Chapter 3
Section
3.12

Ministry of Finance

Provincial Support to Sustain the Horse Racing Industry

1.0 Summary

The province has been supporting the horse racing industry through various initiatives since 1996. Ontario's 15 racetracks currently rely on annual government funding of close to $120 million to subsidize the horse racing industry in the province. In addition, 11 of these racetracks host provincial slot facilities, and receive about $140 million in annual lease revenues from OLG and private operators to host slot machines, and, in some cases, for valet parking and food services. Current government agreements do not require that these annual lease revenues be used to support horse racing operations.

Horse racing as a gaming operation has been in decline in Ontario since the legalization of lotteries in 1969. The introduction of slot machines and other electronic games in 1985 further impacted the industry. Over the last 10 years, from 2008/09 to 2018/19, Ontarians' wagering on Ontario races, and races outside the province, has decreased by 44% and 15% respectively. Wagering by other Canadians on Ontario races has also decreased by 48%.

The racetracks offer Thoroughbred, Standardbred and Quarter horse racing, and two of Ontario's tracks are home to the three races that make up Canada's Triple Crown. A race takes place almost every day somewhere in the province. According to a study commissioned by the industry, as of September 2017, the horse racing industry provided the equivalent of 45,000 full-time jobs. The industry employs racetrack owners and operators, breeders and their employees, racehorse owners, groomers, trainers and jockeys.

In 2018/19, gross wagering on horse racing in Ontario totalled $1.6 billion, including bets on Ontario races placed from outside Ontario and bets placed inside the province on races held elsewhere. Of the $1.6 billion total, Ontario racetracks paid out 87.3% to winning bettors and kept 12.7% or $203 million in gross commissions, before taxes and operating costs. However, these wagering commissions have not been sufficient for the industry to cover racetrack operating costs and purses, the prize money paid to horse owners. The largest racetrack operator in Ontario is the Woodbine Entertainment Group (Woodbine), which owns and operates both the Woodbine Racetrack and the Mohawk Racetrack. Together, these tracks accounted for about 90% or $1.47 billion of all wagering in the province in 2018/19.

As of April 2016, the Ontario Lottery and Gaming Corporation (OLG) assumed responsibility for administering funding and monitoring, as well as supporting the horse racing industry with its gaming and marketing expertise, with the goal of making the industry financially self-sustaining.

In March 2018, the province announced a new 19-year funding commitment to support the horse racing industry. Starting April 2019, the new long-term agreement provides about $120 million to the industry annually for the first two years and is expected to drop to about $65 million in the fifth year and to $63.4 million by the eighth year. However, the latest funding agreement does not encourage the industry to become self-sustaining.

Oversight for the industry is divided between two provincial agencies and one federal agency. OLG is responsible for oversight of government funding through the 19-year funding agreement. The Alcohol and Gaming Commission of Ontario (AGCO) is responsible for licensing all participants in horse racing, including racetracks, and regulating the conduct of horse racing. A federal agency, the Canadian Pari-Mutuel Agency, is responsible for oversight of wagering.

Although the horse racing industry receives a significant amount of public funding, it lacks transparency and public accountability. Of the 15 racetracks, only one posts its financial statements on its website. There is no public reporting of gross wagers collected and wagering commissions by racetrack, how the provincial tax reduction on wagering is shared between the various racetracks and horse people, purses paid by racetracks, revenue and expenses related to racing operations separate from other operations, and key statistics such as the current number of people working in the industry.

Our audit found these significant concerns:

- **The horse racing industry is no closer to self-sustainment after a history of various government funding programs.** The goal of the five-year, $500 million Horse Racing Partnership Funding Program in existence from 2014/15 to 2018/19 was to support racetracks in becoming more self-sustaining. However, the industry is not significantly closer to that goal than it was in 2013. Over the last five years, total wagering has remained relatively unchanged, while purses have slightly increased. Between 2014/15 and 2018/19, about 60% of total purses was funded through provincial support. All key stakeholders we spoke with agreed that the horse racing industry would not be sustainable without the current level of provincial support now being provided by OLG.
- **Despite OLG's horse racing awareness campaign, wagering in Ontario on horse racing continues to decline.** Specifically, wagering in Ontario on races in and outside Ontario has decreased from $882 million in 2016/17 to $833 million in 2018/19. As part of its marketing strategy in 2015, OLG created a new horse racing brand under the Ontario Racing name in consultation with the industry association. It was launched in 2016. Based on the findings from a third-party researcher contracted by OLG to measure the effectiveness of OLG's marketing initiatives for the horse racing industry, awareness of horse racing by the Ontario adult population has grown from 13% in 2016 to 22% in 2018. However, although awareness increased, wagering did not. At the time of our audit, OLG had not set a target for the level of awareness it wanted to achieve or the level of wagering growth it wanted to result from the increased awareness.
- **Focus of provincial funding shifts from self-sustainment to sustaining the industry.** With the introduction of the new 19-year funding agreement on April 1, 2019, the objective of government funding changed from transitioning the industry to become self-sustaining to sustaining the industry for a long period of time. Although one of the key objectives of the new long-term agreement continues to be to reduce reliance on government funding, with 19 years of guaranteed funding until the end of fiscal 2037/38, it is difficult to see how the new agreement will reduce the industry's reliance on provincial support. For 2018/19, provincial funding covered 60% (or $84.8 million) of total purses paid of $142.3 million to winning horse owners.

- **Provincial support is guaranteed for 19 years.** The new long-term funding agreement does not include any clauses that would allow the province to terminate the agreement without cause. Furthermore, the total annual funding will not be reduced if a racetrack closes down. Because the funding levels are not tied to the number of racetracks, the money would be redistributed amongst the remaining racetracks.
- **Provincial funding reductions in the new long-term funding agreement related to wagering increases are likely unattainable.** Total funding over the 19-year term of the agreement is likely to reach $1.4 billion. According to the terms in the new long-term funding agreement between OLG, Ontario Racing (horse racing's industry association) and Woodbine, the industry (including racetracks and horse people) could receive almost $120 million in annual funding from OLG for two years. After that, funding would be reduced if wagering revenue increases significantly. For this reduction to occur, wagering within Ontario would need to increase by 44%, and wagering outside of Ontario would need to increase by 30%. Since overall wagering has increased by only 1% over the last 10 years, it appears unlikely that funding will be reduced due to wagering increases. However, OLG's funding obligations are more likely to decrease by $51.4 million when Woodbine receives incremental casino lease revenues from its racetracks.
- **Lack of federal government oversight to guard against money laundering at Ontario racetracks.** For a sector that is vulnerable to money laundering, the horse racing industry in Canada is not accountable to any regulatory body to monitor its operations for this type of crime. In contrast, the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* has covered the casino sector since 2007. All Canadian casinos are required to report transactions over $10,000 and any suspicious transactions to the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC). As part of our review, we noted some deficiencies in Woodbine's record-keeping of suspicious transactions, including payments to customers over $10,000.
- **Ontario has more racetracks than comparable jurisdictions, without sufficient wagering income to support them.** Ontario currently has 15 racetracks—two that race Thoroughbred horses, 12 that race Standardbred horses, and one that races Quarter horses. When compared to racetracks in the United States, Ontario serves fewer people per racetrack than the states of California, Florida, New York, Pennsylvania and Ohio. Ontario has nine more racetracks than Pennsylvania, and six more than Florida, which has a 46% higher population than Ontario. For 2018/19, revenues totalled about $200 million, including wagering commission for racetracks, while racetrack expenses and purses totalled about $370 million. This leaves an estimated operating shortfall of about $170 million before considering any government support (including lease revenue for hosting provincial slot facilities).
- **The Woodbine Entertainment Group (Woodbine) has a significant role in the latest long-term funding agreement with OLG.** The funding agreement negotiated between OLG and Woodbine includes language that effectively cancels the agreement if Woodbine's role is changed or eliminated. Specifically, the funding agreement ceases to be valid if Woodbine ceases to be a member of Ontario Racing; Woodbine's subsidiary (Ontario Racing Management) ceases to be owned 100% by Woodbine; or Woodbine's subsidiary ceases to be responsible for the management of Ontario Racing. Woodbine holds two of the five racetrack representative positions on the 11-member Ontario Racing

Board, which is responsible for administering the new long-term funding agreement, setting race days and distributing funding to racetracks. Ontario Racing Management, which supports operations for the Ontario Racing's Board, is a wholly owned subsidiary of Woodbine. It will be paid $3.4 million annually to help the Ontario Racing Board administer the new long-term funding agreement. Key members of the management team of Ontario Racing Management are also employees of Woodbine.

This report contains nine recommendations, with 16 action items, to address our audit findings.

Overall Conclusion

Provincial funding to the horse racing industry has not helped the industry become self-sustaining as historically intended in various funding agreements. Income from wagering continues to decline and is not sufficient to cover racetrack operating costs and purses. Specifically, over the last ten years, wagering on Ontario horse races by Ontarians and other Canadians has dropped by 44% and 48%, respectively. In contrast, foreign wagering on Ontario races has seen a significant increase of 108% over the same period. However, since commissions are significantly lower on foreign wagering, overall wagering commissions have not increased. Government funding continues to support about 60% of total purses paid. In fact, the objective of the new 19-year funding agreement that came into effect April 1, 2019, is to sustain the industry. Critical decisions about how provincial funding is to be allocated amongst racetracks and which racetracks to close, if any, are in the hands of the industry.

Although the horse racing industry is licensed, regulated and receives a significant amount of public funding, it lacks transparency and public accountability. Ontario Racing publicly reports on how much wagering is collected in total and how provincial funding is distributed among industry parties or industry groups, there is no public reporting of gross wagers collected and wagering commissions by racetrack, how the provincial tax reduction on wagering is shared between the various racetracks and horse people, purses paid by racetracks, revenue and expenses related to racing operations separate from other operations, and key statistics regarding people working in the industry. As well, racetracks receiving government funding are no longer required to disclose the salaries of employees making more than $100,000.

After taking over the oversight of government funding of the horse racing industry in 2016, the Ontario Lottery and Gaming Corporation implemented a marketing strategy to help increase awareness of the industry. Although awareness of horse racing by Ontario adults has increased from 13% in 2016 to 22% in 2018, wagering by Ontarians and other Canadians on races in Ontario has continued to decline as noted above.

Based on our sample testing of the Horse Racing Partnership Funding Program which ended on March 31, 2019, we confirmed that provincial funding provided for purses was spent on purses, and that the provincial tax break to the industry of 6.9% was shared with specific industry parties in the correct amounts as intended by the program.

OVERALL RESPONSE FROM OLG

The Ontario Lottery and Gaming Corporation (OLG) thanks the Office of the Auditor General for its review of public funding of the horse racing industry.

For a number of years, the province has funded live horse racing in support of a strong horse racing industry that creates jobs, investments and economic development in rural communities throughout Ontario.

In 2016/17, the province directed OLG to administer transfer payments to the industry, in addition to the provision of marketing and responsible gambling support. The province also asked OLG to develop a long-term funding agreement to replace the transfer payment program. The goal was to foster a sustainable industry that would be less reliant on public funds. For two years, OLG worked closely with all areas of the horse racing sector to create an agreement that achieved these objectives. This agreement garnered buy-in from most industry stakeholders, and secured governance with broad representation from racetracks, breeders, and horse people.

Effective April 1, 2019, the long-term funding agreement provides funding stability for horse racing, including racetracks that lost or would lose slots, in exchange for a reduction in public funding over time. After the first year of the agreement, OLG will review 12 months of industry data and reports to help inform fact-based decisions in future years. Overall, the long-term funding agreement provides a framework for the industry to manage its own affairs in the marketplace, grow wagering and quality horse supply, while being held accountable for the public funds it receives.

The intent of the long-term funding agreement is to ensure the vitality of the horse racing industry in Ontario for generations to come. OLG welcomes the work and advice of the Office of the Auditor General of Ontario as we continue to build a sustainable future for horse racing in Ontario.

2.0 Background

2.1 Overview of Horse Racing Industry

The horse racing industry provided the equivalent of 45,000 full time jobs in September 2017, the latest date for which data is available, based on a study commissioned by the Ontario Racing Association on the economic impacts of horse racing and breeding in Ontario. The industry employs racetrack owners and operators, breeders and their employees, racehorse owners and horse people like grooms, jockeys, and trainers. According to the study, racetrack employees accounted for 21% (9,500) of horse racing jobs, while the other 79% (35,900) were in breeding, training, etc. Ontario is one of the few areas in North America that races three breeds – Thoroughbred, Standardbred and Quarter horses. Two of Ontario's tracks are home to the three Thoroughbred races that make up Canada's Triple Crown. The Queen's Plate and the Breeders' Stakes have been run at Woodbine since 1860 and 1889 respectively. Fort Erie's track began hosting the Prince of Wales Stakes in 1929.

Ontario has 15 licensed horse racing tracks; 11 of these are co-located with provincial slot facilities. For the locations of racetracks, see **Appendix 2**.

In 2018/19, about half (48%) of industry revenues were generated from non-government sources. These revenue sources include gross commissions on wagering before taxes ($203.5 million) and food sales at racetracks ($75.4 million). The province provided the remaining 52% ($299.4 million), including funding for purses, racetrack operating costs and breeding programs ($100.3 million), a tax reduction on wagering ($57.5 million), and lease revenue ($141.6 million) provided by OLG and its service providers to racetracks for hosting casino and slot machines. **Figure 1** shows the types of government support to the horse racing industry for the period 2012/13 to 2018/19. **Section 2.2** details the evolution of recent government support for the horse racing industry.

Horse racing in Ontario has been in decline for more than a decade. **Figure 2** shows that the number of race horses and scheduled race days, as well as the amounts of wagering in Ontario and purses have all declined from 2008/09 to 2018/19.

