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**Ontario's Horse Racing Industry Transition Panel:
Good Public Policy, Good Policy Analysis**

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Introduction

In March 2012, the Government of Ontario announced that the decade old Slots at Racetracks program (SARP) would be discontinued. The agreement on the sharing formula that the Ontario Lottery and Gaming Commission (OLG) funds from such slots with the participating racetracks, race horse owners(horsemen) and participating municipalities would end in March 2013. A further announcement by the OLG identified three tracks located in Ontario border communities for early removal of their slot machines at those tracks. This announcement caught the horse racing industry off guard, and led to considerable opposition to the policy announcement by industry proponents and supporters.

In June 2012, the Minister of Agriculture, Food and Rural Affairs, the Honourable Ted McMeekin, announced the formation of a 3 person panel¹ to consult with the horse racing industry to help them transition from the SARP to a more sustainable program. A fund of \$50 million over three years was also provided to assist this transition. On August 24, 2012, the Ontario Horse Racing Industry Transition Panel made its interim report outlining its conclusions to date, ongoing work and direction, and plan to report back by end of September, 2012. The report was well received by industry groups, other supporters and by the government.

This short paper examines the Panel's interim report, its public policy directions and its analysis. The goal is to analyze and comment on the policy analysis of the SARP-horse racing issue as an excellent example of improved public policy decision-making. Those Canadians who want to encourage good agri-food public policy development and analysis need to highlight examples across Canada where this is done, and encourage such future efforts to improve Canada's agri-food sector.

Public Policy Challenges facing the Government and Horse Racing Industry

As identified clearly in the Panel's interim report, the market and economic challenges facing the Ontario's horse racing industry have existed for a number of decades. The introduction of new gambling (gaming) options for Ontario consumers. Indeed, this is the challenge facing horse racing across North America. Moreover, new entertainment opportunities for same consumers meant a very new market environment for horse racing as the traditional legal gaming activity. These market challenges escalated in Ontario with the introduction of casinos, charity casinos and slot machines. There were also substantial social, legal, community issues to resolve with the expansion of legal gaming across Ontario, and differing views on limited access for minors, and concerns about problem gaming. The industry faced considerable new- and threatening-

¹ June 7, 2012, Ontario News, "McGuinty Government Helping Industry Transition to More Sustainable Future". The three person panel identified involved three former Ontario Ministers- Elmer Buchanan, John Snobelen, and John Wilkinson.

competition from these new gaming options. Severe market contraction was very real for Ontario racetracks, horsemen, and the local communities. Although not usually highlighted as a key agri-food industry, horse racing and companion activities have formed a sizeable part of Canada's agri-food sector, and a unique part of Canada's rural landscape.

The 1998 introduction of the SARP initiative provided at that time a reasonable public policy balance between expanded number of slot machines across Ontario, increased gaming revenues for the government, a means of restricted access (through limited sites) to such slot machines, and a sharing of gaming funds between the OLG, and participating racetracks, municipalities and horsemen to assist those partners with their financial needs. As noted in the 2012 Ontario Budget over the years the SARP provided some \$3.7 billion to the industry, including an estimated \$345 million for 2011-12. These sums assisted the horse racing industry's economic recovery, growth, and stability. The slot machine revenues were also new revenues for a government facing a severe deficit without increasing taxation.

As of the March 2012 announcement there were 17 racetracks participating in SARP. This involved sharing of revenues through increased race purses, additional operating revenues for the racetracks, and additional funding for those participating municipalities to address their fiscal needs. As noted in the interim report, the funding likely exceeded original estimates, and there were no major limits on the use of the funds by industry or municipalities. However, additional competition from new sources of gaming activity at border points with the United States (New York, Michigan) and continual competition for consumers from all other gaming, even entertainment, activities meant that not all race tracks or horsemen were prosperous, indeed several tracks faced real viability challenges.

The March 2012 decision by the Government and its rationale aroused the recipients of the SARP funds, and their proponents. Opposition to the policy announcement arose immediately. Industry associations and proponents provided new information indicating that the costs of the announcement to local communities, local employment and broader rural economic development would be much larger than suggested by the government. The policy announcement led to a new level of disagreement with seemingly limited room for compromise.

The June announcement by Minister McMeekin opened a new avenue for agri-food policy discussions, consultations, analysis. The transition fund offer also meant that new funding would be available-possibly more with the Panel's interim report-to assist the anticipated transition (or demise for some tracks) to a new market environment. The Minister's subsequent announcement in late August, and the release of the Panel's interim report, have been generally well received by most of the industry stakeholders.

