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Ontario Horse Racing Industry Association

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Submission to the Standing Committee of Finance and Economic Affairs for the Province of Ontario

June 6, 2012

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Submission to the Standing Committee of Finance and Economic Affairs for the Province of Ontario:

Bob Delaney, Cindy Forster, Michael Prue, Monte McNaughton, Peter Shurman, Soo Wong, Teresa Piruzza, Victor Fedeli, Yasir Naqvi

RE: Strong Action for Ontario – 2012 Ontario Budget

OHRIA, the Ontario Horse Racing Industry Association, on behalf of the Ontario horse racing and breeding industry, would like to express our concerns with the *2012 Ontario Budget – Strong Action For Ontario*.

Our concerns with the 2012 Ontario Budget document are related to the proposed *Modernizing the Ontario Lottery and Gaming Corporation (OLG)* initiative, and the projections for positive revenue impacts from this initiative in 2013-14 and future years. Core to the OLG projections for positive revenue impacts is the proposal to end the *Slots at Racetracks Program* effective March 31, 2013.

1. The Ontario horse racing and breeding industry is very concerned that, in the process of the OLG modernization approach, the horse racing and breeding industry will be devastated, with significant losses to the Province of Ontario in terms of jobs and economic contribution.

2. The Ontario horse racing and breeding industry is concerned that the OLG proposal for modernizing gaming will not realize the contribution to the Province of Ontario that has been proposed in the 2012 Ontario Budget.

3. We ask that the Standing Committee recommend that the proposed ending of the *Slots at Racetracks Program* on March 31, 2013 – as included in the 2012 Ontario Budget document – should **not** go forward, until such time as a detailed analysis of the economic impact of ending the Program has been completed by a joint government-industry panel.

Our submission specifically references the following sections of the *2012 Ontario Budget – Strong Action For Ontario* document:

Page 39: The 2012 Ontario Budget document states … *"the Ontario Lottery and Gaming Corporation estimates that its modernization initiatives will generate almost $3 billion in new private capital investment over the next five years while decreasing the need for public-sector investment, and will create 2,300 net new jobs in the gaming industry and nearly 4,000 additional jobs in the hospitality and retail sector by 2017-18."*

Page 66: The 2012 Ontario Budget document states in Table 1.7 Impact of Fiscal Action, a projection that revenues from the initiative to Modernize the Ontario Lottery and Gaming Corporation, will include losses of -$100,000,000 in fiscal 2012-13, net positive revenues of $200,000,000 in fiscal

2013-14 and net positive revenues of $500,000,000 in 2014-15 (a three-year positive impact of $600,000,000).

Page 98: The 2012 Ontario Budget document states, *"Based on OLG's strategic business review, the government has directed it to modernize its operations. In doing so, OLG will maximize its return to government by increasing its revenues, becoming more efficient, and broadening the role of the private sector in its operations and capital requirements. Proposals include …*

- *Reconfiguring the number and location of gaming sites and tailoring the type of gaming activities at those sites, the benefits of which will be enhanced by ending the Slots at Racetracks Program effective March 31, 2013;*
- *Implementing a new fee model for municipalities hosting gaming sites;*
- *Introducing a new sales channel for its lottery products by launching multi-lane sales at major retail outlets (e.g., grocery stores, drug stores, big box stores, etc.);*
- *Increasing operational efficiencies at the OLG by broadening the role of the private sector through shifting day-to-day operations of gaming sites and lottery distribution to private operations; and*
- *Shifting to private-sector investment for the development and ownership of capital assets, where possible.*

Modernizing the OLG will generate more than $600 million in additional revenue between 2012-13 and 2014-15, and more than $1 billion per year by 2017-18.

Since 1998, $3.7 billion has been provided to the horse racing industry in Ontario, including $345 million in 2011-12. As part of OLG's modernization process, the government reviewed this support for the horseracing industry, as outlined in the previous government's 1998 letter of intent. In doing so, the government determined that the industry needs to move towards greater self-sufficiency without government support. This will allow the industry to respond competitively to market demands for its racing product."

Page 203: In Table 2.32 the 2012 Ontario Budget categorizes revenues to the horse racing industry under "Support for Municipalities and Ontario First Nations"

Page 204: The 2012 Ontario Budget states … *"Approximately 20 per cent of gross revenue from slot machines at racetracks is used to support the horse racing industry. Since 1998, this initiative has provided over $3.7 billion to the horse racing industry in Ontario. For 2012-13, additional support is estimated at $340 million; it will then cease in 2013-14. …*

In 2012-13, net Provincial revenue from commercial casinos, estimated at $70 million, will be used to support general government priorities, including health care, education and public infrastructure. In addition, commercial casino operations support approximately 10,000 direct jobs in Ontario and provide vital tourism and economic development attractions for their respective communities."