2.2 History of Provincial Support to the Horse Racing Industry

Over the years, various government financial support programs have been put in place to provide

Figure 1: Government Funding to Support the Horse Racing Industry in Ontario, by Provider and Program, 2012/13–2018/19 ($ million)

Source of data: Public Accounts, the Audited Financial Statements of the Ontario Racing Commission, Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA), and Ontario Racing

Provider	Program/Support	Direct Recipient	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Ontario Lottery and Gaming Corporation (OLG)	Slots at Racetracks Program	Racetracks	333.1						
OLG[1] and gaming service providers	Lease and other payments	Racetracks	36.5	147.9	150.8	152.7	150.2	157.3	141.6
OMAFRA	Horse Racing Industry Transition Program	Racetracks		61.6	0.2				
OMAFRA	Horse Racing Partnership Funding Program[2] (HRPFP)	Racetracks			99.8	100.0			
Ministry of Finance	Horse Racing Partnership Funding Program[2] (HRPFP)	Racetracks					93.4	91.6	94.4
Ministry of Finance	Pari Mutuel Tax Reduction[3] (forgone taxes)	Racetracks	63.3	57.9	58.4	59.9	60.9	59.0	57.5
OMAFRA	Horse Racing Industry Development Program (HRIDP)[4]	Breeders Association					6.5	5.9	5.9
Total Provincial Support			**432.9**	**267.4**	**309.2**	**312.6**	**311.0**	**313.8**	**299.4**

1. OLG lease payments: Rent paid to host slot machines and payments to cover the costs of valet parking and food services. OLG has paid racetrack operators rent to host OLG slot machines since 2014 after the Slots at Racetracks Program was cancelled. OLG sold gaming sites to private operators starting primarily in 2017/18. These operators pay lease payments directly to racetracks. The lease payments include an estimate of lease payments to be paid by private operators to racetracks in 2017/18 ($19.8 million) and 2018/19 ($83.9 million). As of March 2019, 12 racetracks were hosting OLG slot machines and were receiving lease payments.
2. Horse Racing Partnership Funding Program: Government support payments to help cover racetrack operating costs and increase purses (prize money for horse owners) since 2014/15.
3. Pari-mutuel tax reductions: Provincial tax reduction. Racetrack operators are required by law to collect provincial taxes on all bets placed in Ontario on horse races. The tax rate was 7.4% until 1996 when it was reduced to 0.5%. This 6.9% reduction is shared between racetracks and horse people under the 2014 Horse Racing Partnership Funding Program as follows:
   - 3.00% to the Horse Improvement Program for horse breeding
   - 0.40% to horse people and associations
   - 1.25% to racetracks for operations
   - 1.50% to racetracks to provide customer benefits
   - 0.75% to the Alcohol and Gaming Commission of Ontario regulatory levy
4. Program is comprised of the Enhanced Horse Improvement Program (EHIP) and Race Horse Welfare.
   The Enhanced Horse Improvement Program
   - provides awards and incentives to promote the breeding of quality Ontario racehorses and ownership of Ontario-produced racehorses; there is a separate program for each type of racehorse.
   - supports research related to the racing and breeding of racehorses.

   Racehorse Welfare
   - encourages industry leadership in racehorse lifecycle planning, and responsibility in preventing racehorse cruelty and neglect.

Figure 2: Comparison of Key Statistics from 2008/09 to 2018/19 for Ontario's Horse Racing Industry

Source of data: Ontario Lottery and Gaming Corporation and the Alcohol and Gaming Commission of Ontario

	2008/09	2018/19	Increase/ (Decrease) (%)
# of race horses	7,809	6,834	(13)
# of scheduled race days[1]	1,613	929	(42)
Gross wagering (Ontario and non-Ontario customers)[2]	$1,585 million	$1,601 million	1
Amount wagered in Ontario on Ontario races	$404 million	$226 million	(44)
Amount wagered in Ontario on races outside Ontario	$715 million	$606 million	(15)
Total purses[1] (prize money)	$273 million	$142 million	(48)

Note: Ten-year trend in wagering is provided in **Figure 10**.

1. Calendar years 2008 and 2018.
2. Wagering by Ontario customers on races anywhere and wagering by non-Ontario customers on Ontario races only.
3. Wagering by Ontario customers on races anywere.

support to the horse racing industry in Ontario. Since 2012, however, the province has communicated that the overall goal of these programs was industry self-sustainability through the growth of marketplace revenues.

In 1998, OLG started to place slot machines at racetracks through the Slots at Racetracks Program. Each racetrack received 20% of the gross revenues from the slots at their premises, split evenly between the racetrack and the horse people based at that racetrack. By 2012/13, the program was providing the horse racing industry with almost $335 million annually.

In March 2012, OLG announced that the Slots at Racetracks Program was ending effective March 31, 2013 as part of OLG's modernization plan. The initiative followed a recommendation by the 2012 Commission on the Reform of Ontario's Public Services, also known as the Drummond Report, to discontinue provincial government subsidization of the horse racing industry through the Slots at Racetracks Program. The goal of OLG's modernization plan was to increase provincial revenues through the privatization and relocation of gaming facilities, including slots, closer to where customers live. However, OLG did not receive the municipal approvals required to relocate slot facilities closer to the downtown cores of major cities, as they had planned.

After receiving negative feedback from the horse racing industry, the government appointed a Horse Racing Transition Panel in June 2012, three months after the cancellation of the Slots at Racetracks Program, and announced $50 million in transition funding over three years. In October 2012, the panel, comprised of three former Ontario cabinet ministers from three political parties, found that $50 million was insufficient to transition the industry to self-sustainability and recommended an investment up to $179.4 million over three years. As a result, the provincial government increased the transitional funding to $180 million (or $60 million per year) over three years. However, this funding only lasted one year, as a new funding program was announced.

In October 2013, the government announced a five-year Horse Racing Partnership Funding Program that provided up to $400 million to support the horse racing industry through transfer payments to racetracks. The funding was increased to $500 million in April 2014, and the Ontario Racing Commission, a government agency that reported to the Ministry of Agriculture, Food and Rural Affairs, signed five-year transfer payment agreements with 15 racetracks. The funding had two components: the Horse Racing Partnership Funding Program and the Horse Racing Industry Development Program. The first component was intended for racetrack operations and purses, depending on the needs of the racetrack. The second component was intended to improve the quality and value of Ontario bred racehorses, and to promote ownership of Ontario produced racehorses.

For a comparison of government funding to the industry before the cancellation of the Slots at Racetracks Program and after, see **Figure 3**.

In 2015/16, the government restructured horse racing regulation in Ontario. Regulatory responsibilities were transferred from the Ontario Racing Commission to the Alcohol and Gaming Commission of Ontario. *The Ontario Lottery and Gaming Corporation Act, 1999* was also amended to make the OLG responsible for supporting live horse racing in Ontario and for the Horse Racing Partnership Funding Program, starting April 1, 2016. In March 2016, Treasury Board extended the program until March 2021, two years past its original five-year term, and provided OLG with additional funding for industry development activities ($900,000 per year) and administration costs to oversee the provincial funding program ($1.1 million in 2016/17 and $1.8 million in 2017/18).

2.3 New Long-Term Funding Agreement beginning April 1, 2019

In March 2016, Treasury Board directed the Ontario Lottery and Gaming Corporation (OLG) to work with the horse racing industry on a long-term funding arrangement. Based on industry consultations, in January 2018, OLG, Ontario Racing (a private industry association described in **Section 2.4**) and Woodbine reached an agreement-in-principle. The long-term funding agreement received Treasury Board approval in March 2018 and a public announcement of the agreement was made.

On May 7, 2018, the new 19-year long-term funding agreement was signed, and came into effect on April 1, 2019. The agreement has an initial seven-year term, plus two six-year extensions.

The objectives of the new long-term agreement are to reduce reliance on government funding, increase support for racetracks not operated by Woodbine, improve access to revenue streams (for example, off-track betting) for all parts of the industry, provide a unified industry voice and improve industry transparency.

As a result of this new agreement, the previous two-year extension of the Horse Racing Partnership Funding Program (discussed in **Section 2.2**) was cancelled.

Provincial funding under the new agreement will be provided through OLG's gaming revenues and, therefore, will not be recorded in the province's Public Accounts as a transfer payment expense. It will likely be recorded as an expense in OLG's financial statements.

Over the 19-year term of the new agreement, OLG will provide up to $120 million in annual payments to the industry from OLG revenues for the first two years (which includes $3 million in annual transition payments to supplement purse and operating shortfalls), $117 million per year for the next two years and approximately $63-$65 million per year after that. The maximum funding in each category (excluding the $3 million in transition payments) is as follows:

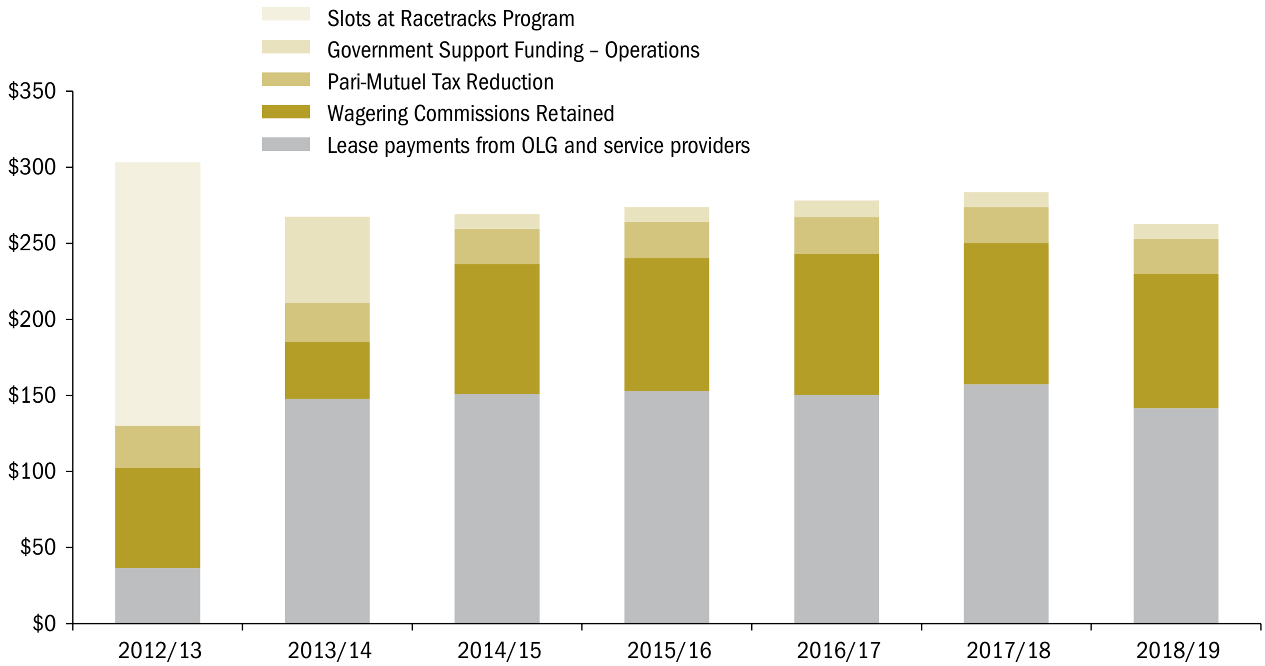
- $91.4 million to support purses and operating costs at racetracks (only $9.1 million can be used to support operating costs after 2020/21);
- $10 million to breeders to improve the quality and value of Ontario-bred horses;
- $6 million for capital improvements at non-Woodbine racetracks;
- $4 million to supplement purses at non-Woodbine racetracks;
- $3.4 million to a subsidiary of Woodbine to administer the payments;
- $2 million to provide financial assistance to Fort Erie and Dresden under the Optional Slots at Racetracks Program.

Under the Optional Slots at Racetracks Program, five racetracks that lost or were about to lose slot facilities were given the option to have slot machines and receive rental income, or to receive additional annual funding. Three tracks chose to

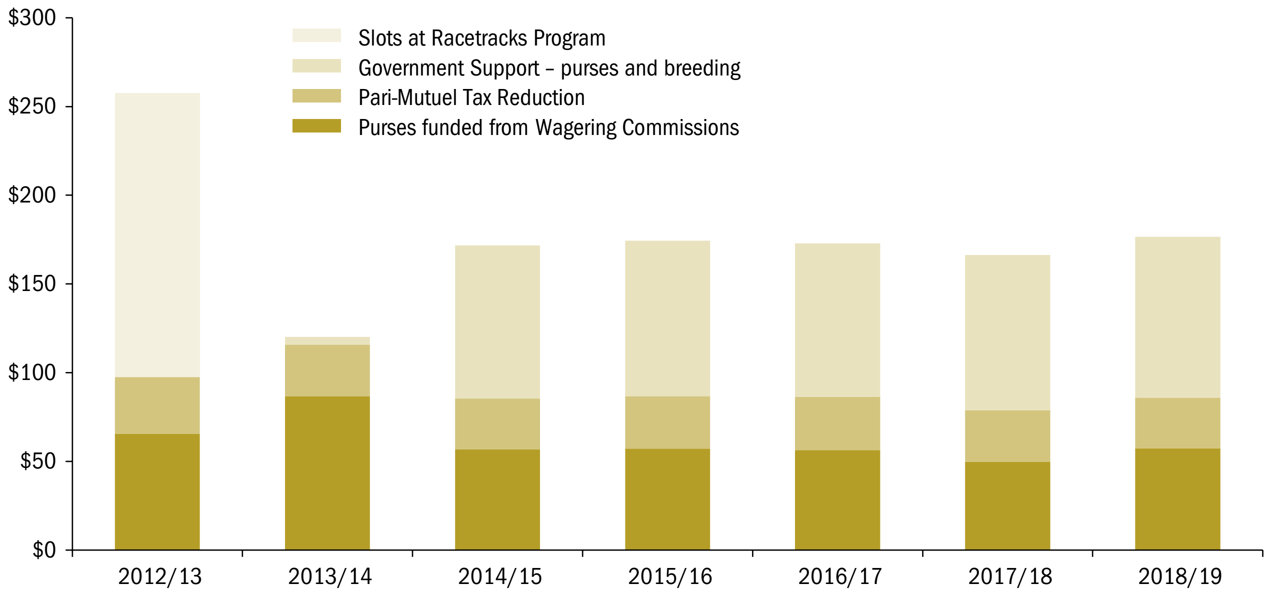
Figure 3: Trend in Revenues to Racetrack Owners and Horse People

Source of data: Ontario Lottery and Gaming Corporation and the Ministry of Agriculture, Food and Rural Affairs

Racetracks



Horse People



have slot machines, and the other two (Fort Erie Racetrack and Dresden Raceway) elected to receive additional financial support for horse racing operations totalling $2 million. The Fort Erie Racetrack will receive this funding in 2019/20, but Dresden will not receive its $250,000 share until the Chatham Casino opens.

