

Transparency
Reliability
Clarity

Effectiveness

ANNUAL REPORT 2016

Minnesota Racing Commission



Minnesota Racing Commission

www.mrc.state.mn.us

Canterbury Park Location
Thoroughbred &
Quarter Horse Racing
1100 Canterbury Road, Ste. 100
Shakopee, MN 55379
952.496.7950

Running Aces Location
Standardbred Racing
15201 Zurich Street, Ste. 212
Columbus, MN 55025
651.925.3951



Accountability
Independence

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Acknowledgement

The Minnesota Racing Commission would like to thank Alex Burcum, Sarah Danks, Dee Leftwich Photography and Coady Photography for their outstanding photography and contribution to our Annual Report.

This annual report is being submitted to the Governor and the Legislature pursuant to Minnesota Statutes §240.02, Subd. 6 and to the Secretary of the Senate, the Chief Clerk of the House of Representatives and the Legislative Reference Library pursuant to Minnesota Statutes §3.195. In compliance with the Laws of 1994, Chapter 559, Section 1, it is estimated that it cost \$1,500 to prepare this report.



**Chairman
Ralph Strangis**

Ralph Strangis returned to the MRC as Chairman in 2013. Mr. Strangis previously served as Chairman from 1989-1992. He attended the University of Minnesota where he received a BSL degree and a doctorate in law (JD) (magna cum laude). He is a founding member of the law firm of Kaplan, Strangis and Kaplan, P.A. Mr. Strangis has served on numerous public and non-profit boards.



**Commissioner
Jerry Bell**

Jerry Bell, who recently served as Chairman of the Minnesota Twins Executive Board, also held the position of President of the ballclub from 1987-2002. Mr. Bell oversaw the development, design, construction and opening of Target Field. His leadership was central to the ballpark’s ground-breaking design and successful management of the project’s budget and timeline. He was instrumental to the 1987 and 1991 World Championship seasons of the Twins and setting an American League attendance record in 1988 when the team attracted over three million fans. Mr. Bell also served as Executive Director of the Metropolitan Sports Facilities Commission which oversaw the Metrodome prior to joining the Twins’ organization and also serves on Rochester’s Destination Medical Center (DMC) Economic Development Agency (EDA) Board.



**Commissioner
Barbara Colombo**

Barbara Colombo is a Professor and Director of the Health Care Compliance Certification Program at Mitchell Hamline University School of Law in St. Paul. She graduated with honors from William Mitchell College of Law and practiced with the law firm of Robins, Kaplan, Miller and Ciresi. Prior to her law career, Ms. Colombo practiced as a critical care registered nurse. She has also served as the Assistant Commissioner for the Minnesota Department of Health and is a former member of the Animal Humane Society focusing on equine matters. Ms. Colombo is the immediate past president of the Minnesota Horse Welfare Coalition and co-founded the Minnesota Hay Bank in 2012 which has dispersed over \$40,000 of feed and other assistance to Minnesota’s most vulnerable horses.



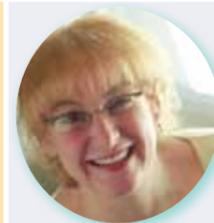
**Commissioner
Dan Erhart**

Dan Erhart was appointed to the MRC in 2012, and also serves on the Commission’s Finance Committee. A graduate of the University of Minnesota with a Bachelor of Science Degree, Mr. Erhart has served 30 years as an Anoka County Commissioner, serving as chair for 18 of those years. Mr. Erhart is a small business owner with management experience in finance, production, and governmental relations.



**Commissioner
Dave Roe**

Dave Roe was appointed to the MRC in 2011 and also serves on the Finance Committee. He is a Navy veteran and longtime union leader who became the president of the State Building Trade Council in 1957 and was elected president of the Minnesota AFL-CIO in 1966 and served in that post until 1985. Mr. Roe served on the Board of Regents of the University of Minnesota for almost 12 years. In 2009, he led the effort for the creation of The Minnesota Workers Memorial Garden on the State Capitol the first and only one of its kind in the United States. *It is with great sadness the Commission notes the passing of Commissioner Roe just prior to the printing of this publication.*



**Commissioner
Lisa Goodman**

Lisa Goodman was appointed to the Minnesota Racing Commission in March, 2014 and also serves on the Administrative Affairs Committee. She is a native of Chicago, Illinois, and graduated from the University of Wisconsin-Madison with a degree in Political Science and Labor Relations. Ms. Goodman is currently an elected member of the Minneapolis City Council, representing the 7th Ward, and is the Chairperson of the City Council’s Community Development and Regulatory Services Committee. She serves on the Board of Directors of the Family Housing Fund, Meet Minneapolis, Midwest Legacy Fund, and Dog Grounds LLC which she founded to build off-leash dog parks in downtown Minneapolis.



