

2014-16 Executive Progress Report

Commonwealth of Virginia
Secretary of Agriculture and Forestry
Virginia Racing Commission

At A Glance

The Virginia Racing Commission promotes, sustains, grows and controls the native horse racing industry with pari-mutuel wagering by promulgating regulations and conditions that command and promote excellence, honesty and integrity in racing and wagering.

Staffing 5 Salaried Employees, 9 Contracted Employees, 10 Authorized, and 10 Wage Employees.

Financials Budget FY 2015, \$3.13 million, 0.00% from the General Fund.

Trends ↓ Horses Drug Tested Key Perf Areas ↓ Dollar Amount of Awards
↓ Permits Issued and Renewed ↓ Number of Awards

Legend ↑ Increase, ↓ Decrease, → Steady Productivity → Cost per Permit Issued
Legend ↑ Improving, ↓ Worsening, → Maintaining

For more information on administrative key, and productivity measures, go to www.vaperforms.virginia.gov

Background and History

Agency Background Statement

The Virginia Racing Commission (VRC) regulates all aspects of pari-mutuel wagering and live horse racing occurring in the Commonwealth of Virginia. VRC conducts proceedings for the issuing of licenses to racetracks, satellite wagering facilities, and advanced deposit wagering providers. Additionally, VRC issues permits to all participants of live horse racing, employees of racetracks, satellite wagering facilities, and account wagering providers. VRC is also responsible for the oversight of the Virginia Breeders Fund, which provides financial incentives to the breeders and owners of Virginia-bred horses.

Major Products and Services

VRC provides many important services related to horse racing with pari-mutuel wagering in Virginia. First, VRC is responsible for the issuance of licenses to own and operate a racetrack or satellite wagering facilities and conducts public hearings, facility inspections, and background investigations of all applicants. Second, VRC monitors deposits to the Breeders Fund and the license tax to the Commonwealth and certain localities to assure compliance with the Code of Virginia. VRC also issues permits to the participants of horse racing as well as to the employees of Colonial Downs and provides Stewards/Judges to officiate the races and enforce the regulations pertaining to horse racing with pari-mutuel wagering. In addition, VRC collects blood and urine samples from selected horses to test for any prohibited or foreign substances that may affect their performance or the outcome of a race. Lastly, VRC provides financial incentives to the owners and breeders of Virginia-bred horses in an effort to increase the horse breeding industry in Virginia.

Customers

Customer Summary

Little change is anticipated in our customer base regarding racetrack ownership and operation. Colonial Downs is the only racetrack that functions with a 20-year unlimited license in the Commonwealth. VRC continues to encourage interested parties to open new racing facilities. As a result, in 2014 the Virginia Gold Cup Association was awarded a limited license and conducted two days of steeplechase racing at Great Meadow Racecourse located in The Plains, Virginia.

The number of horsemen and other participants has decreased steadily since 2005 primarily due to a reduction in the number of live race days in Virginia. VRC anticipates the number of horsemen and other participants should remain constant going forward unless there is a change in the number of live race days. Colonial Downs currently operates only three satellite wagering facilities in Virginia due to a dispute with the Virginia

Horsemen's Benevolent and Protective Association (VAHBPA). The Code of Virginia currently limits the holder of an unlimited license to operate 10 satellite wagering facilities. Should the General Assembly decide to amend the limitation of satellite wagering facilities and a resolution is reached with the VAHBPA, a greater number of satellite wagering facilities would result in an increase in the number of live race days. In recent years, advanced deposit account wagering has accounted for a larger percentage of the amount wagered on horse racing in Virginia. Advanced deposit wagering enables the citizens of Virginia the option of betting from home, by phone or through a computer. Advanced deposit wagering accounted for approximately 46% of the total amount wagered by Virginia residents in calendar year 2013 and should be even higher for 2014.

Customer Table

Predefined Group	User Defined Group	Number Served Annually	Potential Number of Annual Customers	Projected Customer Trend
Employer/ Business Owner	Racetrack Owners and Operators	2	2	Stable
Local or Regional Government Authorities	Governments (state and local)	7	7	Stable
Taxpayer	Horse Owners and Breeders	1,000	1,000	Stable
Taxpayer	Horsemen and other participants	3,000	3,000	Stable

Finance and Performance Management

Finance

Financial Summary

Section 59-1-370.1, Code of Virginia, states the total costs for the operation and administration of VRC shall be funded from the State Racing Operating Fund from the amounts provided for in the Appropriation Act. Funds are nongeneral and supported by revenue generated from pari-mutuel wagering.