The new long-term funding agreement provides a 17% annualized funding increase from $100 million provided by the former Horse Racing Partnership Funding Program, to $117 million. See **Appendix 3** for the 2019/20 approved funding allocation (including $3 million in transition payments). See **Appendix 4** for projected annual funding over the term of the agreement.

By 2021/22, OLG could reduce the maximum annual funding under the long-term agreement from $117 million if certain wagering and lease revenues are achieved. This is described more fully in **Section 4.1.8**.

Leasing Revenue for Woodbine Entertainment Group

As part of the OLG's modernization process for land-based gaming, the OLG combined all slots at racetracks and casino operations into eight regional gaming "bundles" throughout the province. Where procurement processes were completed, OLG transferred the bundles to private-sector service providers. Each transfer involved a formal, signed agreement between OLG and the service provider that won the bid, committing the provider to acquire assets and assume liabilities related to the sites in the bundle. The provider then signed a Casino Operating and Service Agreement with OLG to operate the casino and other services at the site. OLG continues to oversee the sites for the duration of the agreement, and the service provider has taken on the day-to-day operations.

In order to provide lease cost certainty to potential bidders for the GTA gaming bundle, OLG reached a long-term lease agreement with the Woodbine Entertainment Group (Woodbine) for space at the Woodbine Racetrack to develop gaming and non-gaming operations prior to the bidding process. The lease agreement eliminated the risk of Woodbine affecting the bidding process by either participating in the bidding itself and thereby creating an unfair competitive procurement process, or by creating uncertainty in the future lease costs for the winning bidder who would have to negotiate these costs with Woodbine. The long-term leasing agreement allows the successful bidder for the GTA bundle (Ontario Gaming GTA LP) access to the Woodbine Racetrack site to develop a predetermined number of acres.

Under the long-term funding agreement, when the additional casino leasing revenues from the new gaming expansions at Woodbine and Mohawk racetracks reach $51.4 million, both racetracks owned by Woodbine would no longer receive purse funding for horse racing from the government.

2.4 Ontario Racing: Horse Racing's New Private Industry Association

In April 2018, Horse Racing Ontario, operating as Ontario Racing, was incorporated as a not-for-profit corporation to represent the horse racing industry. Ontario Racing is responsible for setting an annual program of races for all racetracks, attracting new horse owners, implementing breed improvement programs (including horse improvement programs), growing the fan base and connecting the industry with the government and the general public. The goals of Ontario Racing are to attract competitive fields of high quality horses; to maximize the audience for live horse racing in Ontario, both on track and off track; and to increase wagering on the Ontario racing product, both domestically and internationally. The provincial government recognizes Ontario Racing as the authority for horse racing in Ontario.

Ontario Racing is the result of the government's initiative to transition responsibility for the industry from government to the industry itself. In 2016, the industry had set up the Ontario Racing Association as a not-for-profit organization to represent the horse racing industry after signing an agreement with the now-defunct Ontario Racing Commission (a government agency under the Ministry of Agriculture, Food and Rural Affairs). The association's board included former directors of the previous industry association, and was provided operational funding of $1.8 million for two years by the Ministry of Finance through the Alcohol and Gaming Commission of Ontario (AGCO). In June 2018, Horse Racing Ontario purchased the assets and liabilities of the Ontario Racing Association and began operating as Ontario Racing.

There are 11 seats on Ontario Racing's Board of Directors—five from industry associations, five from racetracks, and an independent chair. The Board is responsible for setting race dates (subject to approval from OLG and the AGCO), allocating industry funds (subject to approval from OLG), marketing and promotion, and identifying opportunities for operational efficiencies. See **Figure 4** for a list of the current board members.

Ontario Racing Management, a wholly-owned subsidiary of Woodbine under contract with Ontario Racing, now provides all material management and operational services for Ontario Racing. According to OLG, Woodbine was made the administrator for Ontario Racing because it was a logical choice given its expertise in gaming and how well it managed the Standardbred Alliance.

2.5 Responsibility for the Horse Racing Industry

The responsibilities for the horse racing industry have changed significantly in the last five years since the dissolution of the Ontario Racing Commission. **Appendix 5** illustrates the governance model of the industry prior to April 1, 2016 and **Appendix 6** illustrates the current governance model as of April 2019. **Figure 5** lists the parties responsible for various functions in the horse racing industry.

- **Industry regulation, licensing and licensing appeals.** Before its dissolution, the

Figure 4: Ontario Racing Board of Directors as of September 2019

Source of data: Ontario Racing

Board Member		Position	Repesenting
1.	John Hayes (Chair)	(Industry-related experience) • former and most recently, an At-Large Director of Ontario Racing • former Gaming Director with OLG • Standardbred race horse owner	Independent
2.	Jim Lawson	CEO, Woodbine Entertainment Group	Premier Thoroughbred Racetracks
3.	Jessica Buckley	CEO, Woodbine Mohawk Park	Premier Standardbred Racetracks
4.	Ian Fleming	General Manager, Clinton Raceway	Grassroots Standardbred Racetracks
5.	Bruce Barbour	Executive Director, Flamboro Downs and Georgian Downs	Signature Standardbred Racetracks
6.	Jim Thibert	CEO, Fort Erie Live Racing Consortium	Signature Thoroughbred Racetracks
7.	Bob Broadstock	President, Quarter Racing Owners of Ontario Inc. (QROOI)	Quarter horse Horse people
8.	Sue Leslie	President, Horsemen's Benevolent and Protective Association (HBPA) of Ontario	Thoroughbred Horse people
9.	Bill O'Donnell	President, Central Ontario Standardbred Association (COSA)	Standardbred Horse people
10.	Walter Parkinson	President, Standardbred Breeders of Ontario Association (SBOA)	Standardbred Breeders
11.	David Anderson	Anderson Farms	Thoroughbred Breeders

Figure 5: Change in Responsibility for the Horse Racing Industry, 2015/16–2019/20

Prepared by the Office of the Auditor General of Ontario

Responsibility	2015/16	2016/17	2017/18	2018/19	2019/20
Industry regulation, licensing and licensing appeals	Ontario Racing Commission	Alcohol and Gaming Commission of Ontario			
Marketing, performance metrics and responsible gambling	Various industry associations*	Ontario Lottery and Gaming Corporation			
Purse and Operational Support for Racetracks	Ontario Racing Commission	Ontario Lottery and Gaming Corporation			Ontario Racing
Horse Improvement Program — Thoroughbreds	Canadian Thoroughbred Horse Society				Ontario Racing
Horse Improvement Program — Standardbreds	Ontario Racing Commission	Ontario Racing			
Horse Improvement Program — Quarter horses	Ontario Racing Commission	Ontario Racing			

Government agency, crown corporation or regulatory agency

Private industry association

* Includes associations such as the Canadian Thoroughbred Horsepersons Society, Standardbred Canada and Standardbred Breeders of Ontario.

Ontario Racing Commission was responsible for horse racing industry regulation, licensing and licensing appeals. Starting April 1, 2016, the Alcohol and Gaming Commission of Ontario took over the industry regulation and licensing responsibilities and the Licence Appeal Tribunal became responsible for licensing appeals.

- **Horse Improvement Programs.** Before April 1, 2016, the Ontario Racing Commission administered the Horse Improvement Programs for Standardbred and Quarter horses and delegated the responsibilities for administering the Thoroughbred Horse Improvement Program to the Canadian Thoroughbred Horse Society (a private industry association). Starting in April 2016, Ontario Racing assumed the administration of the Quarter horse and Standardbred Horse Improvement Programs, and the Canadian Thoroughbred Horse Society continued to be responsible for the Thoroughbred Horse Improvement Program. Starting April 1, 2019, Ontario Racing also assumed responsibility for all horse improvement programs.
- **Marketing, performance metrics and responsible gambling.** Before April 1, 2016, various industry associations were responsible for marketing and performance metrics for the horse racing industry. Starting April 1, 2016, the Ontario Lottery and Gaming Corporation became responsible for marketing, performance metrics and responsible gambling for the horse racing industry.
- **Purse and operational support.** Before April 1, 2016, the Ontario Racing Commission administered the Horse Racing Partnership Funding Program. Starting April 1, 2016, the Ontario Lottery and Gaming Corporation has administered funding to racetracks. With the end of the Horse Racing Partnership Funding Program, and the start of the new 19-year, long-term funding agreement on April 1, 2019, Ontario Racing became responsible for administering purse and operational support to racetracks. Ontario Racing was expected to represent the interests of all key stakeholders and allow the industry to manage itself.

2.6 Alliance of Standardbred Racetracks

In its final report in October 2013, the Horse Racing Transition Panel included a recommendation that an alliance of willing tracks formed to collectively set race dates and purses would be beneficial for industry self-sustainability. On January 14, 2014, a group of racetracks entered into an alliance of Standardbred racetracks known as the Standardbred Alliance. The alliance racetracks included Woodbine, Mohawk, Clinton, Grand River, Flamboro Downs, Georgian Downs, Hanover and Western Fair. Rideau-Carleton joined in October 2017.

These racetracks entered into a revenue-sharing agreement. All wagering income was shared based on each racetrack's share of live, on-track wagering revenues. The alliance chose the Woodbine Entertainment Group (Woodbine) to operate wagering for all alliance tracks by collecting all wagers on behalf of the member tracks and redistributing their shares to them.

Woodbine agreed to incur racing and wagering costs for all alliance tracks; for completing and submitting race date applications; race secretary duties related to scheduling races; accepting horse entries; and drawing post positions (i.e. selecting the gate from which each horse starts the race); processing purse payments; and on-track wagering related costs.

Woodbine also guaranteed purse funding for all alliance racetracks, if the government funding of purses and the track's wagering commission was not sufficient to support purses. Woodbine told us it has supported these tracks in order to maintain a reasonable supply of horses in the province and to increase provincial wagering. In 2018/19, Woodbine covered about $10 million in purse shortfalls to other alliance racetracks using the provincial funds Woodbine receives for purses.

3.0 Audit Objective and Scope

Our audit objective was to assess whether provincial funding provided to the horse racing industry is:

- achieving the communicated public policy objective of helping the industry become self-sustainable through growth in marketplace revenue; and
- being administered with clear accountability provisions to ensure that intended recipients within the industry receive and use provincial funding for the purposes intended in accordance with agreements.

In planning for our work, we identified the audit criteria (see **Appendix 7**) we would use to address our audit objective. These criteria were established based on a review of applicable agreements, and best practices. Senior management at the Ministry of Finance and OLG reviewed and agreed with the suitability of our objectives and associated criteria.

We conducted our audit between December 2018 and August 2019. We obtained written representation from management at the Ministry of Finance and the Ontario Lottery and Gaming Corporation that, effective November 12, 2019, they had provided us with all the information they were aware of that could significantly affect the findings or the conclusion of this report.

Our audit work was conducted mainly at the Ontario Lottery and Gaming Corporation (OLG) and the Woodbine Entertainment Group (Woodbine), which owns and operates the only two premiere racetracks in Ontario (Woodbine Racetrack and Mohawk Racetrack) and received about 60% of government funding over the last five years under the Horse Racing Partnership Funding Program.

We focused on three key areas of the horse racing industry: growth and sustainment of the industry, allocation of government funding, and use of government funding. Our work included:

- Interviewing senior management and staff at OLG, Ministry of Finance and Woodbine, including Ontario Racing Management;
- Reviewing applicable agreements, policies and procedures;
- Reviewing reports provided by racetracks to OLG to assess the use of funding;
- Visiting Woodbine to assess the use of government funding by Woodbine tracks through detailed testing of supporting documents;
- Reviewing Woodbine's anti-money laundering controls; and
- Visiting three other racetracks (Fort Erie, Flamboro Downs and Grand River) to review their operating costs.

We also contacted the Ontario Ministry of Agriculture, Food and Rural Affairs to obtain information on the history of funding for the industry including the Horse Improvement Program. We met with the Alcohol and Gaming Commission of Ontario (AGCO) to gather information on the oversight of government funding and regulation of the horse racing industry.

We met with key stakeholder groups representing horse people. These groups include the Canadian Thoroughbred Horse Society (representing Thoroughbred breeders), the Standardbred Breeders of Ontario Association, the Central Ontario Standardbred Association (representing Standardbred horse people), and the Ontario Harness Horse Association (also representing Standardbred horse people).

We contacted the Canadian Pari-Mutuel Agency to discuss oversight over horse racing wagering, and we contacted the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) to discuss potential risks of money laundering in the industry.

Disclosure Limitation

As part of our report, we wanted to provide members of the Legislature with information about the net financial position (revenues less expenses) for 2018/19 for each racetrack, with and without government support, to present more complete and transparent information about racetrack sustainability. However, to disclose this information for racetracks owned and operated by Woodbine Entertainment Group (Woodbine), we required the written consent of Woodbine under section 10.6 of the provincially negotiated funding agreement for the Horse Racing Partnership Funding Program. Woodbine did not provide its consent. According to Woodbine, its financial statements are prepared on the understanding that they are for limited distribution. As Woodbine accounts for about 90% of wagering income and over 70% of purses, presenting information without including Woodbine would not be informative.

4.0 Detailed Audit Observations

4.1 Self-Sustainment of Horse Racing Through Marketplace Revenues

4.1.1 Ontario Has More Tracks Per Capita than Comparable Jurisdictions

Ontario currently has 15 racetracks across the province—two that race Thoroughbred horses, 12 that race Standardbred horses, and one that races Quarter horses. When we compared the number of racetracks to a sample of U.S. states and other Canadian provinces as shown in **Appendix 8**, we noted that each racetrack in Ontario serves fewer people than racetracks in the states of California, Florida, New York, Pennsylvania and Ohio. For example, Ontario has nine more racetracks than Pennsylvania, and six more than Florida, which has a 46% higher population than Ontario.

Also, despite the smaller number of racetracks in Pennsylvania, the total number of race days is similar to those in Ontario. However, race days are divided among many more tracks in Ontario then Pennsylvania. On average, Ontario has 61 race days per track while Pennsylvania has 151 race days per track. In fact, the number of approved race days for seven Ontario racetracks range from 11 to 25 days per year, as shown in **Appendix 3**.