The Horse Racing Industry Transition Panel Interim Report- Good Agri-Food Policy Advice

The Ontario Horse Racing Industry Transition Panel's interim report is on the Ontario ministry's website for those wishing to review the full report. The following commentary focuses in on the key policy directions proposed by the Panel.

In the Panel's interim report, the key conclusions or policy directions for the government and industry include the following:

- The Panel believed it would be a mistake to reinstate the SARP;
- The Panel concluded, based upon its mandate, that the available \$50 million over three years for the transition funding is not sufficient to build a bridge to sustainability;
- With the Ontario horse racing industry deriving 63.6% of its purse revenue from SARP, it is too large of financial loss for the industry to survive;
- A viable world class industry would require public support for its core elements;
- Any future investment of public dollars should be based upon clear public-interest principles-transparency, accountability, renewed focus on the consumer and a business case showing the return for the public dollars invested;
- Future research and analysis is required to plan and implement a new partnership between the industry and the government; and,
- The Panel believes that the right investment, right conditions could lead to an improved result for the industry, government, and the economy.²

The interim report then analyzes and reports on the Panel's findings to support these proposed directions

The Panel's direction to continue with the earlier government announcement to end the SARP, which they acknowledge is not what some of the stakeholders recommended, is a good public policy. Although the SARP policy was praised by government and industry prior to 2012, the Panel notes that SARP had enabled the industry to avoid the challenges of an intensely competitive gaming and entertainment marketplace.³ The Panel highlights the need to revisit the SARP and rethink the objectives, the measures, and results so as to achieve different policy goals. The direction to examine a larger transition fund addresses the key concerns of most stakeholders-time and resources to adjust to a new industry model. It is a very reasonable balancing act. It is also in contrast to the seemingly draconian policy announcement by the government in March, and the policy context around that announcement.

² Horse Racing Industry Transition Panel-Interim Report, August 17, 2012, Ontario Ministry of Agriculture, Food and Rural Affairs-the list is a synopsis of the Executive Summary of the report.

³ Ibid

The Panel's conclusions on policy principles and future research activities for the final report tie nicely together. If future public funding is necessary-and the Panel argues that it is-then new work and analysis have to be completed so as to establish a reasonable implementation plan. The panel's identification of consumer friendliness alone holds very real potential to examine a different future for surviving race tracks and horsemen. The principles identified in the Panel's report are straightforward, difficult to argue against, and if followed would likely gain broader public support for such funds if used and monitored properly to achieve the new viability of this industry. These conclusions stand in contrast with the government's announcement- that these funds would be used for broader social/economic goals-and with lack of clarity around the original SARP and its use of funds. Facilities were improved at several sites, but there was little in the original SARP to mandate uses of funds to provide superior consumer experiences.

The Panel's statement on the scale of impact of the existing SARP funding for industry's purse revenues provides the necessary clarity on the operational impact of SARP after more than a decade, and on the breeding and operational decisions of the horsemen. Sudden removal-even a year's notice-would be devastating for most racetracks as the Panel notes. This conclusion underlines the need for additional time, new policy development, and additional resources to be transparently measured against key objectives and key principles.

The Ontario Horse Industry Transition Panel Interim Report- Good Agri-Food Policy Analysis

A solid, but often rarely identified, base for good policy direction is good policy analysis. The Panel's concise interim report is a prime example of such policy analysis- the research, the consultation, and the identification of several key points not well discussed by either the government or the industry in their briefs/comments. This policy analysis underscores the policy directions by the Panel, and adds to the wider discussion in a manner that allows the policy debate to move forward without- with appropriate leadership-reworking the same old debating points.

The Economic Impact commentary provides readers with one of the more concise summaries of the available literature on horse racing statistics, impacts, varying definitions, and understanding of the complexity and dynamics of this industry. The Panel also challenges other industry/government estimates opening the policy debate to examine a less divisive analysis on what is really at risk, what really can be resolved, and the more likely future scenarios for the industry and government.

The descriptions of the industry, the key players, employment levels, the regulatory oversights and gaps, are all clearly outlined in the interim report, and easily understandable by the reader. The complexity of the industry, the variability of options between the tracks, the municipalities

and the horsemen can be better understood-reinforcing the policy direction of a need to beyond the original SARP, but also some flexibility to deal with different situations. The Panel also identified and used several sources of information, notably on issues of employment- and to illustrate that different views on same issue can be held.

The analysis of the SARP, what has happened, what it has led to, and the almost casual acknowledgement in the report that no track indicated it could survive solely on pari-mutuel wagering indicates too clearly how this program has become intertwined with the ongoing operations of the tracks and horsemen. The analysis is in contrast to the more heated rhetoric in current debates about the scale of the SARP funds, the alternate uses of such gaming revenues, and future role of horse racing overall. The Panel's arguments for a continued viable racetrack industry, but likely downsized, provides the necessary policy support for greater transition funding, a move away from the status quo, and addressing industry concerns about future directions- assuming the government will implement these and other recommendations arising from the anticipated final report.