**Commissioner
Jim Lane**

Jim Lane is in his second 6-year term as a Minnesota Racing Commission member. He was appointed in 2009 and reappointed in 2015. He is current Commission vice chair, chairs the Administrative Affairs Committee, and is a member of the Racing Committee. Mr. Lane is a graduate of The Blake School, Princeton University, and William Mitchell College of Law. For the past 20 years he has maintained a general law practice in Minneapolis that includes equine law. He is a former member of the Board of Directors of the Animal Humane Society and was a founding member of the Minnesota Horse Welfare Coalition in 2008. He also is a horse sports enthusiast, having played polo with the Twin City Polo Club for 20 years and ridden for pleasure most of his life.



**Commissioner
Dr. Camille
McArdle**

Dr. Camille McArdle was originally appointed to the MRC in 1993 and currently serves on the Racing and Compliance Committees. She began her involvement with the racing industry by grooming and exercising horses at south Florida tracks. Dr. McArdle earned her doctorate in veterinary medicine in 1982 from The Ohio State University. Following graduation she served as the official regulatory veterinarian at Hialeah, Calder, and Gulfstream Park, as well as at the Pompano harness meet. In 1985, Dr. McArdle was recruited for the position of Chief Commission Veterinarian for the MRC to help get pari-mutuel racing started in this state. She served at that position until her original appointment as a Racing Commissioner in 1993. Dr. McArdle is presently a shelter veterinarian.



**Commissioner
Alan Gingold**

Alan Gingold became a member of the MRC in March, 2014 and also chairs the Commission’s Finance Committee. Mr. Gingold has a Master of Science degree in finance and is a Chartered Financial Analyst. He is the Chief Financial Officer and a shareholder of Lorenz Bus Service which he and another shareholder acquired in 1994. Since the early 1970’s until 1994 Mr. Gingold was an investment banker, principally with Piper, Jaffray & Hopwood, and a private investor.

The Racing Commission is comprised of nine members appointed by the Governor and confirmed by the Senate for six-year terms.

Diverse, Engaged,
Accomplished
LEADERSHIP

MESSAGE

From The Chairman and Executive Director



Ralph Strangis
Chairman

Tom DiPasquale
Executive Director

Dear Governor Dayton and Members of the Legislature:

We are pleased to report on significant developments at the Minnesota Racing Commission (MRC) in 2016. These include gaining passage of bipartisan legislation authorizing the licensing and regulation of advance deposit wagering (ADW) in Minnesota, updating racing regulations, designing and launching a new commission web site and licensing system, conducting a study on the statewide economic impact of the racing and breeding industry, and more.

The most notable achievement, because of its far-reaching ramifications, is legislative authorization of ADW for Minnesota residents. ADW offers the ability to place wagers on races run outside of Minnesota by telephone or electronic device through companies that are licensed by the state to accept funds on deposit for purposes of pari-mutuel wagering. ADW providers had been doing business with Minnesota residents for years without obtaining explicit regulatory approval or contributing to the state's racing and breeding industries.



The ADW legislation, sponsored by Rep. Joe Hoppe (R) and Sen. Dan Sparks (D) and signed into law by Governor Dayton, establishes licensing criteria and regulatory oversight of ADW providers doing business in Minnesota, allows the racing industry to capture revenue based on amounts wagered by Minnesota residents, establishes consumer protections, and provides a new source of funding to help support MRC's operations. In addition, the law creates a dedicated revenue fund to support race horse retirement, thus adding to the private efforts of the tracks and horse associations to find new homes and careers for retired race horses. Together with existing revenue sources, this law provides funding for MRC's current operational needs for the foreseeable future. We wish to express our thanks to the racing industry and members of the legislative and executive branch whose support was critical to passing this legislation.

Information on the distribution of ADW revenues to Minnesota race tracks, owners and breeders, and the MRC is set out in this Report.