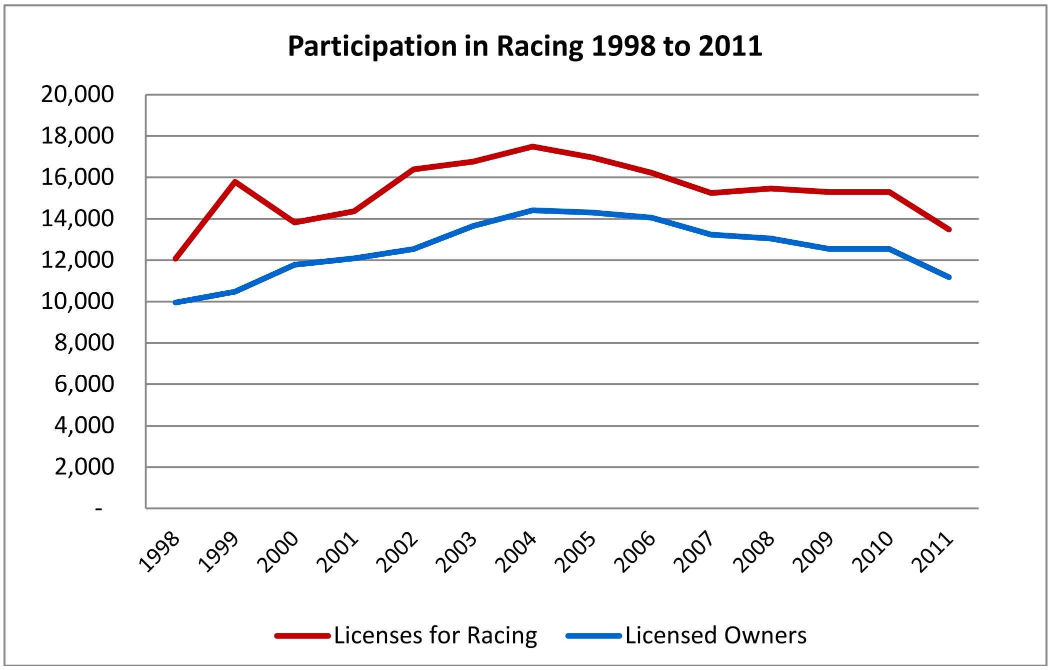
The *Slots at Racetracks Program* was the result of a negotiated agreement between the Government of Ontario and the horse racing industry in the late 1990s at a time when there were very real concerns about extending gambling beyond racetracks and into Ontario communities. The solution was to establish slot machines at racetracks in Ontario, where there was already an instant customer base of gamblers, and existing buildings and capital investment in place.

The agreement was not entered into lightly by the horse racing industry. The industry had very legitimate concerns that slot machines at racetracks would cannibalize wagering on horse racing. The agreement reached for revenue sharing with the industry (and host municipalities) was intended to offset losses on wagering on horse racing, while providing an instant customer-base on which the OLG could build its business.

For more than 10 years, the *Slots at Racetracks Program* has been a highly successful partnership. In the past ten years alone (since 2001), the *Slots at Racetracks Program* has delivered in excess of \$9 billion to the Province of Ontario – net of all commissions earned and OLG expenses. With seventeen racetracks across the province participating in the *Slots at Racetracks Program*, the economic benefits of the Program have been realized widely across the Province.

Racetracks that contracted with the OLG to participate in the *Slots at Racetracks Program*, provided capital to upgrade buildings and facilities to house the slots facilities at their tracks. The required capital to expand facilities at tracks to support slots gaming was sourced either from private financing (by the racetracks), or through interest-bearing loans from the OLG, repaid to the OLG through the racetracks' share of slots commissions. In the first two years of the Program (by 2001), more than $319 million was spent on both slot-related and non-slot related upgrades by racetracks participating in the Program. OLG capital investments in the racetrack sites was limited to the requirements to furnish the slots facilites, and provide the gaming requirements.

The share of commissions allocated to purses for horse racing has built Ontario into the best horse racing centre in North America. The number of licenses issued for participants in racing in Ontario has grown by 22% in the 1998 (pre-Slots at Racetracks Program) through 2008 period.