4.1.2 Only one or two racetracks operating on most days

A horse race is run somewhere in Ontario 363 days of the year. However, when we analyzed the number of racetracks operating on a single day by type of horse race, we noted that on most days, only one or two racetracks are scheduled to hold races. For example, for the 12 racetracks that race only Standardbred horses, we noted that only one or two were scheduled to hold races on the same day on almost 300 (83%) of race days in 2019.In addition, the highest number of Standardbred racetracks scheduled to run races on the same day was five of the 12 tracks. This occurred on only 15 days in 2019 (4% of the year's race days). For all types of horse racing, the highest number of racetracks scheduled to be open on a single day in 2019 is seven of the 15 tracks. Currently, seven racetracks have races one day a week, and two others are opened in the summer months only. This shows that Ontario can support a similar number of races with fewer racetracks.

Three of the four horse people associations we met with were in favour of consolidating racetracks in Ontario. They believe that with fewer tracks, horses will be re-allocated between fewer tracks, which would increase the number of horses running in any race. According to these associations, the number of horses per race, or field size, has a positive impact on wagering. Even if the number of tracks decrease, they believe that wagering revenue would increase. However, one stakeholder mentioned that without rural tracks, the horse supply in Ontario would likely decrease, as the industry would become less attractive to rural horse owners if they have to travel long distances to race their horses.

4.1.3 Focus of Government Funding Shifts from Self-Sustainment to Sustaining the Industry

A government study recommended that the horse racing industry become self-sustaining. In February 2012, the Drummond Report stated that "Ontario's approach [of sharing slot revenues with racetracks] is unsustainable and it is time for the [horse-racing] industry to rationalize its presence in the gaming marketplace so that the industry is more appropriately sustained by the wagering revenues it generates." The report characterized sharing slot machine revenue as a subsidy to the horse racing industry. The Drummond Report also recommended allowing slots-only gaming facilities "at sites that are not co-located with horse racing venues."

As stated in our 2014 special report on the Ontario Lottery and Gaming Corporation's Modernization Plan, the government was fully aware in March 2012 that its decision to end the Slots at Racetracks Program would have a significant impact on the horse racing industry in Ontario, and would force it to downsize to a level that could be sustained solely by the revenues that horse racing could generate on its own. The government had sufficient information to know that without government funding, the number of racetracks could be reduced from 17 to as few as six. This would mean fewer race dates, less breeding, less employment and fewer economic benefits for the agricultural industry.

In June 2012, the province announced $50 million in transition funding over three years to "help the horse racing industry transition from the Slots at Racetracks Program to a more sustainable, self-sufficient model." The Minister of Finance at the time, clarified that the $50 million in transition funding was to help "the industry move toward greater self-sufficiency without government support." In addition to the transition funding, Employment Ontario was expected to help displaced workers in the industry to train for and find new jobs.

Similarly, the purpose of the five-year Horse Racing Partnership Funding Program, which ran from 2014/15 to 2018/19, was to provide funding to allow racetracks to become more self-sustainable through the growth of marketplace revenues.

With the new 19-year, long-term funding agreement, effective April 1, 2019, the objective of government funding shifted from transitioning the industry towards self-sustainment to sustaining the industry. The objective of the long-term funding agreement, is to promote the sustainability of horse racing in Ontario by providing a stable, long-term source of funding for the horse racing sector. The agreement was expected to provide greater certainty and confidence to the horse racing industry, enabling long-term decisions about breeding and racing programs. The submission also states that funding demonstrates a commitment to rural Ontario, including dedicated support for local racetracks and for people behind Ontario-bred horses.

4.1.4 Without Government Funding Racetracks Would Not Be Sustainable

Wagering revenue is the largest income stream for the horse racing industry. A successful and self-sustaining industry should be able to generate sufficient income to fund purses and cover racetrack operating costs. Similar views were expressed by the Horse Racing Industry Transition Panel in August 2012 when it proposed a stronger link between racing product—the horse races—and consumer demand shown in wagering. The panel suggested that the size of purses and the number of race dates should be determined by the amount of wagering revenue. According to the panel, for greater self-sustainability, racing opportunities should increase or decrease in response to consumer demand.

The Alcohol and Gaming Commission of Ontario (AGCO) and the Ontario Lottery and Gaming Corporation (OLG) agree that for a self-sustaining horse racing industry, purse amounts should be reflected in wagering income. They stated that the health of the industry can be judged by the percentage of purses funded by wagering income.

However, as seen in **Figure 6**, a significant portion of purses is funded by government support. Between 2014/15 and 2018/19, about 60% of purses were funded by the government.

In Ontario, the government provides purse funding to racetracks without any direct link to wagering revenues or income.

Without government support for purses or operations, few racetracks can cover their expenses. The racetracks that can cover expenses are primarily those that receive lease revenue from OLG or private gaming operators for hosting slot machines. Without government support, most racetracks would either close or significantly reduce the number of race days and the size of purses.

One stakeholder noted that there are few horse racing jurisdictions in North America that do not receive some government support. Based on the jurisdictions we researched, only California's industry is being sustained without some sort of government support or other gaming revenue. Another stakeholder felt that for Ontario's industry to become self-sustaining, it would need to increase wagering and/or create new betting products.

Figure 6: Percentage of Purses (Prizes to Horse Owners) Funded by the Government, 2014/15–2018/19

Source of data: Ontario Lottery and Gaming Corporation and Ministry of Agriculutre, Food and Rural Affairs

Year	Total Purses Paid ($ million)	Government Funding for Purses ($ million)	Government Funding for Purses (%)
2014/15	137.0	80.3	59
2015/16	138.9	81.7	59
2016/17	136.4	80.1	59
2017/18	131.3	81.5	62
2018/19	142.3	84.8	60

4.1.5 Although the Level of Wagering has Stayed Relatively Constant in the Last 10 Years, Commissions from Wagering have Declined

Income from wagering is down because Ontarians, and Canadians in other provinces, are not wagering on Ontario horse races as much as they used to. As seen in **Figure 7**, over the last 10 years, from 2008/09 to 2018/19, Ontarians' wagering on Ontario races and non-Ontario races has decreased by 44% and 15% respectively. Wagering by other Canadians on Ontario races has also decreased by 48%. In contrast, over the same period, foreign wagering on Ontario races has seen a significant increase of 108%. According to some stakeholders, this increase is due to the advertising of Ontario races in the U.S., and foreign exchange rates. However, since commissions are significantly lower on foreign wagering, overall wagering commissions have not increased. For foreign wagering, the only income Ontario racetracks generate is the small fee (about 3%) that they charge the foreign racetracks to allow them to bet on Ontario races. It should also be noted that the number of race days also declined by 42% over the same 10-year period, as previously shown in **Figure 2**.

The portion of wagering dollars retained by Ontario racetracks is significantly different for wagering by Ontario bettors, versus wagering by bettors outside of Ontario. For wagering by Ontario bettors on Ontario races, racetracks retain about 13% as commissions, after taxes and regulatory payments. For wagering by Ontario bettors on non-Ontario races, the commission is reduced to about 10%, after 3% is provided to foreign racetracks to be able to bet on foreign races. For foreign wagering, Ontario racetracks only receive about 3% in commission from the racetrack that took the bet outside Ontario. Across the North American horse racing industry, it is common practice for racetracks that take bets on races occurring in other jurisdictions to pay the track where the race is held a 3% commission.

4.1.6 Provincial Funding for the Horse Racing Industry Guaranteed for 19 Years with No Effective Out Clause

One of the key objectives of the new long-term agreement is to reduce reliance on government

Figure 7: Wagering Customers at Ontario Tracks, How They Place Bets, and Effects on Wagering Commissions, Comparison of 2008/09–2018/19

Prepared by the Office of the Auditor General of Ontario using data from Ontario Racing

	Gross Wagering Retained by Ontario Tracks (%)[1] A, % of Gross	Gross Wagering 2008/09 ($ million) B	Gross Wagering 2018/19 ($ million) C	Gross Wagering 10-Year Change ($ million) D, C – B	Gross Wagering 10-Year Change (%)	Wagering Commission 10-Year Change ($ million) D × A
Ontario customers wagering on Ontario tracks	13	404	226	(178)	(44)	(23)
Ontario customers wagering on non-Ontario tracks[2]	10	715	606	(109)	(15)	(11)
Canadian customers from outside Ontario wagering on Ontario tracks	3	128	66	(62)	(48)	(2)
Foreign customers wagering on Ontario tracks	3	338	703	365	108	11
Net Change		**1,585**	**1,601**	**16**	**1**	**(25)**

1. Industry estimates for each type of wagering according to Woodbine Entertainment Group.
2. A licence is required from the Canada Pari-Mutuel Agency to take bets on races outside Ontario. The licensee must be operating a racetrack in Ontario. Woodbine Entertainment Group is the only such licensee in Ontario.

funding. However, with 19 years of guaranteed funding until the end of fiscal 2037/38, it is difficult to see how the new agreement will reduce the industry's reliance on provincial support. Furthermore, although some funding reductions are likely during the term of the agreement, such a long-term agreement locks in future governments that could have different priorities.

The new long-term funding agreement does not include any clauses to enable the province to terminate the agreement without cause. The agreement has an initial term of seven years, and two additional renewal terms of six years each, for a total of 19 years. The additional terms are automatically renewed, as long as the racetracks have races on their approved race days each year. In the event that a race cannot be held on an approved date (for example, due to bad weather) the racetrack can reschedule the race or increase the purses for races on other days. The agreement does not include clauses to end the contract after the first or second term.

The province can cancel the agreement if certain events or defaults occur. Examples of such events include: if any of the three major parties to the agreement (Ontario Racing, Woodbine Entertainment Group and its subsidiary Ontario Racing Management) become insolvent; if the parties misrepresent information to OLG that has a material adverse effect; or if the parties, or their respective directors or senior officers, are convicted of a criminal or regulatory offence that has material adverse effects. Other reasons for default are included in **Section 4.5.1**.

The 19-year agreement provides guaranteed funding, and does not provide OLG a way to terminate the agreement at its discretion. We understand that OLG discussed potential termination clauses, but the industry was strongly against it because they wanted certainty over the term of the agreement.

The 19-year term was chosen because it aligns with the contracts that OLG has with service providers who operate provincial casinos. OLG was directed to integrate gaming with horse racing, and the Ministry of Finance believed that the term of the agreement should be similar. However, these two agreements are different because private casino operators generate significant revenues for the province, while horse racing cannot cover its own operating costs without the financial support of the province, as shown in **Figure 8**.

Figure 8: Ontario's Racetracks' Ability to Sustain Purses and Operations Through Wagering Commissions and Other Revenues, with and without Government Support, 2018/19

Source of data: Ontario Lottery and Gaming Corporation and the Woodbine Entertainment Group

	($million)
Horse Racing–Related Revenues	
Wagering Commissions (net of taxes)	127.3
Other Revenue	75.4
Total	**202.7**
Disbursement Needs	
Eligible Racetrack Expenses	229.9
Total Purses Paid	142.2
Total	**372.1**
Net Position of Racetracks – without Government Support and Lease Revenue	**(169.4)**
Government Support and Lease Revenue	
Lease Revenue	141.5
Purse	84.8
Operating	9.6
Total	**235.9**
Net Position of Racetracks – with Government Support and Lease Revenue	**66.5**

We confirmed with OLG that total annual funding under the 19-year agreement will not be reduced if a racetrack closes down. Instead, the money would be redistributed amongst the remaining racetracks because funding is not tied to the number of racetracks. Although the contract includes provisions for certain reductions in funding (discussed in detail in **Section 4.1.8**), based on the most likely scenario over the 19-year period, total funding is likely to reach $1.4 billion.

4.1.7 No economic impact study prior to providing funding to industry

OLG is currently conducting a study on the economic impact, including jobs created by each racetrack, as well as the overall impact of the horse racing industry on Ontario's economy. The study is expected to be completed by March 31, 2020.

We noted that the justification in 2018 that secured funding for the industry for 19 years did not discuss the number of jobs being impacted or the economic activity generated by the horse racing industry, despite the emphasis on sustainability. We would have expected the province to have conducted an economic impact study before finalizing both the five-year funding agreement for $100 million a year, which took effect April 1, 2014, and the latest 19-year agreement for $120 million a year initially, which took effect April 1, 2019.

OLG told us that it had not conducted an economic impact study earlier because it did not have the internal capacity to do so. The Horse Racing Division at OLG was formed in 2016 with four staff. It had 10 staff by March 2019.

4.1.8 Not All Future Reductions in the Funding Agreement Likely to Materialize

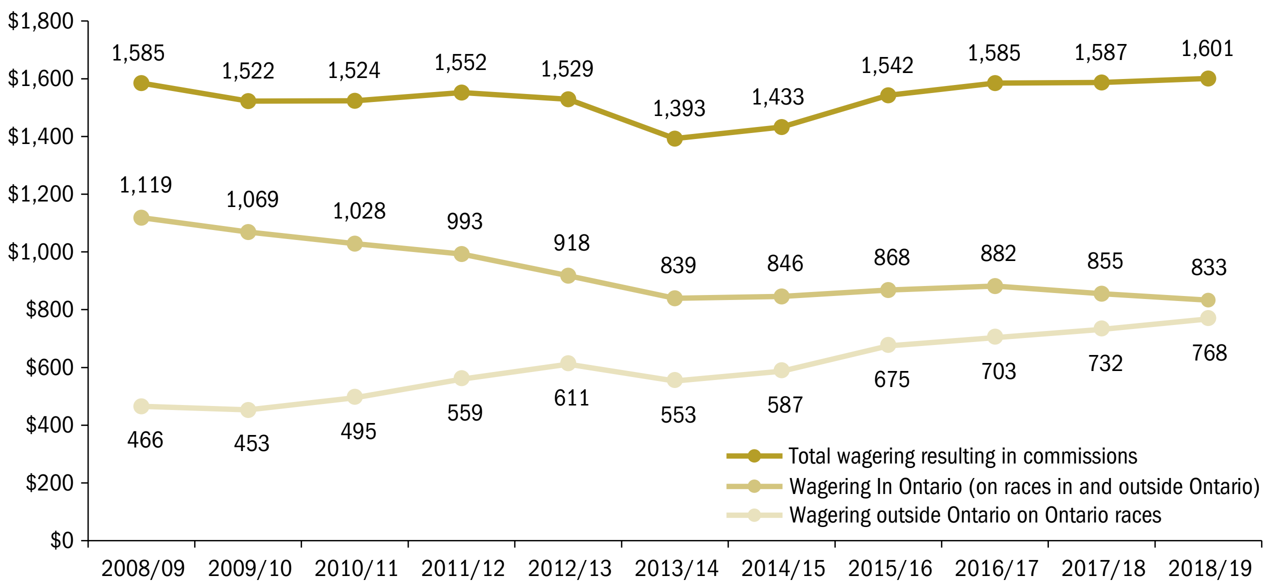
In the new 19-year funding agreement effective April 2019, the government included provisions to reduce the level of funding. Funding could be decreased if there were increases in wagering revenue across the horse racing sector, and increases in leasing revenue to the Woodbine Entertainment Group (Woodbine) resulting from the expansion of its casino area. We expect leasing revenues from Woodbine's two racetracks to contribute to a reduction in government funding under the agreement. This reduction is expected to reach a maximum of $51.4 million per year starting in 2023/24. The Ministry of Finance noted that Woodbine is projected to become self-sustaining, however, total funding for tracks aside from Woodbine and Mohawk were not expected to decrease. The funding reduction provisions are as follows:

Funding reduction due to wagering in Ontario—For any funding year, if the total amount of revenues from wagering in Ontario is greater than $1.2 billion, then the amount of the payment to racetracks for the following year would be reduced by 5% of wagering revenues in excess of $1.2 billion. For example, if the gross wagering in Ontario reaches $1.4 billion, the amount of government funding would be reduced by $10 million ($200M x 5%) in the following year. This funding clawback is highly unlikely, as wagering from Ontarians on races in any jurisdiction has been declining. As of 2018/19, it was only $833 million (see **Figure 9**). Before any clawback occurs, the Ontario wagering would need to increase by 44%.