The MRC also began an intensive review and updating of our rules in the past year, which we plan to continue in 2017 and beyond. We completed three rulemaking projects in calendar year 2016 and started two more. All rules aim to protect the integrity of racing and the public interest, in particular the health, safety and welfare of racing participants, including the equine athlete. In the past, the rulemaking process did not keep up with needed changes. This is no longer the case. MRC's rulemaking in 2016 was focused on the following areas:

► Updating rules related to horse medication and testing.

The national racing industry's emphasis on uniform medication rules, which permit the use of legitimate therapeutic medications up to prescribed limits and broadly prohibit doping with performance-enhancing substances, necessitates periodic changes to medication rules to reflect the current science and industry consensus. Minnesota remains in the forefront of this effort thanks to the work of Dr. Lynn Hovda, MRC's Chief Veterinarian, at both the national and state level.

► Emergency rulemaking related to outbreaks of contagious or infectious equine diseases.

This rule was necessitated by outbreaks in 2016 of Equine Herpes Virus ("EHV-1") at race tracks and training centers around the nation. Speedy action was required to protect against an outbreak in Minnesota from horses shipping to Minnesota from the affected states. The emergency rule and cooperative efforts by the tracks helped to avoid the problems experienced in other states. This emergency rule is being made permanent to protect against future outbreaks, which always have the potential to disrupt or destroy a race meet.

► Expedited rulemaking to implement the new advance deposit wagering law.

These rules, which took effect on December 27, 2016, govern the conduct of ADW providers doing business in Minnesota and afford protections for funds placed on account with these licensed companies.

► **Updating non-medication rules and eliminating obsolete rules.** Many existing rules date back to racing's beginnings in Minnesota in the 1980's. These rules require updating to stay abreast of industry developments and to stay consistent with uniform model rules promulgated by national bodies. In addition, the MRC eliminated many rules that were simply obsolete.



Other notable developments in 2016 include the **launch of a new web site** with features that greatly enhance our ability to communicate with members of the industry and the general public, including through an interactive Facebook page. The MRC also **launched a new licensing system**, which required a significant investment of staff time, but will pay dividends in its ability to maintain a more reliable and robust database of information. This new web-based system will also provide future portability of our licensing function, thus allowing us to offer our

constituents additional convenience. We have also begun to **update policies and procedures for data retention, drug testing and referral of matters for criminal prosecution.** The MRC also achieved **successful outcomes in two legal matters**, one involving an appeal of a license denial to the Minnesota Court of Appeals and the other involving a claim of discrimination by a trainer brought before the Minnesota Department of Human Rights. MRC's disciplinary actions were found to be procedurally and substantively sound in both cases.

Finally, the MRC, working in cooperation with the University of Minnesota Extension, **initiated an economic impact study of the Minnesota racing industry.** As we noted in our November 2015 Special Report to the Governor and Legislature, there is no recent analysis of the full economic impact of the State's racing and breeding industry. The last study was done in 1990. Policymakers, and the industry itself, had no current measure of the industry's size and importance. The study, published in February, 2017, demonstrates that the direct and indirect economic impacts of Minnesota's racing and breeding industry are far ranging in the leisure and entertainment, travel and tourism, agricultural, professional and trade labor, and manufacturing segments of the Minnesota economy.

The racing industry generates nearly 5600 jobs that range from backside grooms and farriers to professionals in veterinary medicine, farm management and racetrack operations. The racing industry's economic impact from our two tracks is over \$400 million per year, with the majority from the thoroughbred track at Canterbury. By comparison, according to a recent study, the 19 facilities that comprise Minnesota's tribal gaming industry generate a \$1 billion economic impact and roughly 24,500 jobs attributable to gaming operations. Thus, if equally apportioned on a per facility basis, the racing industry accounts for 2800 jobs and more than \$200 million in economic impact per facility while tribal gaming accounts for about 1250 jobs and \$53 million in economic activity per facility. The tracks' ability to support these results is dependent on card club revenue from licensed card clubs at each location, which the MRC also licenses, regulates and oversees.

Both the racing and tribal gaming industries are important contributors to the State's economy. The economic impact study highlights the fact that the racing industry plays a more important role in its statewide impact than may have been previously thought, particularly through its connection to Minnesota agribusiness. We hope the study will help inform public policymakers' decisions in the years ahead as we work together to promote industry growth.

