

# Funding Agreement & “New” Ontario Racing Overview

Spring 2018



# Background

- In September of 2016, OLG, Ontario Racing Association and Woodbine Entertainment Group (WEG) entered into a non-binding Letter of Intent (LOI) setting out the key terms upon which OLG would provide financial support to Ontario racetracks.
- Broad industry consultations were held by Ontario Racing through the Fall of 2016 and Winter of 2017 resulting in an Ontario Racing report that evidenced overall industry support for the approach set out in the LOI as well as recommendations for improvement:
  - Need for a representative, transparent and accountable governance model for the industry
  - WEG has performed well in managing the success of the Standardbred Alliance, however its own business objectives must be balanced with overall best interests of the industry
  - Insufficient funding, particularly for smaller tracks' purses and capital expenditure needs
  - Transparency required on sharing of revenue and industry performance
- In the Fall of 2017, OLG entered into negotiations with WEG and Ontario Racing to create the definitive Funding Agreement based on the LOI terms and industry consultation feedback.
- In January 2018, OLG, Ontario Racing and Woodbine Entertainment Group (WEG) reached an agreement-in-principle on a funding agreement that will have a term of up to 19 years. The Funding Agreement incorporates the terms of the LOI, with enhancements and amendments resulting from industry consultation and negotiations with WEG and Ontario Racing representatives.
- March 23, 2018 – Government announced a Long-Term Funding Agreement for the horse racing industry that will provide up to \$105 million each year for up to 19 years.

# LOI to Funding Agreement

- The Funding Agreement is largely based on the content of the LOI
- Based on feedback gathered by Ontario Racing during industry consultations, the following items were adapted and/or changed to reflect industry feedback:
  - Increase in available funding for Signature and Grassroot racetracks for purses and capital improvements
  - Removal of funding reductions related to potential increased slot facility lease revenue at Signature and Grassroots racetracks
  - Increased transparency and reporting
  - Revenue generated in the Province of Ontario will benefit all Ontario Racing Member Racetracks in the Province

# Parties to the Funding Agreement

- Ontario Lottery and Gaming Corporation ("**OLG**"). Provides funding.
- Ontario Racing ("**Ontario Racing**"). Receives funding. A new non-share capital corporation with members incorporated under the Canada Not-for-Profit Corporation Act. Members will be all horse racing tracks in Ontario that conduct live horseracing and industry participants including horse racing industry associations for horse people and breeders will also be invited to become members. Ontario Racing will have a Board consisting of directors nominated by groups of operators of horse racing tracks and industry associations.
- Ontario Racing Management Inc. ("**ORM**"). Manages Ontario Racing at direction of Ontario Racing Board. An Ontario corporation that is a wholly-owned subsidiary of WEG.
- Woodbine Entertainment Group ("**WEG**"). Current manager of Standardbred Alliance and operator of one Provincial Home Market Area. Also, subject to reduction in funding and provides guarantees. A non-share capital Ontario corporation and owner and operator of the Woodbine and Mohawk Racetracks.

# Term of the Funding Agreement

- Funding Commencement Date: April 1, 2019
- Initial term of seven years. Two six-year extension options which will be automatically triggered if Member Racetracks conduct the number of race dates set out under the Annual Business Plans for previous years of term.
- OLG does not have the right to terminate the Agreement for convenience. An uncured material default by Ontario Racing is required for OLG to be entitled to terminate the Agreement.
- The Funding Agreement replaces HRPFP as the source of industry funding.

# Distribution of Funds under Funding Agreement

- OLG will provide funding to Ontario Racing. This funding will be managed and distributed to Ontario Racing Members on behalf of Ontario Racing by ORM in accordance with Annual Business Plans created by ORM, approved by the Ontario Racing Board of Directors and reviewed by OLG, with certain key portions of each Annual Business Plan requiring OLG approval.
- The Funding Agreement guarantees current HRPFP funding levels to Ontario Racing Member Racetracks to March 31, 2021 as per government commitment.
- WEG to contribute supplemental funds, at its own cost, to the extent necessary to ensure that Ontario Racing complies with covenants relating to running of race days with specified purse allocations as set in each Ontario Racing Annual Business Plan.