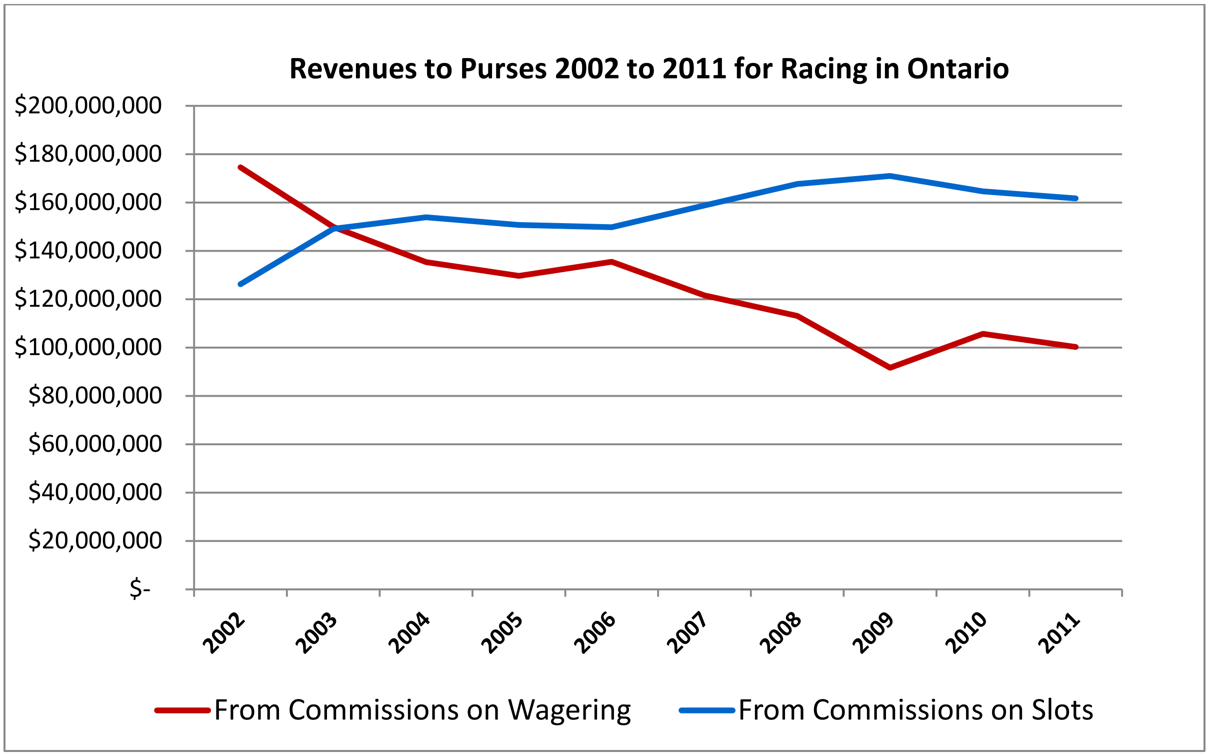
The 10,000 horse owners (accounting for partnerships and syndicate owners) invested in the racing industry in 2010, have an average of $279,000 per owner invested in horses, tack and equipment, and horse-related property improvements to farms in Ontario – more than $2.8 billion in private investment in rural Ontario.

In 2000, the breeding and racing of horses supported 31,000 person-years of employment. By 2010, employment supported by the industry had increased 12.5% to 34,800 person-years -- with an additional 3,900 FTE (full-time equivalent) jobs created primarily in rural Ontario.

The Ontario racing and breeding industry generates more than $2.1 billion in annual expenditures (in 2010), with the majority of these expenditures in the rural agricultural sector. The economic impacts from the *Slots at Racetracks Program* are realized widely across the province.

The *Slots at Racetracks Program* has been a win-win program for both the Province of Ontario and the horse racing and breeding industry. However, the racing industry has paid a price for the competition for gambling dollars from the racetracks slots facilities.

The industry's early concerns about the cannibalization of wagering on horse racing to support slots machine gambling was indeed the reality. Year-over-year the share of revenue that comes to horse racing from betting on the races has been shrinking, and the share that comes from commissions on slots at racetracks has increased. In 2010, more than 60% of the revenue that funded purses for racing in Ontario was sourced from commissions earned from slots at racetracks facilities.