The progress described above could not have been made without outstanding contributions from the MRC staff. With only ten full-time year-round employees and a large volume of time-sensitive work, including licensing over 5000 individuals annually, it is essential that we recruit highly qualified and skilled employees and provide them with professional training and development opportunities. We also must compete with other racing states for a limited pool of highly qualified professionals such as veterinarians and racing officials during the racing season. We are proud of the team we have in place. The nine-member commission, whose work in the last year deserves much credit, and the staff are uniformly committed to the welfare of the horse, the safety and integrity of the sport, and the strengthening of the industry.

We are grateful for the collaborative relationship we have with the members of the Minnesota Legislature and Governor Dayton's office. We hope you find this Annual Report informative and interesting.

MISSION STATEMENT



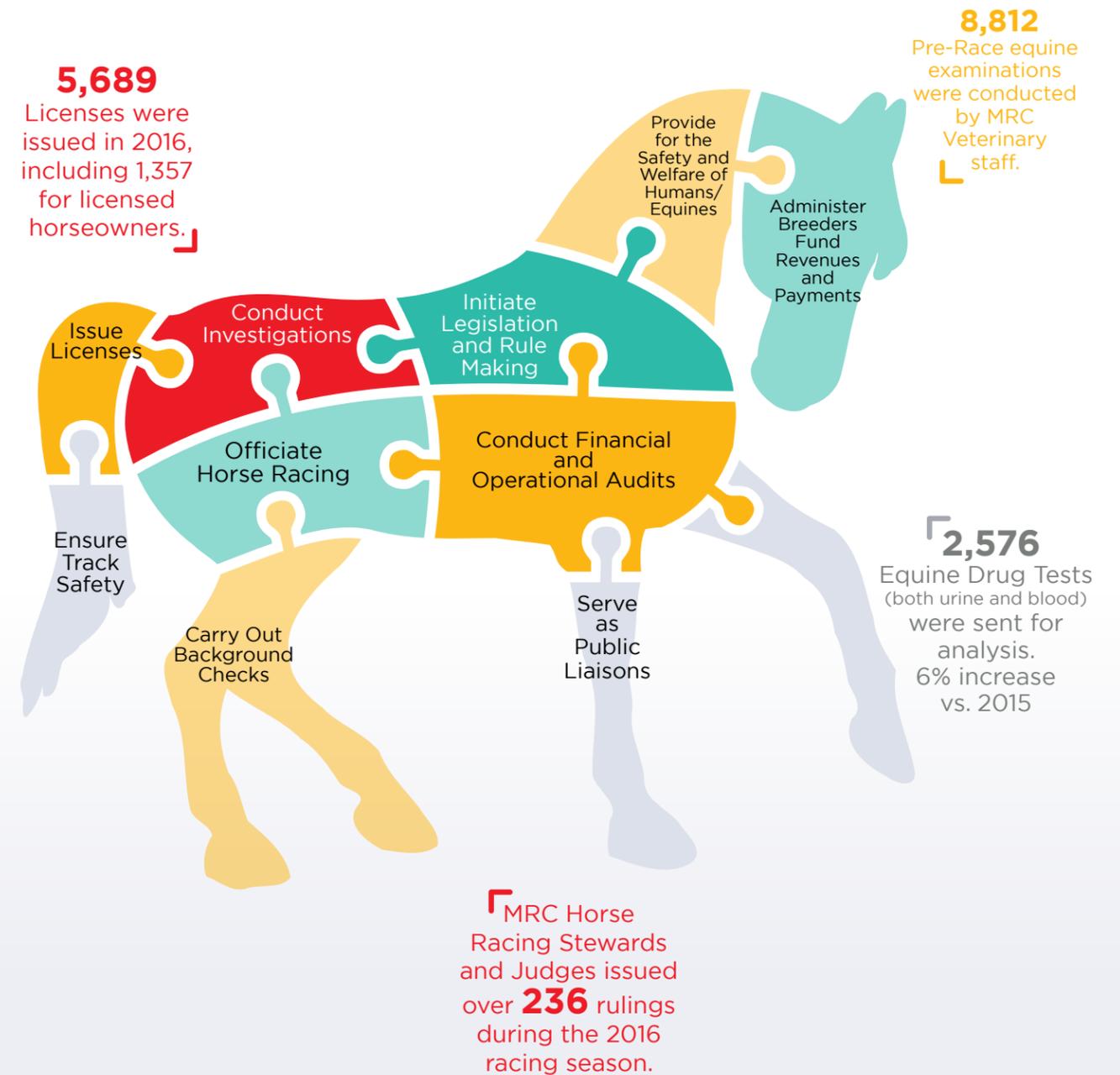
The Minnesota Racing Commission operates in the public interest to ensure the **integrity** of horse racing and card playing, oversee the proper distribution of funds back into the industry, and provide for the **safety and welfare** of the human and equine participants. Additionally, the Commission works to **promote the horse racing and breeding industry** in Minnesota in order to provide economic stimulus, offer residents and visitors an exciting entertainment option, and support agriculture and rural agribusiness.