# OLG Funding Obligations

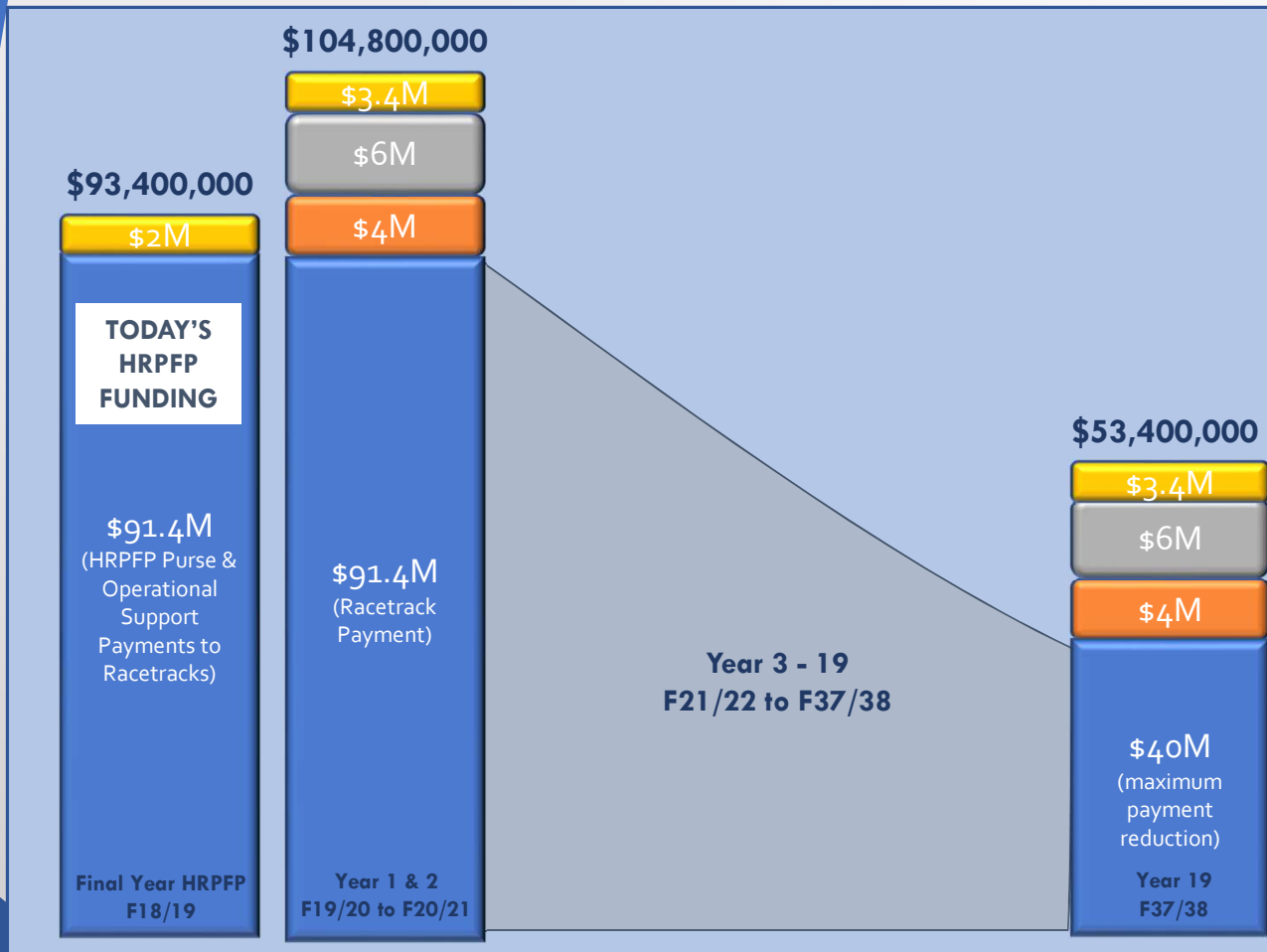
- OLG will pay an annual payment to Ontario Racing in each year of the term not to exceed **\$104,800,000** per year. This annual payment is comprised of the following:
- **Racetracks Payment – \$91,400,000**
  - This payment is subject to adjustment described on slides 8 & 10.
  - From funding commencement in April 2019 to March 31, 2021, this money will be allocated to Ontario Racing Member Racetracks at levels no less than current HRPFP payments and eligible uses of the funds will remain the same for each Ontario Racing Member Racetrack. After March 31, 2021, payment will be allocated in accordance with Ontario Racing Annual Business Plans and up to 15% of this money (with a cap at \$9.1M/yr) can be used to fund certain operating costs of Signature and Grassroots Ontario Racing Member Racetracks.
- **Additional Purse Enhancement Payment – \$4,000,000**
  - This money is also to fund purses of Signature and Grassroots Ontario Racing Member Racetracks.
- **Capital Improvements Payment – \$6,000,000**
  - This money can only be used for capital improvements at Signature and Grassroots Ontario Racing Member Racetracks.
  - This amount will be guaranteed for the initial seven-year funding term of the Agreement. Thereafter, if Ontario Racing wants the payment extended for each extension term, it must submit a proposal to OLG for its consideration. OLG has to act reasonably in accepting or denying a request to extend this funding.
- **Administration Payment – \$3,400,000**
  - This money will be used by Ontario Racing to pay administration and management costs, including ORM management fees.