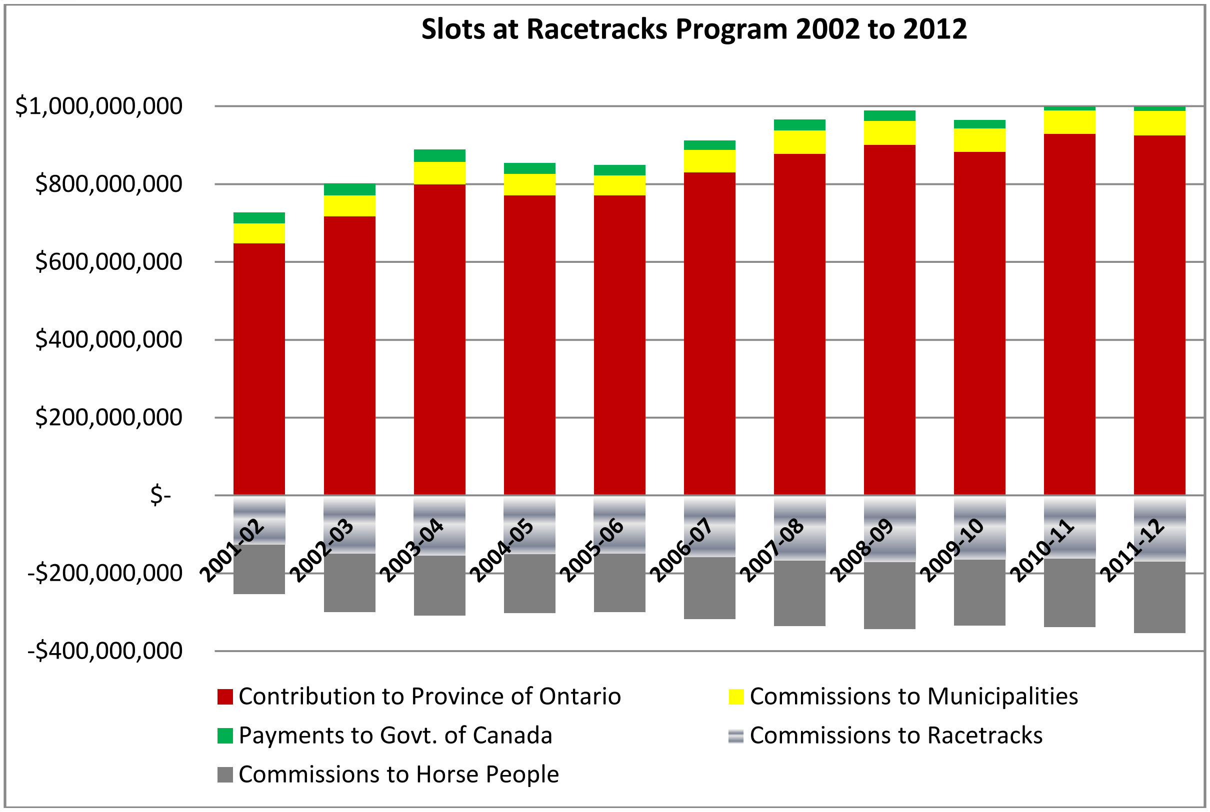


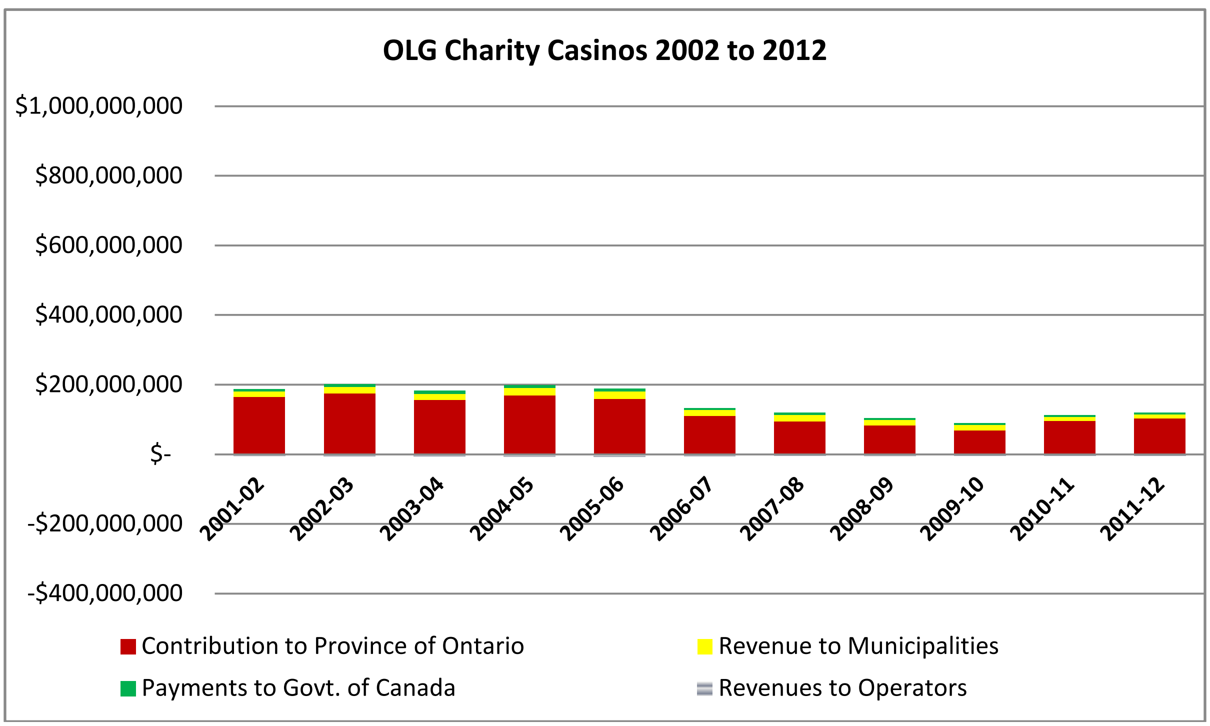
The availability of purses for horse racing in Ontario drives the significant economic contribution derived from the horse racing and breeding sector.