The Commission's powers and duties are outlined in MS Chapter 240.03 and summarized in the graphic above. The dedication to executing our duties allows horse racing and card playing to operate with the public trust and benefit the State of Minnesota.

MINNESOTA RACING COMMISSION

What We Do



NEW MINNESOTA LAW AUTHORIZES ACCOUNT WAGERING

What is Advance Deposit Wagering (ADW)?

Advance deposit wagering, also known as “ADW” or “account wagering”, is a widely used form of wagering on horse races in which bettors place funds on account with ADW providers against which wagers are debited and winnings are credited. Wagers may be placed by phone or on-line by home computer, mobile device or tablet.

History

ADW wagering has been available to Minnesota residents through multiple providers for many years, but these providers had not been regulated by the state and none of the revenues they generated from Minnesota residents were returned to Minnesota’s horse racing industry.

What it accomplishes...

- ✓ Recaptures over \$1 million in revenue for the industry
- ✓ Provides an additional revenue stream to ensure adequate funding for regulatory oversight
- ✓ Establishes consumer protections for Minnesota residents who wager through ADW’s
- ✓ All without expanding gambling in Minnesota

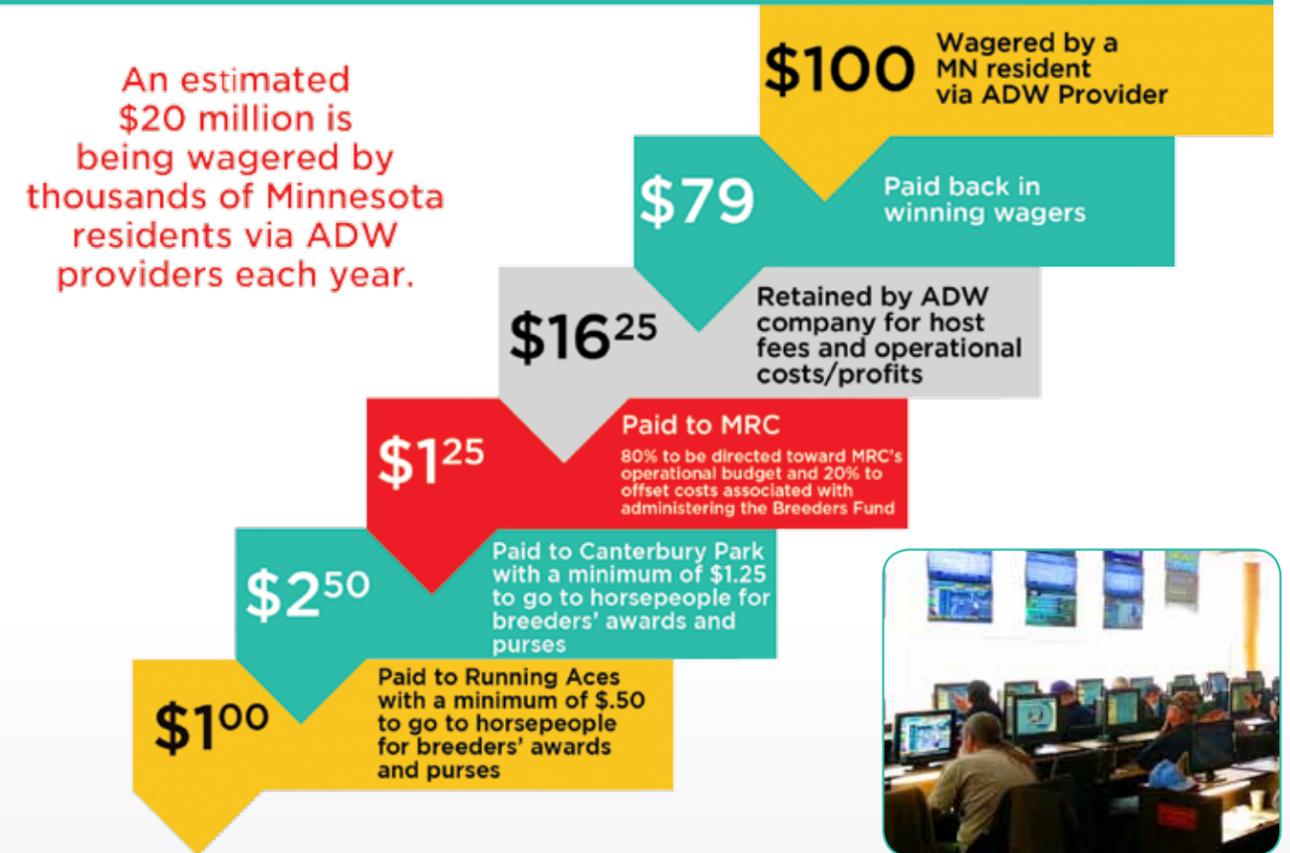
“The new law will provide fresh economic stimulus to the State’s racing and breeding industry, which, in turn, will encourage further expansion of this significant industry in the State of Minnesota,” said Minnesota Racing Commission Chair Ralph Strangis. “The new law will provide incentives for additional jobs and millions of dollars of direct and indirect economic impact. This is an economic development initiative that will help ensure the long-term health of the Minnesota racing industry.”