Funding reduction due to wagering outside Ontario—Similarly, for customers wagering on Ontario races from outside of Ontario, for any funding year, if the total amount of revenues from wagering on Ontario races from outside Ontario is greater than $1 billion, then payments to racetracks for the following year would be reduced by 1.5% of wagering revenues in excess of $1 billion. For example, if the gross wagering on Ontario races from outside of Ontario reaches $1.2 billion, the amount of government funding would be reduced by $3 million ($200M x 1.5%) in the following year. This funding clawback is also unlikely to happen, as wagering on Ontario races by non-Ontarians was only $768 million in 2018/19 (see **Figure 9**). Before any clawback occurs, the non-Ontario wagering on Ontario races would need to increase by 30%.

Figure 9: Trend in Wagering ($ million)

Source of data: Ontario Racing



Further funding reductions to the long-term funding exist if OLG chooses not to accept the industry's proposals for capital improvements and the horse improvement program beyond the 2025/26 fiscal year. The potential annual reduction in these areas is $16 million.

RECOMMENDATION 1

In order to reduce the horse racing industry's reliance on government funding and become self-sustaining, we recommend that the Ministry of Finance and the Ontario Lottery and Gaming Corporation:

- complete its impact study of the horse racing industry on Ontario's economy;
- based on the results of the study, construct a long-term plan toward self-sustainment of horse racing through wagering revenues and other options; and
- consider revisiting the latest agreement based on the results of the study.

OLG RESPONSE

The Ontario Lottery and Gaming Corporation (OLG) agrees with the recommendation and recognizes the importance of reducing the horse racing industry's reliance on government funding. OLG recently launched a comprehensive study to quantify the economic impact of the Ontario horse racing sector. The objective of the study is to establish a credible baseline that can be relied upon by industry members to engage in fact-based discussions that drive sustainability. The study is currently scheduled for completion by the end of the 2019/20 fiscal year.

OLG will use inputs from this study to work with the industry body, Horse Racing Ontario (Ontario Racing), to develop an overarching long-term industry plan for enhanced stability and sustainability. Based on the results of the study and this plan, OLG will determine if there are amendments to the long-term funding agreement that could be explored with the other counterparties to the agreement and seek necessary approvals from the Minister of Finance.

MINISTRY RESPONSE

The Ministry of Finance will work with OLG to assess the outcome of the economic impact study and determine if there are amendments to the long-term funding agreement that could be explored.

4.2 OLG's Role in Horse Racing

4.2.1 Improvement Needed in OLG's Monitoring Efforts

OLG conducting audits of racetracks

Over the last two fiscal years (2017/18 and 2018/19), the Ontario Lottery and Gaming Corporation (OLG) audited seven racetracks (Hiawatha, Rideau-Carleton, Flamboro, Georgian, Fort Erie, Grand River and Ajax) to assess their compliance with the five-year Horse Racing Partnership Funding Agreement. The areas reviewed included: use of government funding for operations and purses, financial reporting, governance obligations, insurance coverage and public-sector salary disclosure. The issues in these audits noted below include:

- One racetrack took $12,000 from the purse account surplus to reimburse itself for a previous year's purse funding shortage instead of carrying the amount forward for the following year, as required under the agreement for the Horse Racing Partnership Funding Program.
- One racetrack had its financial statements reviewed by an external accountant rather than audited, as required by the funding agreement. In addition, it did not disclose significant accounting adjustments to OLG that were made after its initial submission. The funding agreement required that information submitted to OLG should be updated in the event of material change.
- Two racetracks did not deposit government funding received for operational support in a separate, interest-bearing account.
- Four racetracks' liability insurance policies did not meet transfer payment agreement requirements; for example, policies for one of the racetracks did not have minimum coverage of $2 million for third-party bodily injuries.
- Four racetracks lacked documented governance policies and procedures (such as code of conduct, prudent management of funds and risk management).

OLG requested that these racetracks submit action plans to address the exceptions noted during the audits and followed up to ensure corrective action had been taken.

OLG does not rely on racetracks' audited financial statements

OLG requires racetracks to submit unaudited information to monitor compliance with the terms of the Horse Race Funding Partnership Funding Agreement.

OLG relies mainly on self-reported information to assess whether the racetracks have used government funding according to the terms of the agreement. OLG gets audited financial statements from racetracks a few months after receiving the self-reported information, but much of the information OLG requires for monitoring purposes cannot be tied directly to the audited financial statements. We noted differences between the audited financial statements, and the information reported to OLG for two racetracks with the same year-end as OLG's reporting cycle.

With respect to the discrepancies noted, OLG informed us that it validates gross wagering amounts reported with information obtained from the Canadian Pari-Mutuel Agency, a federal agency that oversees horse racing wagering. However, OLG staff told us they do not verify expenses reported by racetracks and the amount of purses paid because the funding agreement does not explicitly require it. OLG also advised us that some racetracks have a different year-end, which makes it difficult to compare financial information.

We also noted a situation where salary expenses reported by a racetrack exceeded total racing expenses reported. This implies that either total racing expenses are understated or that salary expenses include salaries of persons in ancillary operations that are not part of horse racing operations. Another racetrack we visited told us that salary expenses included staffing costs for all operations, in addition to racing. OLG had never followed up with the racetracks to question the anomaly.

Based on our review of the racetracks' audited financial statements, we identified two tracks that made substantial donations to external parties.

- Ajax Downs made a $4.8 million donation to a charitable foundation. The racetrack operator told us that this was done to increase its corporate profile. It stated that this funding was received from a related party as a loan, which is expected to be paid back in full. This racetrack received $4.1 million in government support for purses and operations in 2018/19 and will receive $5.1 million in 2019/20.
- Clinton Raceway made a $150,000 donation to help the municipality build a splash pad at a nearby park. This raceway received $151,000 in government support for purses in 2018/19 and will receive $944,000 in 2019/20 for purse support and capital improvements.

In another instance, a racetrack paid $250,000 in severance, negotiated directly with the board of directors, to a retiring senior staff member.

It is unclear why OLG is allowing racetracks that receive government support to make such large donations and other discretionary payments.

Under the new long-term funding agreement, OLG can conduct audits and inspections of the racetracks, Ontario Racing and Ontario Racing Management. In addition, Ontario Racing is responsible for ensuring the proper use of provincial funding by racetracks, in accordance with the terms of the agreement and the approved annual business plans. If any misuse of funds is discovered by Ontario Racing or OLG (through audits or inspections), Ontario Racing is required to repay or have racetracks repay the funds to OLG.

Based on our sample testing of the Horse Racing Partnership Funding Program which ended on March 31, 2019, we confirmed that provincial funding provided for purses was spent on purses, and that the provincial tax break to the industry of 6.9% was shared with specific industry parties in the correct amounts as intended by the program.

RECOMMENDATION 2

In order to effectively monitor funding agreements with the horse racing industry, we recommend that the Ontario Lottery and Gaming Corporation:

- have racetracks submit audited financial statements with segmented information for horse racing operations;
- investigate significant differences or unusual items; and
- restrict racetracks from making large discretionary payments, such as donations or large severance payments.

OLG RESPONSE

OLG will determine if there are amendments to the long-term funding agreement that are necessary with respect to having racetracks submit audited financial statements with segmented information for horse racing operations and restricting racetracks from making large discretionary payments, such as donations or large severance payments. Any amendments to the long-term funding agreement will require agreement by the other counterparties to the agreement, and approval by the Minister of Finance. In addition, OLG agrees to investigate significant differences or unusual items in reporting.

4.2.2 Impact of OLG's Horse Racing Division on Industry not Clear

In 2015, the Minister of Finance instructed OLG to create a new line of business within the organization that focused on integrating horse racing activities into Ontario's gaming strategy. As a result, the horse racing division was created to:

- create effective stakeholder relationships to support the needs of the horse racing industry;
- contribute to the efficient and effective management of funding through performance measurements;
- develop a strong brand and marketing strategy with the industry; and
- share expertise to help the industry adopt its own Responsible Gambling Program.

OLG established a framework that focuses on the sustainability of the horse racing industry. The framework includes 11 key performance indicators to help monitor progress toward a more sustainable future.

As seen in **Figure 10**, data is reported for only five indicators. The remaining six are expected to be implemented by March 2020. Data related to the performance indicators is collected and reported quarterly on OLG's website. According to OLG, the five indicators for which reliable data could be obtained were implemented. The remaining indicators will be reported when data becomes available from reports by racetracks under the new long-term funding agreement, as well as the economic impact study being conducted by OLG at the time of our audit.

As part of its marketing strategy, OLG created a new horse racing brand under the Ontario Racing (OR) name. The OR brand was created in 2015 in consultation with the industry association, and launched in 2016. OR's marketing campaigns identify Ontario Racing as endorsed by OLG. This provides recognition and authenticity to OR advertising through brand association with OLG.

OLG measures the effectiveness of its advertising campaigns for specified target audiences through a third-party researcher. Based on the findings from the researcher, awareness of horse racing by the Ontario adult population has grown from 13% in 2016 to 22% in 2018. At the time of our audit, OLG had not set a target for the level of awareness it wanted to achieve.

Since 2016, OLG has created two horse-themed slot games that were released through OLG's iGaming website, PlayOLG. These games generated over 65,000-page views on a website that also hosted messaging about horse racing in Ontario and links to an online horse-betting site. In addition, OLG created and released two horse racing–themed instant lottery games, which sold a total of 3.9 million tickets. OLG's goal was to increase awareness and consideration of horse racing as a gaming option by creating new horse-themed products.

However, despite OLG's awareness campaign whose ultimate goal is to increase wagering revenue to help the industry become self-sustaining, wagering on horse racing by people in Ontario continues to decline. OLG has no data to assess whether the marketing initiatives generated increased wagering revenue for the industry overall.

The racetracks we visited confirmed that OLG runs marketing campaigns to attract customers to horse racing. However, none of them could say if OLG's marketing has had any impact on attendance or wagering at their tracks. For its 2019/20 marketing plan, OLG aims to continue to build awareness of horse racing via advertising on multiple media channels, event sponsorship, and supporting the broadcast of premier Canadian races.

Figure 10: Ontario Lottery and Gaming Corporation's Horse Racing Performance Indicators

Source of data: Ontario Lottery and Gaming Corporation

Major Focus Area	Performance Indicator	Definition	2016/17 Results	2017/18 Results	2018/19 Results	2-Year Increase/ (Decrease) (%)
More Self-Sufficient Sector that Sustains Jobs						
1. Grow fan base and enhance wagering revenue	Gross Bet on Ontario Races	Total gross wagering on Ontario races	$940 million	$967 million	$995 million	5.9
2. Grow fan base and enhance wagering revenue	Gross Wagering Commissions (Revenue) to Racetracks	Sum of racetrack commissions from Ontario wagering on the Ontario product, Ontario wagering on the foreign product and foreign wagering on the Ontario product	*	*	*	
3. Growth of live racing to grow new fan base	Total Count of Tickets Sold	Total number of wagering tickets sold	8.81 million	8.66 million	7.55 million	(14.3)
4. Ontario breeding sector to breed quality Ontario horses	Average Ontario Yearling Sales Price	Average sales price of Ontario yearlings sold at all Thoroughbred and Standardbred yearling sales (Ontario and abroad) (A yearling is a horse less than two years old. This is the age at which horses are sold as race horses)	$41,384	$43,774	$47,784	15.5
5. Balance supply and demand for race horses (breed-to-race model)	Wager to Purse	Amount of wagering revenue generated per purse	*	*	*	
6. Balance supply and demand for race horses (breed-to-race model)	Average Field Size	Average number of starters (not unique) per race in Ontario	8.0	7.9	7.9	(1.3)
7. Balance supply and demand for race horses (breed-to-race model)	Total # of Unique Starters	Total number of unique horses starting races in Ontario	7,086	6,782	6,840	(3.5)
8. Balance supply and demand for race horses (breed-to-race model)	Total # of Registered Foals	Total number of foals produced and registered in a horse (breed) improvement program	*	*	*	
Appropriate Return on Investment to Taxpayers						
9. Gov't support offset by resulting economic activity and jobs	Total FTEs Employed	Total FTEs involved in the horse racing	*	*	*	
10. Gov't support offset by resulting economic activity and jobs	Racetrack Capital Reinvestment Rate	Total capital expenditures incurred by racetracks in support of horse racing operations as a % of total government funding	*	*	*	
11. Reduced reliance on government funding over time	Total Other Racetrack Revenue	Revenue generated from non-racing activities at all Ontario racetracks	*	*	*	

* OLG does not report on these performance indicators.