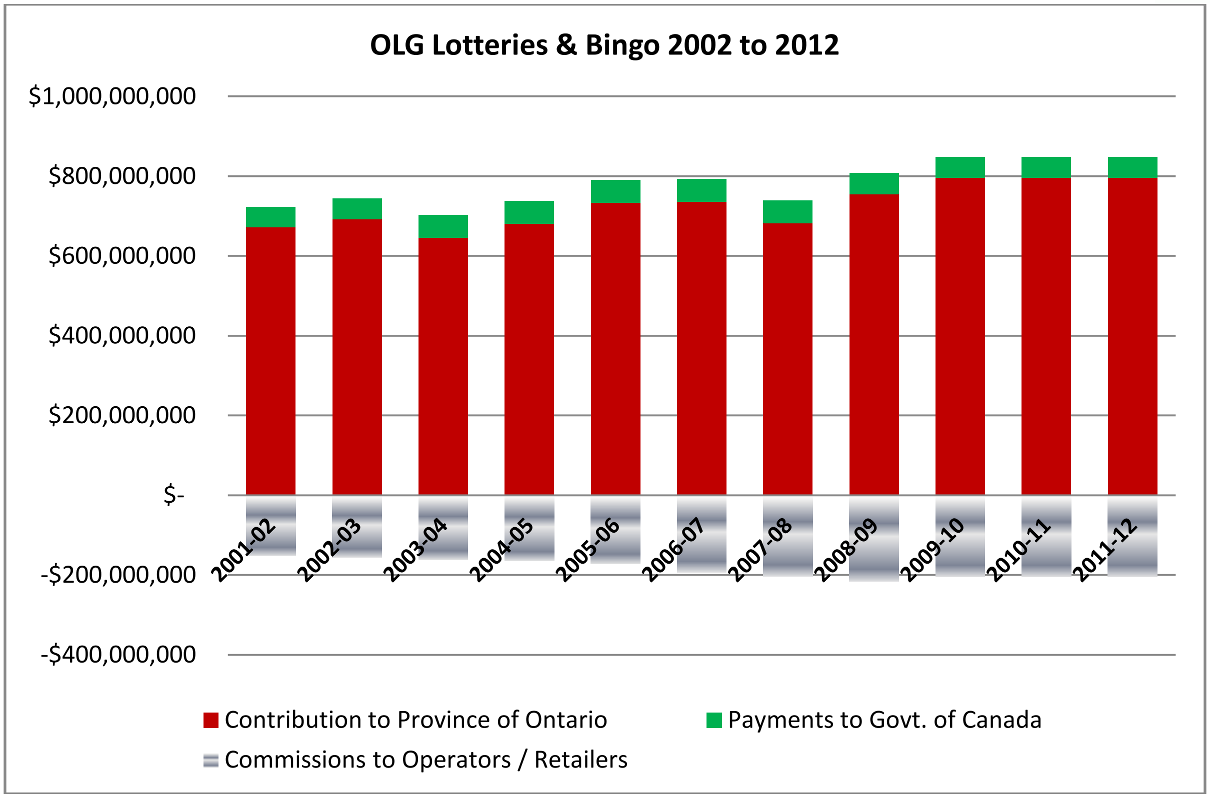
For the purposes of evaluating the projections for net benefits to the Province of Ontario from the *OLG Modernization of Gaming* initiative, OHRIA reviewed OLG Annual Reports for the 2002-03 through 2009-10 fiscal years, as published. Of note, OLG Annual Reports for 2010-11, and 2011-12 fiscal years were not publicly available at time of preparation of this submission. However, OLG Quarterly Performance Reports up to the 3rd quarter 2011-12 are available for some OLG business lines (charity casinos/slots at racetracks and resort casinos).

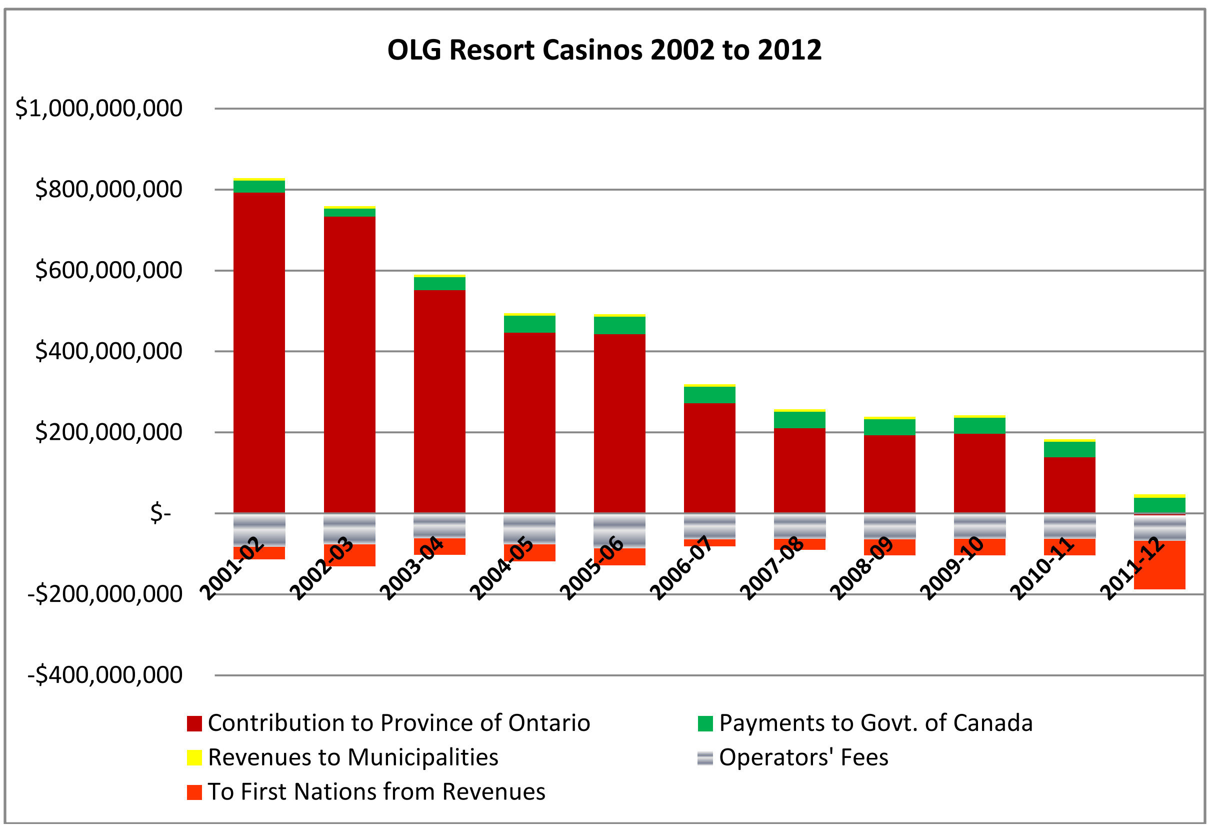
In the tables and data reported in this submission, Quarterly Performance Reports have been used to provide estimates for 2010 through March 31, 2012.