Our Appreciation

The legislative initiative to license ADW providers and add regulatory oversight was spearheaded by the Minnesota Racing Commission and enjoyed widespread industry and bipartisan legislative support. The bill’s authors included legislative committee chairs for Senate Jobs, Agriculture and Rural Development (Sen. Dan Sparks); Senate Commerce (the late Sen. James Metzen); and House Commerce and Regulatory Reform (Rep. Joe Hoppe). The Commission wishes to thank these individuals, the entire Legislature, and Governor Dayton for their ongoing support of the Minnesota racing and breeding industry.

ADVANCE DEPOSIT WAGERING - REVENUE FLOW

Due to the previously unregulated status of ADW in Minnesota, an estimated \$1 million was flowing out of the Minnesota racing industry annually. Under the new law, a portion of these monies is recaptured and returned to the industry, thus providing for increased funding for purses, breeders’ awards, and the Commission’s operations.



Estimated dollars recaptured by MN Horse Racing Industry (Based on estimated \$20 million currently being wagered annually via ADW's)

▶ Canterbury Park	\$250,000
▶ Running Aces	\$100,000
▶ Thoroughbred/QuarterHorse Purses	\$167,500
▶ Thoroughbred/QuarterHorse Breeders Awards	\$82,500*
▶ Standardbred Purses	\$67,000
▶ Standardbred Breeders Awards	\$33,000*
▶ MRC Operating Budget	\$200,000
▶ Breeders Fund Admin Fee Offset	\$50,000

*These are minimum amounts. Horsepersons groups and racetracks may negotiate greater percentages to breeders' awards and present to Commission for approval.

HOW MUCH DOES IT COST TO CARE FOR A RACEHORSE?

Racehorse Expenses



TRAINER FEES \$40-\$80/day	VET CARE \$4,000/yr
SHIPPING \$2,500/yr	FEED & SUPPLEMENTS \$1,550/yr
RACE NOMINATIONS \$1,300/yr	BLACKSMITH \$1,400/yr
RACE DAY EXPENSES \$1,050/yr	LICENSING \$75/yr
LAY-UP \$500/mo	AVERAGE TOTAL \$29,500/yr

TRAINER FEES:
This is what trainers charge to maintain a horse in training. This includes exercising, conditioning and teaching the horse how to race. ----- \$40-\$80 per day depending on breed.



VETERINARY CARE:
This can include routine care such as vaccines or extraordinary care for an injured horse. Preventative care to keep horses racing at their very best is the main objective. -----\$300 to \$600/mo. per horse (average is \$4,000/yr.)

SHIPPING:
Commercial horse companies move horses all across the country in large, comfortable semi-trailers specifically designed for horses. -----\$2,500/yr.



FEED SUPPLEMENTS:
These are nutritional supplements given in addition to feed such as vitamins, probiotics, ulcer treatments, and herbal remedies. -----\$1,550/yr.

RACE NOMINATIONS:
These are fees paid to ensure eligibility of a horse into a specific race such as a stakes race or The Minnesota Derby. -----\$1,300/yr.

BLACKSMITH:
This is the individual charged with hoof care. They trim the hooves and place special race shoes on horses to suit their individual needs. -----\$1,400/yr.



