans son acte constitutif est la tenue de courses de chevaux.

L.R. (1985), ch. C-46, art. 204; L.R. (1985), ch. 47 (1^{er} suppl.), art. 1; 1989, ch. 2, art. 1; 1994, ch. 38, art. 14 et 25; 2008, ch. 18, art. 6.