The Panel's analysis on the role of the SARP, its original intent, the lack of accountability and the changing market model for horse racing also underlines the Panel's directions. However, this is an area where the Panel's conciseness limits the discussion on how this market is changing, competition from other jurisdictions, gaming instruments, entertainment options and consumer friendliness of the existing model). This also supports the Panel's recommendations for future research and analysis, and the comments on future policy framework around any future funding model for this industry-which is to be sustainable, transparent, accountable, and focused on the consumer. The Panel's reference to the consumer- the one client group often neglected in many horse racing discussions-provides openings for new ideas on use of any new funds, and new measures to ensure effective use of such funds.

Finally, the Panel's efforts to provide a deeper historical background, with additional clarity on more recent policy decisions (such as the 1998 SARP), highlight a key challenge in this government/industry discussion. But, this also highlights a broader agri-food policy issue. In recent years, there is a gradual erosion of institutional memory-SARP itself is not a well understood public policy- which can and does lead to public policy decisions not as viable or acceptable. It would seem that the contexts, the memories, the original rationales for the policy issue and earlier solution are either forgotten or misunderstood. The Panel's historical commentary is short, and focused. It supports the overall direction of the Panel's conclusions and recommendations.

Conclusion

The Ontario Horse Racing Industry Transition Panel and its interim report have moved the policy yardsticks. The industry responses and initial government response by Minister McMeekin indicate that a “middle ground”, as described by the Panel, can be achieved.⁴ This would provide a better balance for industry, and the government and for more effective (and measurable) use of public funds. The Panel’s short comments on the cultural, social impacts and even the comments on the race horse breeding and possible early slaughter of unneeded race horse/mares/foals all bring greater clarity to the issues surrounding this industry.

The interim report has its limits. The report could have added greater details, deeper coverage of issues-longer term trends facing the industry, current viability of various tracks and horsemen, details on preferred uses of future public funds, and greater examination of similar challenges in other jurisdictions (the Quebec example is appropriate, but Ontario’s competition with its US counterparts would provide even deeper insights). However, for an interim report it is not necessary to have the heft of a Master’s or Doctoral thesis.

The key next steps will be the responses by the government and industry to the Panel’s report-and so far positive-and to the Panel’s final report in late September. The Panel’s interim report provides improved agri-food policy advice to assist both the Provincial government and industry to step away from the heated debates, refocus on key transition issues, and work towards to a better solution for all parties. The Panel’s directions do not resolve the challenges facing the industry and government, or suggest that the transition will be painless or without some losses and adjustments. The end of September final report is now one to be watched.

The economic and policy analysis within the Interim report are important as well. These assist in Panel’s directions, choices and arguments so as to move the policy decision away from only the two options-complete change/status quo, to a more likely and more balanced approach which still requires change, realignment, shifts in revenues, and transition to a different market context for Ontario horse racing.

⁴ Examples of industry commentaries include:

The Ontario Federation of Agriculture and Ontario Equestrian Federation joint letter to Minister McMeekin, August 28, 2012;

“OHRIA’s Response to OMAFRA panel Report”, August 24, 2012, Ontario Horse Racing Industry Association as reported in Value 4 Money;

“The Ontario Association of Agricultural Societies has announced its support for the Ontario Horse Racing industry”, August 29, 2012, Ontario Association of Agricultural Societies” as reported in Value 4 Money;

“McMeekin Hopeful Better Way Forward for Horse Racing”, August 28, 2012, as reported in Value 4 Money.

The Panel's interim report also provides a deeper insight for agri-food policy discussions across Canada, not just for horse racing in Quebec, New Brunswick (and that latter Province's decision on funding), to national income support programs, supply management, or on issues involving agri-food research and innovation. The Panel highlights the continued changes in the Ontario horse racing industry before the SARP was introduced, and after its implementation. The report identifies the need to move the industry and its public funding to another framework, and a more market realistic (fiscal realistic) environment for all participants.

As Canada's agri-food policies continue to evolve, there are broader lessons here. It is a key policy reminder for the entire agri-food sector that as markets, technology, competition, and public expectations change, assuming the public policy programming will remain intact and untouched is a high risk proposition. Canada's agri-food policy needs to continually re-examine its basic policy and program assumptions. The belief that certain bedrock foundations for the sector are immune to change is not realistic or appropriate. The Ontario Horse Racing Industry Transition Panel Interim report offers better public policy directions at a time when the foundations of the policy framework have shifted dramatically.