\$29,500 average to care for a racehorse per year

RACE DAY EXPENSES:
Race day expenses may include charges for bandages, a groom to lead your horse to the paddock, and a lead-pony/rider to take your horse to the starting gate.----\$1,050/yr.



LICENSING:
This is the cost for an owner to obtain his/her Minnesota Racing Commission Owner's License. --- First Time Owner: \$75 (this includes a \$25 fee for fingerprinting which happens every 5 years)

LAY-UP:
These are costs incurred when a horse needs time off to recover from an injury or is unable to race for any reason.----\$500/mo.



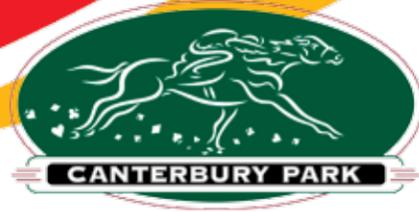
"Every additional thoroughbred, quarter horse, or standardbred that is bred, foaled, raised, raced and retired in Minnesota has an impact on Minnesota's agricultural economy. Every stallion, mare and foal needs feed, bedding, veterinary care, farriers, barns, fencing, tack, farm equipment, trucks, trailers and people to provide care for these equine athletes."



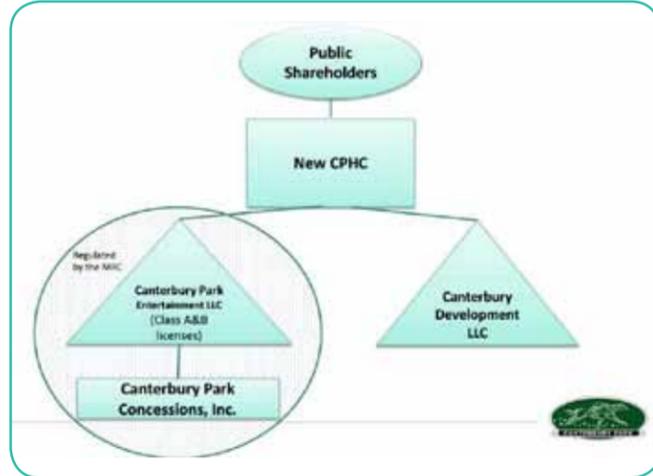
Minnesota Thoroughbred Association President
Jay Dailey



CANTERBURY PARK A YEAR IN REVIEW



Canterbury Park Holding Corporation (NASDAQ: CPHC) completed its previously announced reorganization of the Company's business into a holding company structure, which divided the company into two entities under the Canterbury Park Holding Company umbrella. Canterbury Park Entertainment LLC is the entity that conducts horseracing, card room and food and beverage operations and is licensed by the Minnesota Racing Commission. The development company will not be subject to MRC regulation, thus creating a clearer path for developing the property surrounding the racetrack.



“The reorganization is a key element to our future development plans. It will not only enable the company to legally separate its regulated gaming businesses from its real estate development activities, it will also establish a structure which offers strategic, operational and financing flexibility.”

Randall Sampson, President, CEO, CFO; Canterbury Park Entertainment

Canterbury reconfigures infield to attract more events and people to venue

Canterbury Park continues to make capital improvements to its facility to maintain its standing as a premier racing and entertainment venue in Minnesota. In 2016, Canterbury Park reconfigured and redesigned its infield (ground encompassed by racetrack) which involved the draining and excavating of two ponds. This new area was created to provide future event space for festivals, concerts, large groups, equestrian events and race day activities.

Reduction of Takeout

Canterbury Park conducted 69 days of live thoroughbred and quarter horse racing in 2016. The season started May 20th and concluded on