The *Slots at Racetracks Program* has been a key revenue generator to the OLG since its inception in 1999-2000. The tables below chart the contribution to Province of Ontario revenues from the various OLG business lines for the 2002 through 2012 period.

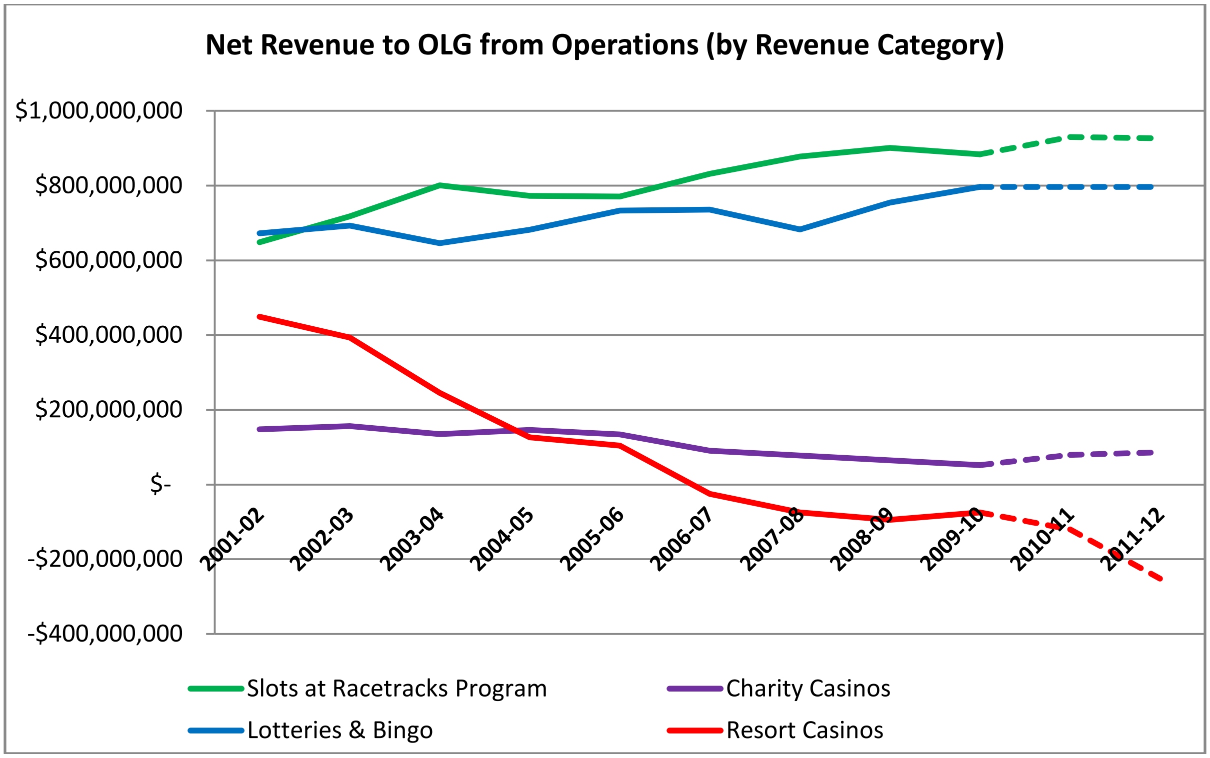

Slots at Racetracks Program 2002 to 2012
$1,000,000,000
$800,000,000
$600,000,000
$400,000,000
$200,000,000
$-
-$200,000,000
-$400,000,000
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
Contribution to Province of Ontario
Commissions to Municipalities
Payments to Govt. of Canada
Commissions to Racetracks
Commissions to Horse People


OLG Charity Casinos 2002 to 2012
$1,000,000,000
$800,000,000
$600,000,000
$400,000,000
$200,000,000
$-
-$200,000,000
-$400,000,000
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
Contribution to Province of Ontario
Revenue to Municipalities
Payments to Govt. of Canada
Revenues to Operators


OLG Lotteries & Bingo 2002 to 2012
$1,000,000,000
$800,000,000
$600,000,000
$400,000,000
$200,000,000
$-
-$200,000,000
-$400,000,000
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
Contribution to Province of Ontario
Payments to Govt. of Canada
Commissions to Operators / Retailers


OLG Resort Casinos 2002 to 2012
$1,000,000,000
$800,000,000
$600,000,000
$400,000,000
$200,000,000
$-
-$200,000,000
-$400,000,000
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
Contribution to Province of Ontario
Payments to Govt. of Canada
Revenues to Municipalities
Operators' Fees
To First Nations from Revenues

While OLG Resort Casinos do provide a portion of contribution to revenues for the Province of Ontario (by way of the "Win Contribution" on gaming at casinos), OLG Resort Casinos have reported a net loss from operations for 2006-07 through 2009-10. The following chart maps net contribution to OLG revenues from the four business lines.