## Funding Reductions - WEG

- Starting after 2021, OLG will be able to reduce the **\$91,400,000** Racetracks Payment to no less than **\$40,000,000** in each remaining funding year over the life of the Agreement. This reduction of up to **\$51,400,000** occurs because potential new gaming rent received by WEG will be applied dollar for dollar to reduce the Racetracks Payment.
- The cap on OLG's Racetrack Payment reduction of **\$51,400,000** is equal to the amount of money WEG has been using to fund purses at its race tracks from the money it receives under HRPFP.
- For every dollar reduction in the Racetracks Payment, WEG's allocation of monies from the Racetracks Payment is also reduced.



# Funding Model



## Administration & Industry Development Payment

- Eligible uses include costs and expenses related to administration and management of Ontario Racing

## Capital Improvement Payment

- Funds for capital improvement projects at Signature and Grassroots racetrack facilities, during first seven year term
- Option to continue payment into the first and second extension terms

## Additional Purse Enhancement Payment

- Funds dedicated to supplement purses for Signature and Grassroots racetracks

## Racetrack Payment

- Funds for the purses of live horse races in Ontario
- Up to 15% (with a cap at \$9.1M/yr) may be allocated for eligible operating costs associated with Signature and Grassroots racetracks

# Other Funding Reductions – Wagering Targets

- If in any funding year the aggregate amount of pari-mutuel wagering handle generated by the Ontario Racing Member Racetracks from betting on live horse racing through any channel (including Live, Simulcast, Teletheatre and Telephone Account Betting) from:
  - (i) customers in Ontario wagering on races at racetracks located in Ontario, and
  - (ii) customers in Ontario wagering on races at racetracks located outside of Ontario
    - is greater than \$1.2 billion then the amount of the Racetracks Payment for the immediately following funding year will be reduced by the amount that is equal to:
    - $5\% \times (\text{HMA Gross Wagering Handle} - \$1,200,000,000)$
- If in any funding year the aggregate amount of pari-mutuel wagering handle generated by the Ontario Racing Member Racetracks from betting on live horse racing through any channel (including Live, Simulcast, Teletheatre and Telephone Account Betting) from:
  - (i) customers located outside of Ontario but elsewhere in Canada wagering on races at racetracks located in Ontario, and
  - (ii) customers outside of Canada wagering on races at racetracks located in Ontario
    - is greater than \$1 billion, then the amount of the Racetracks Payment for the immediately following funding year will be reduced by the amount that is equal to:
    - $1.5\% \times (\text{Remotes Gross Wagering Handle} - \$1,000,000,000)$

# Reporting & Transparency

- Ontario Racing will be required to produce: **three-year strategic plans, annual business plans, annual audited financial statements**, compliance attestation, **quarterly and semi-annual financial reporting** – Ontario Racing Board members will approve and have access to this information. Members will have access to the Ontario Racing Annual Business Plans and annual audited financial statements.
- Ontario Racing will **publish** how funding provided under the Funding Agreement is spent.
- Ontario Racing will be accountable to the horse racing sector for the distribution of funds received pursuant to the Funding Agreement.
- The Funding Agreement contains **12 Key Performance Indicators** (breed level and industry level) that will be publicly reported on a quarterly or annual basis, as applicable.
- OLG has rights to audit Ontario Racing, ORM and Ontario Racing Member Racetracks.

# Additional Racetracks Transition Funding

- Three years of Racetrack Transition Funding (\$3M/year) for purses and operational costs to begin in the 2018 racing season:
- The first year of funding will come from HRPFP and be distributed via supplements to existing Racetrack TPAs
- Remaining 2 years to be funded via the Funding Agreement based upon an allocation schedule that will be attached to the Funding Agreement
- Allocation of the Racetrack Transition Funding will be discussed with Racetracks over the coming weeks.

# Who is Ontario Racing?

- An organization of Ontario horse racing industry representatives, including racetrack operators and industry associations, to provide strong, effective and efficient industry leadership with respect to issues affecting the entire Ontario horse racing industry, including industry administration and governance.
- Industry entities will be invited to become a member of Ontario Racing. By signing the Membership Agreement with Ontario Racing and the other members, each industry entity agrees to all of the obligations and benefits of Ontario Racing membership.
- A new, expanded Ontario Racing Board to represent the interests of the whole industry, including racetracks and industry associations.