RECOMMENDATION 3

In order to further support the horse racing industry to become self-sustainable, we recommend that the Ontario Lottery and Gaming Corporation:

- assess the impact of its marketing campaign in attracting customers to horse racing; and
- work with the industry to bring in new direct revenue streams and to increase wagering revenues.

OLG RESPONSE

OLG agrees with the recommendation and will work with third-party researchers to improve metrics that assess the impact of marketing campaigns, including in respect of attracting new customers and attendance. OLG will also work with the industry body, Ontario Racing, to support new industry driven revenue opportunities identified within Ontario Racing Business Plans, without increasing direct or indirect government funding.

4.3 Oversight by the Alcohol and Gaming Commission of Ontario is Reactive Rather Than Proactive

Over the past five fiscal years, AGCO has conducted limited accountability reviews and governance audits of racetracks in Ontario. An accountability review looks at compliance with terms and conditions contained in the licence to operate a racetrack. A governance audit looks at the overall effectiveness of the racetrack's governance structure (such as, the composition and role of the board and conflict of interest policies) and processes and controls related to revenues, expenditures, cash management and financial reporting cycles. The commission told us it only performs audits or investigations in response to allegations made against a racetrack.

Over the last five years, AGCO has conducted accountability reviews on five of the 15 racetracks (Ajax, Dresden, Flamboro, Lakeshore and Woodbine). Four reviews were completed in 2015 and the last review was completed in 2017. AGCO also conducted governance audits on two racetracks (Hanover and Woodbine). The audit of Hanover noted deficiencies with governance, including an undeclared conflict of interest incident by management, and poor controls over food and beverage sales, and other expenditures. At the time of our audit, AGCO had not followed up to confirm corrective action was taken. The Woodbine audit followed up on conditions placed on their operating licence in 2014 that resulted from governance issues identified in an earlier audit. The follow-up audit found that Woodbine had made progress in strengthening its governance framework, but noted that improvements were required in their anti-money laundering and risk-management policies. AGCO was satisfied that Woodbine had taken adequate action to address the concerns.

RECOMMENDATION 4

In order to provide comprehensive and efficient oversight of the racing industry, we recommend that Alcohol and Gaming Commission of Ontario (AGCO):

- conduct proactive oversight on racetracks on a regular basis; and
- follow up on deficiencies noted during audits or investigations to ensure corrective action has been taken.

AGCO RESPONSE

The AGCO agrees with the need for both proactive and reactive regulatory oversight of Ontario's racetracks. AGCO staff are present at all racetrack sites when racing occurs to verify that the rules of racing are followed; for example, racing participants are licensed and race horses are assessed for fitness by official veterinarians.

However, given the various sectors the AGCO is responsible for (that is, alcohol, gaming, cannabis and horse racing) and finite resources, it is important for the AGCO to prioritize compliance activities, such as accountability reviews and governance audits, based on risk across all sectors. While resources remain finite, the AGCO will continue to improve its deployment moving forward to help ensure efficient and effective regulatory compliance across all sectors.

The AGCO's 2020/21 Audit Plan includes a review of Woodbine Entertainment Group properties that will follow up on higher risk areas and address many of the issues raised in the report.

4.4 Some Stakeholders Raised Concerns as Future Funding Decisions Shift from Province to Industry

The funding for the 15 racetracks under the new long-term funding agreement is expected to remain consistent for the first two years until the end of the 2020/21 fiscal year. There is no guarantee that all 15 racetracks will be funded beyond 2021, as the responsibility for deciding how funds are to be allocated and to which tracks has transferred from the province to the industry through Ontario Racing.

Some stakeholders we spoke with raised concerns that Woodbine Entertainment Group (Woodbine) had too much influence over key decisions made by Ontario Racing.

Woodbine is a significant player in the industry as it owns and operates the two largest racetracks in the province, and in 2018/19 generated about 90% of the industry's wagering revenue and paid out over 70% of the purses paid in Ontario.

In addition, Woodbine operates all of Ontario's wagering (on-track, off-track and online), because it holds the only wagering permit issued by the Canadian Pari-Mutuel Agency in Ontario, as recommended by the Horse Racing Industry Transition Panel in 2013. Before 2013, each racetrack owned its on-track and off-track wagering permit for the jurisdiction in which it operated. The wagering revenue generated was under the control of that racetrack.

The 19-year, long-term funding agreement was negotiated primarily between Woodbine and OLG, and Woodbine was made the administrator for Ontario Racing. In May 2018, a subsidiary of Woodbine (Ontario Racing Management) was contracted to provide all management and operational services on behalf of Ontario Racing. Key members of the management team of Ontario Racing Management are also employees of Woodbine.

Under the new long-term funding agreement, the amount paid to Woodbine's subsidiary to administer the funding has almost doubled to $3.4 million annually. Previously, the Ministry of Finance was funding OLG $1.8 million annually to administer and provide oversight over the Horse Racing Partnership Funding Program. OLG told us that the $3.4 million in administration costs was an amount negotiated with Woodbine. According to OLG, the additional funding was provided because the role of the administrator had expanded. For instance, the administrator now has to prepare an annual business plan, a three-year strategic plan and to perform racetrack office operations for all racetracks in the province, such as setting race days, processing purse payments, accepting wagers and allocating revenue and costs to racetracks. Many of these centralized functions were previously performed by Woodbine on behalf of the Standardbred Alliance tracks at Woodbine's expense.

As well, Woodbine, along with OLG, Ontario Racing, and Woodbine's subsidiary (Ontario Racing Management) are the only signatories to the new 19-year, long-term funding agreement. In addition, key events that would constitute a default of the agreement involve Woodbine. For example,

- Woodbine ceases to be a member of Ontario Racing;
- Woodbine's subsidiary (Ontario Racing Management) ceases to be a wholly-owned subsidiary of Woodbine; and
- Woodbine's subsidiary ceases to be responsible for the management of Ontario Racing.

Woodbine has two of eleven seats on the Ontario Racing Board. The Board is to be composed of 11 members (five racetrack representatives, five horse people representatives, and one independent chair). OLG told us that its intentions in structuring the Ontario Racing Board was to create an industry group with representation across all levels of racetracks and all breeds of racehorses.

Because the first two years of funding under the new long-term funding agreement was determined by OLG, the Board has yet to make any substantive funding decisions. Therefore, it is difficult to assess the Board's effectiveness and whether all parties to the horse racing industry continue to be fairly represented.

While OLG and AGCO have a role in approving annual business plans and race dates, the Ontario Racing Board makes the substantive decisions.

One decision made by the Ontario Racing Board was to transfer the administration of the Thoroughbred Horse Improvement Program from the Canadian Thoroughbred Horse Society to Woodbine's subsidiary, Ontario Racing Management. The society administered the horse improvement program for over 20 years. According to a member of Ontario Racing, the reason for transferring the program was to bring all funding under Ontario Racing, and to evaluate the best way to administer the Horse Improvement Program to maximize the benefits of the funding.

RECOMMENDATION 5

To ensure all parties to the horse racing industry are fairly represented, we recommend that the Ontario Lottery and Gaming Corporation periodically review feedback from members of Ontario Racing and the industry regarding the composition of the Ontario Racing Board and nominee selection processes, to assess the ongoing effectiveness of the Board and take corrective action if necessary.

OLG RESPONSE

OLG agrees with the recommendation and will review feedback from industry parties with respect to being fairly represented, and will work with Ontario Racing to take corrective action if necessary.

4.5 Public Reporting by Industry

4.5.1 Industry Discloses Little Public Information

For an industry that relies heavily on public funding for its sustainability, there is little public information available regarding its operations and financial health. Specifically, there is no public reporting of gross wagers collected and wagering commissions by racetrack, how the provincial tax reduction on wagering is shared between the various racetracks and horse people, purses paid by racetracks, revenue and expenses related to racing operations separate from other operations, and key statistics regarding people working in the industry. Only one of the 15 racetracks (Fort Erie) make its financial statements publicly available on its website.

In addition, under the new long-term funding agreement, racetracks are no longer required to publicly disclose the names and salaries of employees making over $100,000. This is because the new agreement is a commercial agreement rather than a transfer payment agreement and therefore, is not subject to the *Public Sector Salary Disclosure Act*.

Under the Horse Racing Partnership Funding Program which ended March 2019, the salaries and names of racetrack employees making over $100,000 were disclosed on OLG's website by racetrack. We noted that 69 racetrack employees made over $100,000 in 2018. Most of them (62 people or 90%) were Woodbine employees. The salaries of three Woodbine employees exceeded $350,000. In contrast, only five of the remaining 13 racetracks had staff that made more than $100,000 in salaries. The salaries of employees at these five tracks ranged from $110,000 to $160,000. Eight other tracks did not pay any employee more than $100,000.

Over a three-year period from 2016 to 2018, the number of Woodbine staff making more than $100,000 increased by 17%. Over the same period, the number of race days, amount of purses and wagering commissions remained relatively stable. According to Woodbine, during this period it revamped its core business to pursue real estate development, opened Mohawk Park year-round, opened new food and beverage outlets and expanded its simulcasting, innovation and technology network to world-class standards—these changes were specifically designed to generate additional revenue to support the horse industry and towards Woodbine's strategic goal of being self-sufficient and not rely on government support.

Furthermore, we noted that a review conducted by a third party engaged by the AGCO in 2012 identified excessive pay-outs to retired executives at Woodbine. At that time, the industry was sharing in revenues generated by slot machines at racetracks. Neither the AGCO nor OLG, which has been responsible since 2016 for ensuring the appropriate use of provincial funding by the horse racing industry, has performed any similar reviews since then, despite the government's millions of dollars in direct support payments to the industry. Without this support, racetracks would have to use their own funds to support purses, which would leave less money for salary-related expenditures and other operating costs.

Reporting Requirements Added to Long-Term Funding Agreement for Greater Transparency

We noted that non-Woodbine tracks indicated to the province in 2018 that they did not have sufficient information about how Woodbine deploys its resources for the benefit of the sector.

Reporting under the new long-term funding agreement is expected to increase transparency for people in the industry. The agreement requires Ontario Racing (the private industry association) to produce a strategic plan every three years, an annual business plan, audited financial statements, an annual attestation of its compliance with the terms of the agreement, and quarterly and semi-annual financial reporting. This information is expected to be shared with all board members. Ontario Racing is also expected to report publicly about how provincial funding is used.

RECOMMENDATION 6

In order for the horse racing industry to be transparent with horse people associations and the public, we recommend that the Ontario Lottery and Gaming Corporation work with racetracks to have them publicly disclose information on racetrack operations including wagering revenue and commissions, distribution of the provincial tax reduction, purses paid by racetracks, revenue and expenses related to racing operation separate from other operations, key statistics regarding people working in the industry, and their audited financial statements.

OLG RESPONSE

OLG recognizes the importance of transparency. The new funding agreement, implemented April 1, 2019, incorporates enhancements to industry reporting obligations. After completion of the first year of the agreement, OLG will determine if there are amendments to the long-term funding agreement that are necessary to address the auditor's recommendation. Any amendments to the long-term funding agreement will require agreement by the other counterparties to the agreement and approval by the Minister of Finance.

RECOMMENDATION 7

To ensure the transparency of salaries paid in the horse racing industry, we recommend that the Ontario Lottery and Gaming Corporation continue, under the new funding agreement, to require Ontario Racing Management and the racetracks that receive government funding to publicly disclose the names and salaries of employees making over $100,000, similar to the terms under the previous funding agreement.

RESPONSE FROM OLG AND AGCO

OLG agrees with this recommendation and will make amendments to the long-term funding agreement with respect to requiring Ontario Racing Management and racetracks that receive government funding to publicly disclose employees making over $100,000. Any amendments to the long-term funding agreement will require agreement by the other counterparties to the agreement and approval by the Minister of Finance.

4.5.2 Actual Wagering Payouts Not Reported Publicly

Due to declining attendance at horse races, all Ontario racetracks have stopped charging admission fees and no longer record attendance at racetracks. However, racetracks have stated that although increased attendance at racetracks would be preferred, it does not impact their success because most wagering happens off-track or online. In 2018/19, only 5% of gross wagering involved bettors going to the track to place a bet on a race happening at that racetrack.

We reached out to senior management at all racetracks to discuss opportunities to diversify their operations in order to generate additional revenue streams. Some racetracks hold wiener dog races, concerts or tractor competitions, but most of these events generate either insignificant income or losses. All racetracks we visited believe that horse racing needs support to operate, either through direct government funding or support from some other form of gaming (such as casinos, lotteries, slots and sportsbooks). Some other provinces and US states we researched provide support to horse racing either through direct funding or allowing them to share in other gaming revenues.

The Canadian Pari-Mutuel Agency (Federal Agency) regulates and supervises pari-mutuel betting in Canada on horse races to ensure that it is conducted fairly for the public. For example, it ensures no bets are made after the races start, and performs drug testing on horses both in and out of competition. It also ensures that no racetrack takes out more from the betting pool than the approved take-out rate of 35% of total wagers collected. (Racetracks established payout rates for their various betting pools which must be approved by the Federal Agency.) According to our discussions with the Federal Agency, the agency tests almost all of the wagering pools through its IT system to ensure that payout ratios are exactly as approved by the CPMA and publicly disclosed by racetracks. In addition, all racetracks are required to disclose to bettors their take-out percentage under the Canada's Criminal Code's *Pari-Mutuel Betting Supervision Regulations* (the percent of gross commissions racetracks keep for themselves from wagering). However, none of Ontario's racetracks publicly report the amount collected through bets, the amount paid out to winning bettors, or the amount won per bet for each betting pool.

According to Woodbine's public website, the take-out ratios for betting pools on races at the Woodbine racetrack in October 2019 were as follows: Win—11.65%, Place and Show—13.65%, Exacta—17.2%, Trifecta—19.7%, Pick 4 and Pick 5—21.7%, Double and Super High-5—11.7%, and all other wagers 23.0%. The take-out percentages are comparable to other Canadian and US tracks. **Figure 11** outlines the actual take-out for wagering on live races at Woodbine and Mohawk racetracks combined (including bets on non-Ontario races).

RECOMMENDATION 8

In order to increase confidence through greater transparency, we recommend that the Ontario Lottery and Gaming Corporation require racetracks to publicly provide wagering take-out and payout information by pool.