Section 59.1-372, Code of Virginia, requires one percent of pari-mutuel wagering be set aside in a separate fund to provide awards to breeders and owners of Thoroughbred and Standardbred horses bred in Virginia. These nongeneral funds are generated from pari-mutuel wagering. VRC has fiduciary responsibility of these funds. VRC awards contracts to the Virginia Thoroughbred Association (VTA) in Charlottesville and the Virginia Harness Horse Association (VHHA) in New Kent to administer the funds on its behalf.

Fund Sources

Fund Code	Fund Name	FY 2015	FY 2016
0220	Virginia Breeders Fund	\$1,500,000	\$1,500,000
0228	State Racing Operations Fund	\$1,626,889	\$1,616,161

Revenue Summary

VRC has three sources of revenue. The first source comes from license and permit fees consisting of fees paid by the unlimited licensee Colonial Downs for new satellite wagering facility applications as well as annual owner and operator fees, license renewal application fees paid by Advanced Deposit Wagering (ADW) providers, and application fees by permit holders to participate in horse racing with pari-mutuel wagering in addition to any fines imposed on these permit holders. Fines collected by VRC are transferred to the Literary Fund at the end of each fiscal year in accordance with the Code of Virginia. The second and largest revenue source consists of a pari-mutuel wagering tax collected by VRC from the unlimited licensee Colonial Downs and the licensed ADW providers, based on a percentage of the wagering at the racetracks, satellite wagering facilities, and through ADW. These funds are used to fully support the operating expenses of VRC with no assistance from the General Fund. The third source of revenue is derived from a percentage of all forms of pari-mutuel wagering in Virginia collected by VRC on behalf of the Virginia Breeders Fund. These funds are distributed in the form of financial incentives to the breeders and owners of Virginia-bred horses. These funds are restricted and may only be used for this specific purpose.

Performance

Performance Highlights

Growing the breeding industry in Virginia is of critical importance to Virginia's horse racing industry. Financial incentives to owners and breeders of Virginia-bred horses are paid to encourage more horse owners and breeders to locate and remain in the Commonwealth. The amount distributed to the owners and breeders as well as the number of awards decreased in calendar year 2013 primarily due to a decline in the amount of wagering which took place at the racetrack and satellite wagering facilities.

Public protection and safety of horses is a high priority of the agency. Those directly involved in racing that may affect the outcome of a race are tested for prohibited substances. VRC also collects samples from selected horses for drug testing. The number of tests performed

on horses decreased in calendar year 2013 because of fewer live race days than in prior years. The Commonwealth and its localities hosting satellite wagering facilities and a racetrack currently share in the tax revenue derived from pari-mutuel wagering. By growing the industry, more revenue will be available to the Commonwealth and local governments. Unfortunately, the amount of tax revenue has declined over the past six years due to the economy and fewer live race days. The cost of each permit issued remained constant for fiscal year 2014 and VRC made reductions to its full-time and part-time permitting staff thus reducing its costs with no adverse affect on productivity or customer service. The number of permits issued has declined which is the reason why the cost of each permit issued has remained constant despite the reduction of the agency's permitting costs.

Selected Measures

Measure ID	Measure	Alternative Name	Estimated Trend
40555801.005.001	Amount of pari-mutuel tax revenue received by the Commonwealth and localities	Tax Revenue	Worsening
40555801.001.002	Cost of each horse racing permit issued or renewed	Cost per Permit Issued	Maintaining
40553411.001.002	Dollar amount of awards given to Virginia horse breeders and owners	Dollar Amount of Awards	Worsening
40553411.001.001	Number of awards to Virginia horse breeders and owners	Number of Awards	Worsening
40555801.001.001	Number of horse racing permits issued and renewed	Permits Issued and Renewed	Worsening
40555801.002.001	Number of samples taken from horses competing submitted to the laboratory for analysis	Number of Horses Tested	Worsening

Key Risk Factors

Thoroughbred Horsemen Dispute:

The Code of Virginia requires a contract between the racetrack licensee and the recognized majority horseman's group providing for purses in order to offer simulcast and wagering on racing from outside of the Commonwealth at the satellite wagering facilities (SWFs). The contract between the Virginia Horsemen's Benevolent and Protective Association (VAHBPA), which represents the Thoroughbred horsemen in Virginia, and Colonial Downs expired on December 31, 2013 has resulted in Colonial Downs not being permitted to offer wagering on Thoroughbred racing at its SWFs since early 2014 when negotiations between the two parties failed. Without the ability to wager on Thoroughbred racing at its SWFs, Colonial Downs has closed five of its eight SWFs because they are not profitable without the Thoroughbred signals, as the wagering on Thoroughbred racing is generally 80% of the total amount wagered at a SWF. The majority of the revenue that VRC receives to support its operations is generated by the wagering at the SWFs. Through the end of August, VRC has realized \$629,000 in lost revenue as a result of this dispute. If the dispute is not resolved in the near future VRC will be unable to support its operations or make the required transfer to the General Fund in FY2016.

Limited Number of Employees:

VRC currently is staffed by 5 full-time employees. Some cross-training opportunities do exist; however, career advancement possibilities are limited within the agency given its size.

Agency Results Dependent on Performance of Licensee:

Colonial Downs is currently the only racetrack operating in Virginia with an unlimited license and its performance and management decisions can directly affect how successfully VRC accomplishes some of its goals and objectives that are dependent on the number of live racing days each year.

Difficulty Securing Qualified Veterinarians:

It may be difficult for VRC to secure sufficient Associate Commission Veterinarians for future live race seasons. The Equine Medical Director is responsible for recruiting an adequate number of associate veterinarians to work the live race seasons at Colonial Downs and the two days of steeplechase racing at the Great Meadow Racecourse. It is difficult for the Equine Medical Director to retain veterinarians with horse experience who are available to work nights and weekends for the brevity of the racing seasons. We have been very fortunate the last several years to employ veterinarians currently between other full-time assignments and hopefully we can continue this practice.

Agency Statistics

Statistics Summary

The following statistics provide additional information of VRC operations and the horse industry in Virginia for the calendar year 2013.

Statistics Table

Description	Value
Number of races officiated	476
Number of permits issued	3,054
Number of licensed racetracks	2
Number of licensed satellite wagering facilities	9
Number of licensed advanced deposit wagering providers	4
Total amount wagered on horse racing in Virginia (\$)	159,425,630
Number of Thoroughbred racehorses foaled in Virginia	184

Management Discussion

General Information About Ongoing Status of Agency

VRC's future direction is to continue performing the agency's services in an efficient and cost-effective manner. All staff positions are sufficiently filled at this time. VRC is hopeful the current dispute between Colonial Downs and the Thoroughbred horsemen described in the Key Risk Factors section of this report will be settled expeditiously. If a resolution is not reached in the near future, VRC will have to explore options for securing an alternative revenue source in an effort to support the costs of its regulation of horse racing with pari-mutuel racing in the future.

Information Technology

VRC began using a new licensing system developed by the Association of Racing Commissioners International (ARCI) in March of 2013. The ARCI licensing system is provided free of charge for VRC to use as it is included in the benefits of being a member of ARCI. The ARCI licensing system does not use social security numbers and complies with the security standards of the Virginia Information Technologies Agency (VITA). The new licensing system has worked very well and proven to be a great improvement over the VRC's old system. In early February of 2014 VRC switched from a physical server to a virtual server. This transition to a virtual server was successful and will provide a significant cost benefit to the agency.

Workforce Development

VRC currently has 5 full-time employees. There is minimal opportunity for cross-training and backup. Opportunities for career advancement are negligible. Also, because of Colonial Downs' location in rural New Kent County, the labor pool is sparse and there are a limited number of individuals in the Commonwealth who possess any knowledge and/or experience in horse racing with pari-mutuel wagering.

Physical Plant

In September of 2013 VRC moved its main administrative offices to the Ivor Massey Building located near the Richmond International Airport at 5707 Huntsman Road in Richmond, Virginia. During the live racing seasons VRC utilizes office space located near the stable area on the backside of Colonial Downs racetrack in New Kent County. Areas in this building dedicated to licensing, veterinarians, judges, and security are provided by the licensee, in accordance with VRC regulations.