# Ontario Racing Board of Directors

## Board Composition – 11 Seats

### 1 Independent Chair

#### 5 Nominees from Racetracks

- 3 Nominees from Standardbred, with 1 from each level:
- Premier: Mohawk Racetrack (the only racetrack in category)
  - Signature: From either Flamboro, Western Fair, Grand River, Georgian, or Rideau Carleton
  - Grassroots: From either Clinton, Hanover, Kawartha, Lakeshore, Hiawatha, or Dresden

- 2 Nominees from Thoroughbred, with 1 from each level:
- Premier: Woodbine Racetrack (the only racetrack in category)
  - Signature: Fort Erie Race Track (the only racetrack in category)

#### 5 Nominees from Associations

- 3 Nominees from horsepeoples associations
- Quarter Horse
  - Thoroughbred
  - Standardbred

- 2 Nominees from breeder associations
- Thoroughbred
  - Standardbred

# Selection of Ontario Racing Board Members

- The Independent Chair will be selected by Board members.
- Board members will be selected by nominating groups comprised of members with common interests.
- To nominate a representative for a Board seat, each nominating group will collaborate and put forward a name.
- In the event that a nominating group is not able to agree on director selection, the incumbent Board members (other than the director who was the nominee of the applicable nominating group) will vote to decide on the representative based on names put forward by the nominating group.
- Board positions are for up to a three year term as determined by the nominating group.
- Board positions can be changed at any time should the nominating group choose to make a change.
- In order to establish the initial Board:
  - Selection of an Independent Director by Ontario Racing Board as soon as practical
  - Directors for each nominating group will be set out in the Membership Agreement and will have a one-year term to allow each nominating group time to agree on a selection for the following years.

## Responsibilities of Ontario Racing

- The Ontario Racing Board will be responsible for approving key governance and reporting documents resulting in the entire industry being involved in decision making about its future.
- Ontario Racing is responsible for preparing, and the Ontario Racing Board is responsible for approving, each Annual Business Plan.
- Manage a central race office, including purse payments and staking programs.
- Provide administration and funding management of the HIP programs.
- Consult and cooperate with the AGCO on the establishment and enforcement of the Rules of Racing and approvals by AGCO of the racing calendar.
- Establish co-op or group purchasing of common services.
- Coordinate and liaise with OLG in respect to all industry funding matters.
- ORM has been setup as the administrative body of Ontario Racing. There will be a Management Agreement in place between Ontario Racing and ORM, which sets out the terms upon which ORM will provide services to Ontario Racing.<sup>16</sup>



# Responsibilities of Ontario Racing Members

## **Racetrack Members**

- Use funding from Ontario Racing as set out in Annual Business Plans
- Implement the Annual Business Plans
- Deliver to Ontario Racing all reports and information required under the Funding Agreement
- Provide input/feedback to Board representative on matters/decisions for the betterment of Ontario's horse racing industry
- Comply with Membership Agreement

## **Industry Association Members**

- Share their voice with their respective board representative contributing to the betterment of Ontario's horse racing industry
- Comply with Membership Agreement

# Key Membership Agreement Provisions

## Cost Allocation Services

- Ontario Racing will provide many cost allocation services for Ontario Racing Member Racetracks such as:
  - Race secretary duties, purse payment processing, tote service systems, import/export contracting services, CPMA applications for wagering, TCO<sup>2</sup> tests.

## Pari-Mutuel Wagering Revenue Sharing

- Ontario Racing shall determine the consolidated net revenue allocation for Ontario Racing Member Racetracks as per the revenue share formula in the Membership Agreement. This formula allocates Home Market Area (HMA) net revenue based upon total wagering from all channels on each Member's racetrack.
- Remote revenue will continue to fund the Ontario Racing Member Racetrack earning such revenue.

# Benefits of Funding Agreement vs TPA

- Brings representation of all industry stakeholders (breeders, trainers, racetracks, etc.) together onto one Ontario Racing Board
- \$10M increase in funding for purse and capital investment
- Operational efficiencies across all racetracks
- Proportionate allocation of all revenues from all channels to racetracks
- Transparency in industry performance reporting
- Increased responsibility for the industry to become self-governing and manage its business toward a greater sustainability

# Membership Enrollment

- Invites have gone out to racetrack and industry association leadership for further meetings to discuss details of membership enrollment
- Membership Agreement & Funding Agreement to be shared with industry via Ontario Racing website in advance of Leadership Meetings
- Steps for executing Funding Agreement
  - Racetracks and Associations to sign Ontario Racing Membership Agreement
  - Ontario Racing Board meeting to approve Funding Agreement
  - OLG, Ontario Racing, ORM and WEG to sign Funding Agreement
- **Deadline for Membership enrollment by Racetracks and Industry Associations is May 1, 2018**



# Questions