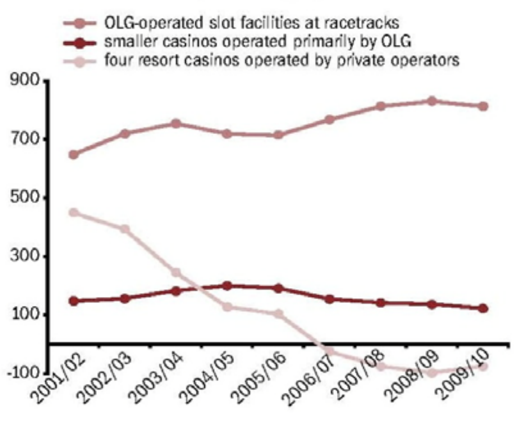


The revenue losses from OLG Resort Casinos was identified by the Auditor General of Ontario as reported in the 2010 Annual Report of the Office of the Auditor General.

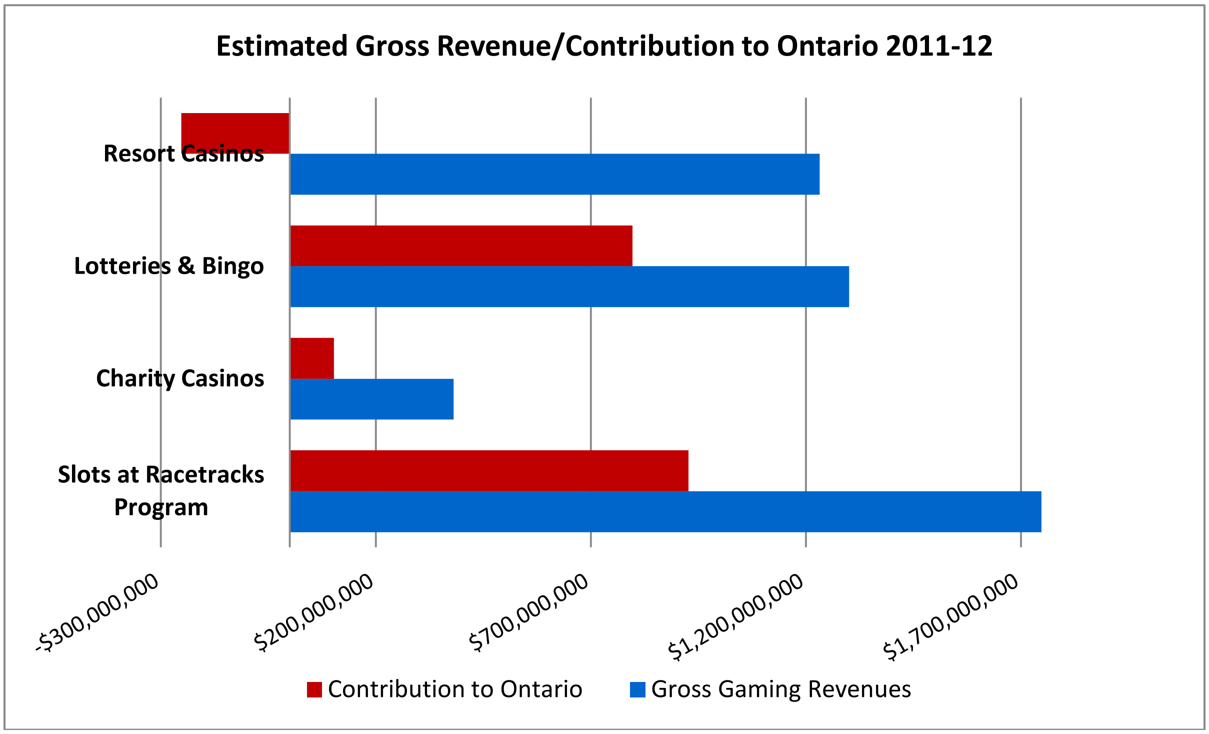
58 2010 Annual Report of the Office of the Auditor General of Ontario

Figure 2: Profits Generated by Ontario Gaming Facilities Operated by OLG and Private Operators, 2001/02–2008/09 ($ million)

Source of data: Ontario Lottery and Gaming Corporation



By our estimate, gross revenues from OLG business lines, compared to the contribution to the Province of Ontario from each of the four categories, would approximate the following for the 2011-12 fiscal year:



By way of clarifying the statement in the projection in the 2012 Ontario Budget document that states "*In 2012-13, net Provincial revenue from commercial casinos, estimated at $70 million, will be used to support general government priorities, …*" we noted in the OLG statements the revised agreement with Ontario First Nations starting in 2011 (the Gaming Revenue Sharing and Financial Agreement), that allocates 1.7% of gross gaming revenues to Ontario First Nations. This agreement replaces previous agreements related to net revenues earned at Casino Rama.

It is expected that the *"net Provincial revenues … estimated at $70 million in 2012-13"* would be achieved by allocating the $119,000,000 in revenues to Ontario First Nations against all four business lines for the OLG. However, re-allocating this expenditure across the four business lines, still leaves a net revenue loss to OLG from operations of resort casinos.