OLG RESPONSE

OLG recognizes the importance of transparency in this area to the customer. Regulation of the disclosure of wagering take-outs and payout

Figure 11: Woodbine Entertainment Group's Take Out on Live Racing at Woodbine and Mohawk Racetracks, 2018/19

Source of data: Woodbine Entertainment Group

Type of Betting Pool	Total Bets ($ million)	# of Bets*	Pay Out ($ million)	# of Winning Tickets*	% Kept By Racetrack
Double	23.1	2,467,551	19.3	359,642	16.4
Exacta	189.5	23,068,264	150.5	3,071,976	20.6
Pick 3	36.0	5,725,047	26.5	817,897	26.3
Pick 4	53.4	3,178,837	40.1	410,480	24.9
Pick 5	31.5	1,279,062	25.5	75,572	19.0
Place	62.3	8,741,915	51.2	2,611,706	17.7
Show	32.2	5,340,420	26.6	2,173,925	17.2
Super High-5	14.2	3,798,803	12.1	293,970	14.5
Superfecta	100.6	20,251,666	74.2	1,251,051	26.3
Trifecta	148.8	32,725,394	110.3	2,699,074	25.9
Win	180.5	17,722,198	151.4	3,074,065	16.1
Total	**872.1**	**124,299,157**	**687.8**	**16,839,357**	**21.1**

* Estimates for number of tickets based on average amount bet per ticket by betting pool and racetrack. Number of winning tickets is based on a percentage by betting pool and racetrack, taken from a sample of data and applied against the whole.

information is currently under the jurisdiction of the Canadian Pari-Mutuel Agency (CPMA) under the Pari-Mutuel Betting Supervision Regulations. OLG will work with the CPMA on possible reporting enhancements on wagering take-out and payout information.

4.6 Concerns over Money Laundering in the Horse Racing Industry

In February 2018, the federal Department of Finance began a review of Canada's Anti-Money Laundering and Anti-Terrorist Financing Regime. In the consultation document, the department outlined that the horse racing sector was vulnerable to money laundering similar to the casino sector. In response, the Woodbine Entertainment Group (Woodbine) and Racetracks of Canada, stated that the industry has controls in place to self-regulate. It also stated that the imposition of additional requirements on an industry that is already struggling would create an undue burden on the industry, and would pose challenges to those responsible for overseeing compliance. As of August 2019, no money laundering-related requirements have been placed on racetracks by the federal government.

Woodbine is the only racetrack licenced to conduct pari-mutuel wagering in Ontario. This means that it collects the bets for all racetracks in the province. We reviewed Woodbine's processes for preventing, detecting and deterring money laundering. Procedures included in its anti-money laundering policy included:

- Identifying customers who engage in suspicious activity, such as purchasing multiple cash cards without wagering, or placing a large amount of cash into their accounts but placing small bets or not betting at all, and then cashing out by converting a voucher into a cheque from the racetrack;
- Suspected money laundering activity is to be reported to management for investigation;
- Woodbine's board is to receive status reports on associated risk and related issues;

- regular audits are to be conducted by Woodbine's internal audit group on compliance with the internal anti-money laundering policy; and
- All wagering department employees are to receive training on the policy every two years.

We noted that internal audit had completed only one review on compliance with the anti-money laundering policy in early 2017. Woodbine was found to be in compliance with its policy.

We requested a list of all suspicious transactions and cheques over $10,000 at Woodbine's two racetracks for the period January 1, 2018, to July 31, 2019. Woodbine informed us that over the 19-month period, it issued 113 cheques in excess of $10,000 to customers totalling about $4 million. Woodbine informed us that management did not escalate these cheques to the subcommittee of the board for review, because it did not suspect any of these cheques to involve money laundering. One potential money laundering transaction was reported to the subcommittee. This involved a betting machine voucher worth $100,000 identified in May 2018, but the matter was not further reported to law enforcement. Woodbine confirmed that in the last ten years, no financial transactions have been reported to any law enforcement agency or government agency (such as the Alcohol and Gaming Commission of Ontario or the Canadian Pari-Mutuel Agency).

We reviewed the 113 cheques over $10,000 to confirm that the cheques were generated due to winning bets and that it was not a case of withdrawing cash deposits that may signal potential money-laundering transactions. There were 91 cheques to people that bet online and 22 cheques to people that placed their bets in person, either at the racetrack or teletheatre. As part of Woodbine's money laundering controls, wagering managers are required to sign-off on cheques and ensure the money is generated from winning wagers. However, for cheques generated through online wagers, no supporting documentation of the winning bets was attached. We followed-up on five online bettors that withdrew more than $100,000, accounting for 43% of the withdrawals over the last 19 months. We confirmed that in all cases, the withdrawals were directly attributable to a recent, large, winning bet. For the 22 cheques that were generated by people who placed their bets in person, Woodbine had only retained supporting documents for the winning bets related to ten of these cheques.

RECOMMENDATION 9

In order to reduce the risk of money laundering at racetracks, we recommend that the Alcohol and Gaming Commission of Ontario and the Ontario Lottery and Gaming Corporation work with racetracks to:

- collect and monitor all suspicious transactions, including withdrawals over $10,000 along with the necessary supporting documentation; and
- report the information to law enforcement, where necessary.

RESPONSE FROM OLG AND AGCO

The AGCO and OLG agree that the detection and prevention of money laundering is important in the racing industry. For all industries in Canada, anti-money laundering reporting is federally regulated under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* by the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC).

While OLG is responsible for compliance with FINTRAC regulation for gaming in Ontario given its role as the entity that 'conducts and manages' gaming on behalf of the province, OLG holds no such authority in the racing industry.

While the racing industry is not currently regulated by FINTRAC, the AGCO will work with FINTRAC and the CPMA on the provision of further anti-money laundering training and awareness to racetrack personnel on the identification and reporting of suspicious transactions.

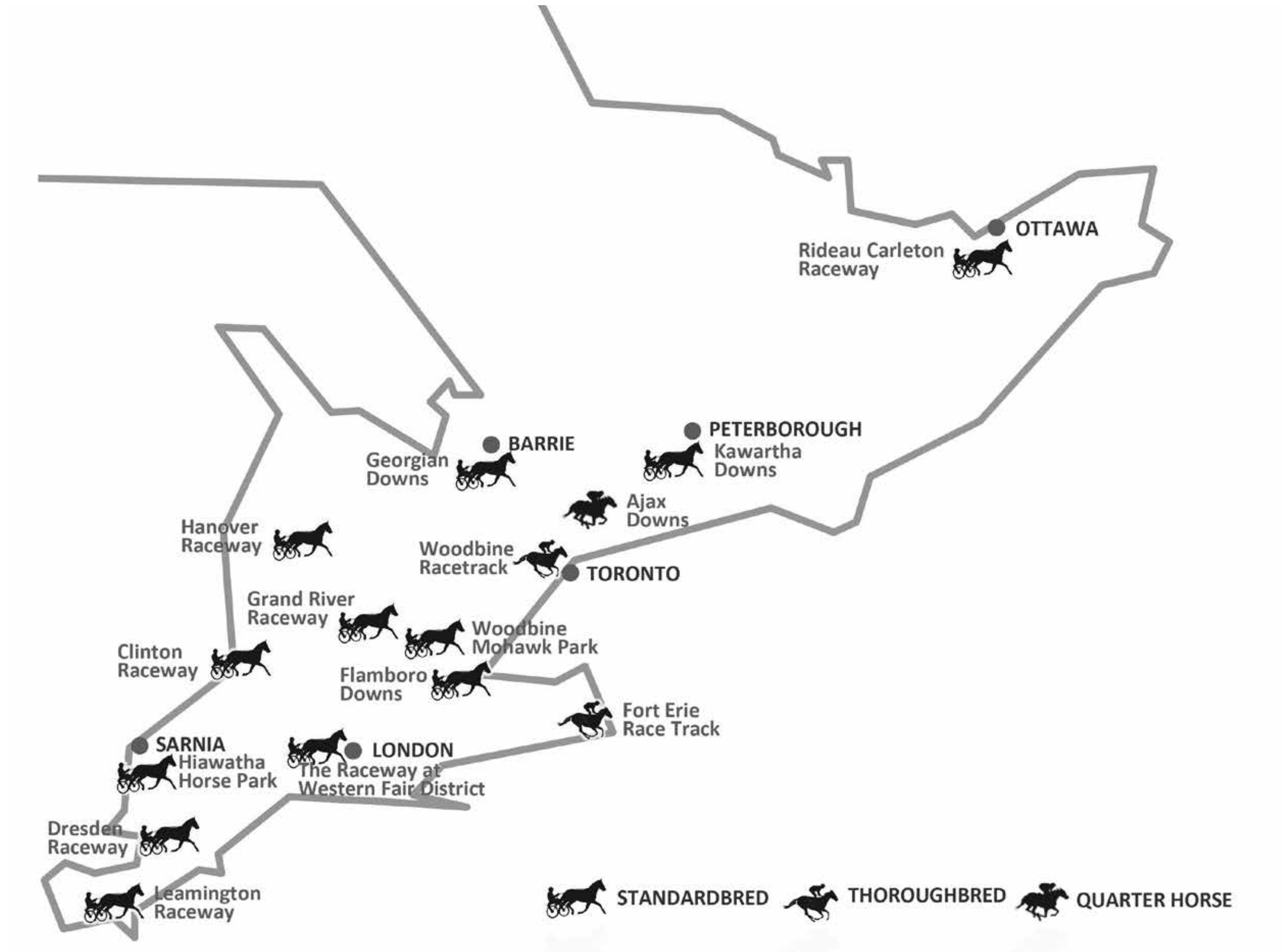
Appendix 1: Glossary of Terms

Prepared by the Office of the Auditor General of Ontario

Alcohol and Gaming Commission of Ontario: provincial government agency responsible for regulating Ontario's alcohol, gaming and horse racing sectors and cannabis retail stores.
Betting pool: gamblers place a bet into a pool and make a selection on an outcome; the pool is evenly divided between those that have made the correct selection; each winner's payoff depends on the number of gamblers and the number of winners.
Canadian Pari-Mutuel Agency (CPMA): a special federal government operating agency within Agriculture and Agri-Food Canada that regulates and supervises pari-mutuel betting in Canada on horse races, ensuring that pari-mutuel betting is conducted in a way that is fair to the public.
Gaming bundle: land-based gaming sites and operations, combined regionally; OLG introduced bundles to transfer day-to-day operations to private-sector service providers while retaining overall management.
Horse people: people involved in the horse racing industry including owners, breeders, groomers, trainers and jockeys.
Ontario Lottery and Gaming Corporation: the Ontario government agency that conducts and manages gaming facilities, the sale of province-wide lottery games, internet gaming, bingo and other electronic gaming products at Charitable Gaming Centres; responsible for marketing, performance metrics and oversight of government funding for the horse racing industry in Ontario, and for responsible gambling programs.
Ontario Racing: a non-profit horse racing industry association, recognized by the provincial government as the authority for horse racing in Ontario; directly responsible for setting an annual program of races, attracting new horse owners, implementing breed improvement programs.
Ontario Racing Commission: established in 1950 to govern, direct, control and regulate the horse racing industry in Ontario; the *Horse Racing Licence Act*, transferred regulatory responsibilities for horse racing from the ORC to the Alcohol and Gaming Commission of Ontario (AGCO).
Ontario Racing Management: provides all material management and operational services on behalf of Ontario Racing; a wholly owned subsidiary of Woodbine Entertainment Group.
Pari-mutuel taxes: a levy on each bet placed in Canada on horse races; in Canada, the CPMA levies 0.8% on each horse race.
Payouts: the amount of money a casino pays out in gambling winnings; the percentage of total money given back to the player who wins, or the amount of money a casino pays out relative to the amount that a player spends, is the payout percentage.
Purse: prize money for top finishers in a particular horse race; prize money goes to the horse owners.
Take outs: the amount of money that a racetrack will take for itself from betting pools; the maximum take out allowed is 35%, as stated under the Criminal Code of Canada, Pari-Mutuel Betting Supervision Regulations.
Teletheatres: off-track betting facilities in which horse races are viewed on television; they are operated by racetracks and licensed by the AGCO.
Wagering: making a bet, or betting.
Woodbine Entertainment Group: an Ontario corporation without share capital; runs horse racing, dining and entertainment venues, including Woodbine and Mohawk racetracks; founded in 1881 as the Ontario Jockey Club.

Appendix 2: Horse Racing Tracks in Ontario

Source of data: Ontario Racing



Appendix 3: Approved Funding per Racetrack and Other Program Recipients for 2019/20

Source of data: Ontario Racing

Racetracks	# of Race Days	Purse Support ($)	Operating Support ($)	Horse Retirement Aftercare ($)	Enhanced Purse Support ($)	Transition Allocation (Additional Support for Purses and Operations) ($)	Enhanced Operating Support (Relating to Optional Slots At Racetrack Program) ($)	Capital Improvement Funding ($)	Racetrack Totals ($)
Ajax Downs	25	650,000	2,000,000		183,900	1,500,000		745,250	**5,079,150**
Clinton	15	525,000			74,400	60,000		284,725	**944,125**
Dresden	11	385,000	286,000		54,500	44,000	125,000	352,660	**1,122,160**
Flamboro Downs	132	7,920,000			971,100	160,000		650,000	**9,701,100**
Fort Erie	40	3,500,000	5,214,000		294,200	500,000	1,800,000	1,500,000	**12,808,200**
Georgian Downs	40	2,400,000			287,000	46,000		188,500	**2,921,500**
Grand River	48	2,880,000			353,100	58,000		291,090	**3,582,190**
Hanover	15	525,000			74,400	60,000		508,990	**1,168,390**
Hiawatha	21	735,000	546,000		104,100	84,000			**1,469,100**
Kawartha Downs	21	630,000	432,000		89,300	200,000			**1,351,300**
Leamington	13	455,000	338,000		64,500	52,000			**909,500**
Mohawk and Woodbine (for Standardbred racing)[1]	221	19,729,430							**19,729,430**
Rideau-Carleton	72	4,320,000			530,000	86,000		728,545	**5,664,545**
Western Fair	125	7,500,000			919,500	150,000		650,000	**9,219,500**
Woodbine (for Thoroughbred racing)[1]	133	30,000,000		429,570					**30,429,570**
Total	**932**	**82,154,430**	**8,816,000**	**429,570**	**4,000,000**	**3,000,000**	**1,925,000**	**5,899,760**	**106,224,760**

Other Program Recipients[2]									
Thoroughbred Horse Improvement Program[3]	Standardbred Horse Improvement Program[3]	Long Run Retirement Society (Long Run)[3]	Ontario Standardbred Adoption Society (OSAS)[3]	Equine Guelph[3]	Canadian Thoroughbred Horse Society (CTHS)[4]	Standardbred Breeders of Ontario (SBOA)[3]	Quarter Racing Owners of Ontario Inc. (QROOI)[3]	Ontario Racing Management	Total (all other recipients)
2,375,000	2,375,000	75,000	75,000	100,000	2,000,000	2,000,000	1,000,000	3,400,000	**13,400,000**
Overall Total									**119,624,760**

1. Managed by Woodbine Entertainment Group.
2. All payments to Other Program Recipients are Horse Improvement Program payments, except for Ontario Racing Management (ORM). ORM payment is for administration.
3. Ontario Racing's approved business plan notes that it is in the process of conducting a value for money audit of the Horse Improvement Programs. The results of this audit would be incorporated within the allocations of the next fiscal year.
4. Ontario Racing's approved business plan notes that the Canadian Thoroughbred Horse Society has not signed the Membership Agreement. No funding would be provided to the Society until final execution of such an agreement.

