

• November 30, 2011

Log # 474474

To Key Horse Racing Industry Organization Principals

Re: 2012 Financial Allocations – Decisions and Considerations

I am writing on behalf of the BC Horse Racing Industry Management Committee to communicate the committee's decisions and considerations concerning 2012 financial allocations. The committee made three related decisions at its November 29, 2011 meeting.

2012 Revenue Forecast

The committee decided to use a 2012 revenue forecast of \$43.39 million. This reflects an actual revenue forecast of \$44.14 million, reduced by the required provincial grant repayment of \$0.75 million.

This is consistent with the revenue forecast provided by the Financial Working Group and does not include adjustments for any 2011 revenue surplus which may accrue or any potential increases in 2012 host fees.

2012 Financial Allocations

As already discussed with the industry organizations and agreed with the Financial Working Group, from the \$43.39 million forecasted revenue, \$11.51 million was allocated to TBC Teletheatre BC for its operating costs and \$0.8 million was allocated to the industry marketing fund (managed by the BC Lottery Corporation and including the salary of the Director of Racing Sustainability).

This left forecasted revenue of \$31.08 million to be allocated to, and among, the Great Canadian Gaming Corporation, the thoroughbred sector and the standardbred sector. That amount reflects a decline of about \$1.2 million for those purposes, compared to 2011 (a \$2.7 million decline in betting revenue, partially offset by a \$1.5 million reduction in TBC's operating cost requirements). The forecasted decline in revenue reflects an overall decline in wagering at Hastings Park and Fraser Downs.

In allocating the remaining forecasted revenue, the Committee considered many factors, including: the current and pending financial circumstances of the industry; the current allocation formula used by the committee; the allocations and formulae proposed by industry stakeholders and GCGC; and what decision(s) might best balance the competing circumstances and stabilize the industry for 2012.

As a result of considerable discussion and consideration of those factors, the pros and cons of the current and proposed formulae and allocations, the consequences of each possible approach and the best interest of BC's horse racing industry overall and each of its key participants, the committee made the following 2012 financial allocations:

ALLOCATIONS (\$ millions)		
	2011 Allocation	2012 Allocation
Great Canadian Gaming Corporation	16.18	13.43
Thoroughbred sector	9.67	10.45
Standardbred sector	6.44	7.20
<i>Sub-Total</i>	<i>32.29</i>	<i>31.08</i>
TBC Teletheatre BC	13.00	11.51
Advertising and Marketing	0.80	0.80
<i>Sub-Total</i>	<i>13.80</i>	<i>12.31</i>
Total	46.09	43.39

This allocation represents a compromise between the current (2011) formula and the formula proposed by the industry to the committee.

This allocation effectively transferred the portion of the government grant that was going to GCGC to the two breeds.

The committee believes these allocations reflect the essential principle of shared risk and opportunity between the track operator and the breeds and will help create the environment to improve the long term sustainability of horse racing in BC.

As proposed by industry participants, the committee feels it is essential that GCGC and the two breeds

work cooperatively over the next few months to find ways to both improve the quality of BC racing in order to attract interested and engaged customers and to reduce costs, as reasonable, in the best interests of all participants. The committee has asked Brian Butters (the committee's Director of Racing Sustainability) to participate in and facilitate those discussions.

As in other jurisdictions, BC's racing industry faces significant ongoing financial challenges. The ability of the industry to remain viable will depend significantly on a cooperative effort to enhance revenues, reduce costs and make BC a racing jurisdiction of choice.

GCGC's Increased Costs Due to a Longer Standardbred Season

The committee considered the costs GCGC will incur as a result of the extended 2012 standardbred season. Compared to the costs that GCGC would have otherwise incurred, GCGC will have increased costs due to additional staffing requirements, the costs of having both tracks operational at the same time, and so forth.

As a result, the committee determined that any surplus incurred in 2011 (up to \$0.420 million) would be allocated to GCGC for 2012, to offset the additional incurred costs. At present, the forecasted surplus is \$0.376 million. If the surplus exceeds \$0.420 million, any additional amount will be used to reduce the amount required (currently \$0.75 million) in 2012 to repay the grant.

Sincerely,

Derek Sturko
Chair, BC Horse Racing Industry Management Committee

pc: Honourable Shirley Bond

Management Committee Members

Brian Butters
Sheena Ridley
Adam McKinnon