As reported by the OLG, employment at gaming facilities in Ontario was approximately 16,500 jobs (estimated for 2012), as follows:

OLG employees at Charity Casinos	2,500
OLG employees at Slots at Racetracks sites	4,000
Employees of Casino operators at Resort Casinos	10,000

To end the *Slots at Racetracks Program* and achieve 2,300 net new jobs in the gaming sector would require the re-assignment (or potential relocation) of the 4,000 OLG employees currently employed at racetrack sites and the addition of 2,300 new jobs at casino sites by 2017-18. So far, the net result of the OLG modernization initiative has resulted in the loss of approximately 560 jobs as OLG employees were laid-off from the closure of the Sarnia, Fort Erie and Windsor *Slots at Racetracks* sites in April 2012.

The projections for $600 million in additional revenues between 2012-13 and 2014-15 identified in Table 1.7 of the 2012 Ontario Budget document are itemized as:

Negative impact on revenues 2012-13	-$100,000,000
Positive impact on revenues 2013-14	$200,000,000
Positive impact on revenues 2014-15	$500,000,000
Net positive impact	$600,000,000

Our industry has serious concerns that these projections are wildly optimistic, and will not realize the contribution to Ontario revenues that is assumed in the 2012 Ontario budget. What is being proposed in the OLG modernization initiative is to end the most lucrative of the OLG business lines (the *Slots At Racetracks Program*), and to expand (or add) casino-type sites in other locations – lines of business that historically are money-losing for the OLG.

The OLG proposal assumes that by April 1, 2013 (for the 2013-14 fiscal year), up to 4,000 OLG employees currently employed at racetrack sites will still be employed at some type of gaming site and the road will be paved to adding new jobs. So far, the site closures in April 2012 have cut OLG employment at gaming sites by 14%.

The OLG proposal assumes that by April 2013, the 17,000,000 patrons to the *Slots at Racetracks* sites (albeit many are repeat customers) will take their business to gaming sites that have yet to be identified, or created if necessary.

From our interpretation of the 2012 Ontario Budget projections, it appears that the net revenue increase for 2013-14 simply reflects a claw-back of the commission earned by the racing industry from the *Slots at Racetracks Program* (estimated at $340 million in 2011-12), less the additional expenditures accruing to the OLG from the Gaming Revenue Sharing and Financial Agreement with Ontario First Nations initiated in 2011.

In Table 2.32 of the 2012 Ontario Budget commissions to the horse racing industry are described as part of the “Support for Municipalities and Ontario First Nations” category.

While, as an industry, we have no opinion on government policy related to support for either municipalities or First Nations, we do object to the comments in the 2012 Ontario Budget that commission revenues represent “support for the horse racing industry.”

The *Slots at Racetracks Program*, from its inception, was based on commercial contracts with racetracks in the private sector, OHRIA (on behalf of horse people in Ontario) and the Government of Ontario. In all OLG annual reports, the Segmented Information section of the financial statements report revenues to the racing industry under the expenditure line for “Commissions”. This expenditure line also includes commissions paid to Lottery Retailers, and the revenue share from the *Slots at Racetracks Program* to municipalities. Fees paid to commercial resort casino operators are identified as “Operator Fees”.

The commissions earned by the horse racing industry are directly invested into live racing in Ontario. This industry investment supports more than 34,800 *person-years* of employment, mostly in rural Ontario, and more than $2.3 billion in annual expenditures for the production, care, training and racing of horses in Ontario. Commissions earned from the *Slots at Racetracks Program* currently generate 60% of the purse value that supports this significant economic contribution in Ontario.

The proposed modernization initiative for the OLG that eliminates these commissions to the industry in 2013 would effectively cut the Ontario racing and breeding industry by more than 60% in a single year. This will affect everyone in the sector – instantly devaluing the investment in the breeding sector in breeding stock and young horses on the ground, and eliminating thousands of jobs in rural Ontario.

Our industry, both as stakeholders to the *Slots at Racetracks Program* and taxpayers in Ontario, are concerned that the 2012 Ontario Budget is looking to the OLG modernization initiative as a key component for future revenue generation (and deficit reduction) goals. In order for the proposed OLG modernization initiative to achieve its projections for net benefits to the Province of Ontario this initiative would need to …

- Replace the $1 billion in annual net contribution to Ontario that is currently realized from the *Slots at Racetracks Program* (after all commissions and OLG expenses) through new revenue streams
- Maintain employment levels in the gaming industry at current levels (16,500 jobs), and
- Maintain employment levels in the Ontario racing and breeding sector at current levels (34,800 FTE jobs),

… to ensure that there is truly a net benefit to Ontario.

It is the opinion of our industry that the current OLG modernization initiative as outlined, will not realize the projections anticipated, and in the process of implementation will cause significant economic damage to our industry and hardship to our stakeholders.

On behalf of the Ontario horse racing and breeding industry, OHRIA would respectfully request of the Standing Committee that it recommend the proposed ending of the *Slots at Racetracks Program* on March 31, 2013 should **<u>not</u>** go forward until such time as a detailed analysis of the economic impact of ending the Program has been completed by a joint government-industry panel.

Respectfully submitted,

Sue Leslie
President, OHRIA
Ontario Horse Racing Industry Association