Appendix 4: Projected Annual Funding to the Industry under 19-Year Long-Term Funding Agreement, 2019/20 –2037/38

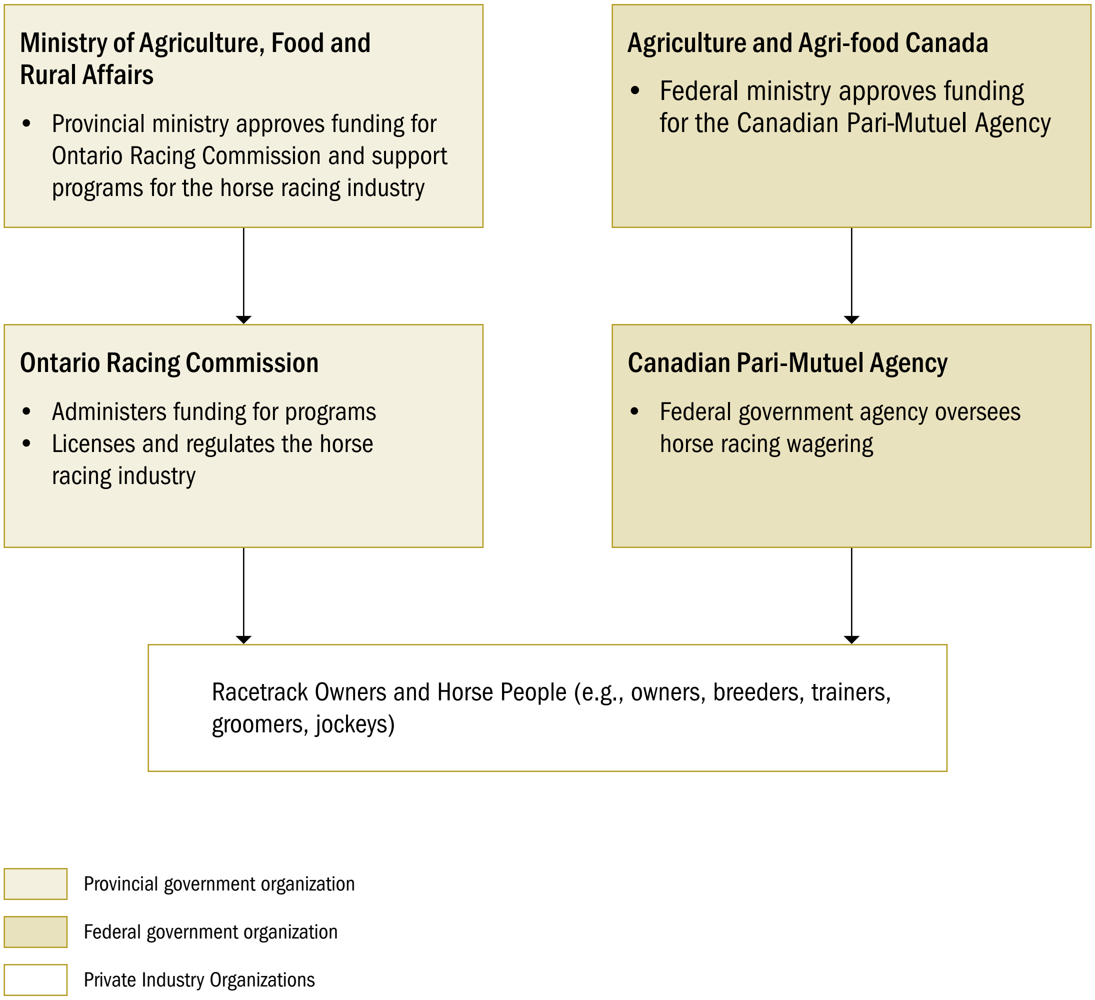
Source of data: Ontario Racing

Year of Agreement	Fiscal Year	Purse and Operational Support[1] ($)	Enhanced Purse Support ($)	Transition Support for Purses ($)	Enhanced Operating Support ($)	Capital Improvement Funding[2] ($)	Horse Improvement Programs[2] ($)	Ontario Racing Management ($)	Total ($)
1	2019/20	91,400,000	4,000,000	3,000,000	1,925,000	6,000,000	10,000,000	3,400,000	**119,725,000**
2	2020/21	91,400,000	4,000,000	3,000,000	1,988,500	6,000,000	10,000,000	3,400,000	**119,788,500**
3	2021/22	91,400,000	4,000,000	-	1,928,845	6,000,000	10,000,000	3,400,000	**116,728,845**
4	2022/23	91,400,000	4,000,000	-	1,870,979	6,000,000	10,000,000	3,400,000	**116,670,979**
5	2023/24	40,000,000	4,000,000	-	1,814,850	6,000,000	10,000,000	3,400,000	**65,214,850**
6	2024/25	40,000,000	4,000,000	-	1,760,405	6,000,000	10,000,000	3,400,000	**65,160,405**
7	2025/26	40,000,000	4,000,000	-	1,707,593	6,000,000	10,000,000	3,400,000	**65,107,593**
8	2026/27	40,000,000	4,000,000	-	-	6,000,000	10,000,000	3,400,000	**63,400,000**
9	2027/28	40,000,000	4,000,000	-	-	6,000,000	10,000,000	3,400,000	**63,400,000**
10	2028/29	40,000,000	4,000,000	-	-	6,000,000	10,000,000	3,400,000	**63,400,000**
11	2029/30	40,000,000	4,000,000	-	-	6,000,000	10,000,000	3,400,000	**63,400,000**
12	2030/31	40,000,000	4,000,000	-	-	6,000,000	10,000,000	3,400,000	**63,400,000**
13	2031/32	40,000,000	4,000,000	-	-	6,000,000	10,000,000	3,400,000	**63,400,000**
14	2032/33	40,000,000	4,000,000	-	-	6,000,000	10,000,000	3,400,000	**63,400,000**
15	2033/34	40,000,000	4,000,000	-	-	6,000,000	10,000,000	3,400,000	**63,400,000**
16	2034/35	40,000,000	4,000,000	-	-	6,000,000	10,000,000	3,400,000	**63,400,000**
17	2035/36	40,000,000	4,000,000	-	-	6,000,000	10,000,000	3,400,000	**63,400,000**
18	2036/37	40,000,000	4,000,000	-	-	6,000,000	10,000,000	3,400,000	**63,400,000**
19	2037/38	40,000,000	4,000,000	-	-	6,000,000	10,000,000	3,400,000	**63,400,000**
									1,429,196,172

1. Funding to Woodbine Entertainment Group to be reduced dollar for dollar up to a maximum of $51,400,000 in any year starting in 2021/22. Maximum reduction expected to be reached starting 2023/24.
2. Starting in 2026/27 the Ontario Lottery and Gaming Corporation can choose not to accept the industry's proposals for funding in these areas, potentially reducing total annual funding to $47.4 million.

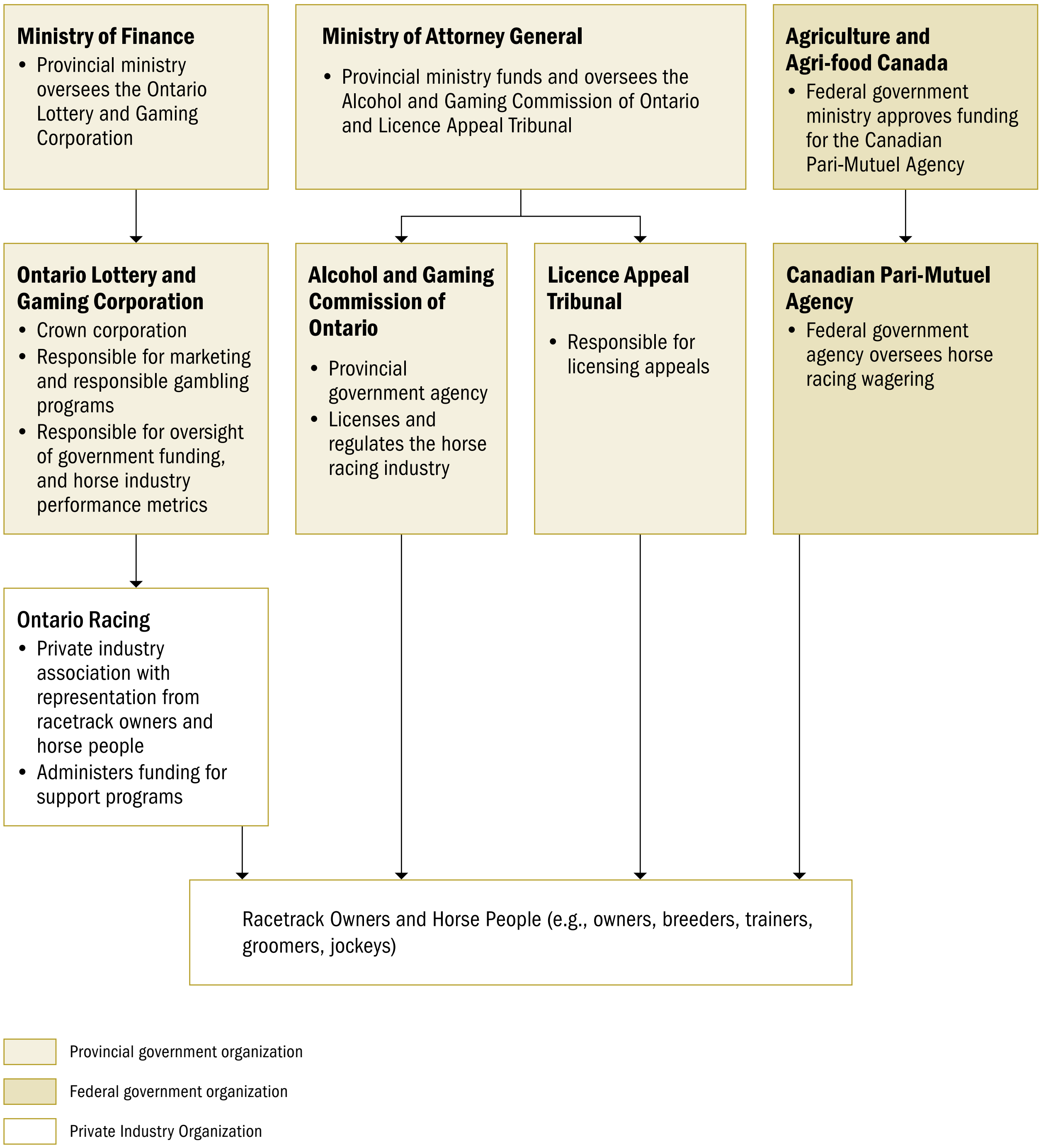
Appendix 5: Regulation, Administration and Oversight of Horse Racing Industry, April 2014 to March 2016

Prepared by the Office of the Auditor General of Ontario



Appendix 6: Regulation, Administration and Oversight of Horse Racing Industry, as of April 2019

Prepared by the Office of the Auditor General of Ontario



Appendix 7: Audit Criteria

Prepared by the Office of the Auditor General of Ontario

1.	Provincial funding is helping increase the demand for live horse racing in Ontario, and in turn helping the industry become self-sustaining.
2.	There are clear accountability provisions and governance structures in place for allocating and administering government funding to intended recipients in the horse racing industry.
3.	Recipients are using the funding provided by the government for the purposes intended under the terms of agreements.

Appendix 8: Jurisdictional Research, 2018[1]

Source of data: OLG annual report, British Columbia Gambling Revenue Distribution Division, Government of Alberta population statistics, Horse Racing Alberta Annual Report, US Census Bureau, New York State Gaming Commission Annual Report, Pennsylvania Gaming Control Board Annual Report, individual racetrack websites of Ohio tracks, Kentucky Horse Racing Commission

	Canada			United States					
	Ontario	British Columbia	Alberta	California	New York	Pennsylvania	Ohio	Kentucky	Florida
Population (million) (2019)	14.6	5.1	4.4	39.6	19.5	12.8	11.7	4.5	21.3
# of race tracks	15	2[2]	6	9	11	6	7	8	9
Average population served by each racetrack	971,000	2,536,000	729,000	4,395,000	1,777,000	2,135,000	1,670,000	559,000	2,367,000
Total race days	922	109	251	560	1,258	906	895	235	498
Total Live On-Track Wagering ($ million)[3]	73.2	9.7	7.5	341.4	323.8	24.5	27.3	103.3	93.6
Total Other Wagering (off-track, simulcast, online, teletheatre, intertrack) ($ million)	1,528.0	138.0	100.6	2,840.5	1,041.1	644.4	131.3	2,426.1	372.6
Total Wagering ($ million)	1,601.2	147.7	108.1	3,181.6	1,364.9	668.9	158.6	2,529.4	466.2

1. Information is based on each jurisdiction's most recent financial statements available for our review. For Ontario and Kentucky, data was as of 2019, for New York, data was as of 2017. For all other jurisdictions, data was as of 2018.
2. British Columbia has three race tracks, but only two had races in 2017 – Hastings and Fraser Downs.
3. Total dollars wagered in person on races at the track.