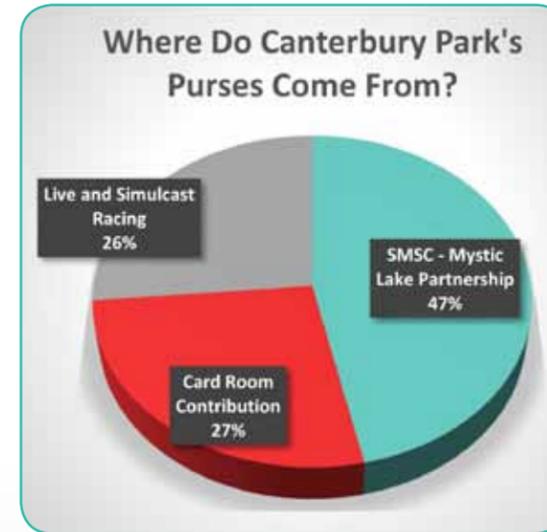


September 17th, with total season attendance of 452, 646. The racing season produced an 8.8% increase in wagering from out-of-state and internet outlets, while on-track wagering declined 2.9%. A bold experiment that reduced the track's takeout (profit margin on a wager) in order to stimulate increased wagering did not result in an increase sufficient enough to offset the overall loss in revenue and Canterbury Park took a \$319,000 hit to the bottom line. Nevertheless, Canterbury paid out record purse levels once again in 2016.

Canterbury Card Club Revenues Hold Steady in 2016

Canterbury's card club revenues continue on an upward trajectory, but after an impressive 7.3% increase in 2015 over 2014 revenue figures, card room revenues only rose .81% in 2016. An almost 4% gain in table games (Blackjack, 3-Card Poker, Baccarat) offset a reduction in poker activity at Canterbury in 2016.

In 2012, Canterbury Park and the Shakopee Mdewakanton Sioux Community (SMSC) entered into a 10-year cooperative marketing and purse enhancement program that has more than doubled purses offered to horsepeople racing at Canterbury Park. In 2016, 47% of total purse payouts came from this enhancement program.



Top Thoroughbred Trainer
Mac Robertson



Top Thoroughbred Owner
Joe Novogratz



Top Quarter Horse Owners
Paul & Maren Luedemann



Top Quarter Horse Trainer
Jason Olmstead



Top Thoroughbred Jockey
Dean Butler



Top Quarter Horse Jockey
Nik Goodwin

2016 SEASON CHAMPIONS

RUNNING ACES YEAR IN REVIEW

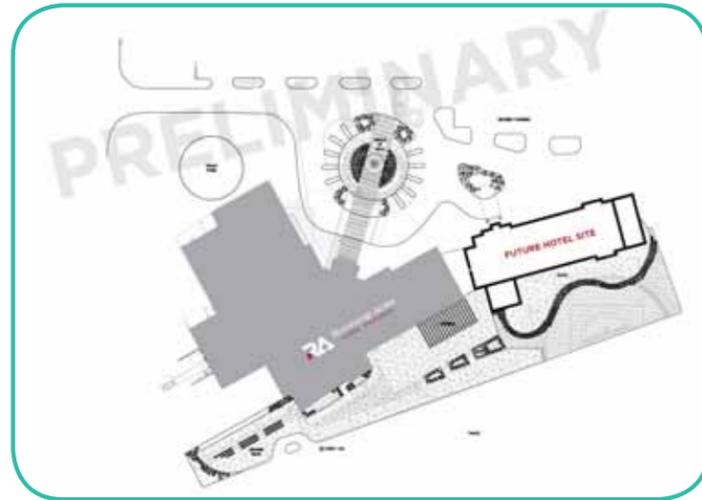
Big Plans Announced For the Future of Running Aces

Running Aces Casino & Racetrack plans to build a hotel to further expand its racing and entertainment venue with the signing of an exclusivity agreement with GrandStay Hospitality. The hotel will include standard rooms, extended suites for long-term and business travelers, and VIP suites for those seeking a 5-star guest experience.



“We are excited to have the opportunity to meet the needs of the community of Columbus as well as the demand from our customers.

The majority of casino surveys place hotel accommodations as the number one requested amenity. We are confident that a hotel will position Running Aces as the premier casino, racetrack and entertainment venue in the Twin Cities Area.”
Taro Ito, President and CEO of Running Aces.



Since opening in 2008, Running Aces has seen tremendous change and growth. The new hotel addition will enhance the property's ability to cater to the needs of larger events, such as outdoor concerts, car shows, and poker tournaments. The smoke-free and family friendly atmosphere at Running Aces will also attract customers during hockey tournaments, the 3M Golf tournament and the USA Cup at the National Sports Center.



Racing at Running Aces Hits Its Stride in 2016

Running Aces, which conducted a 53-day live harness racing meet commencing Tuesday, May 17th and closing Saturday, September 3rd, provided visitors with some of the best on-track harness racing in recent memory and produced double digit growth in wagering.

In 2016, live race wagering grew by 11.6% over 2015, while out-of-state wagering on Running Aces live races increased by 20.3% to almost \$6 million.

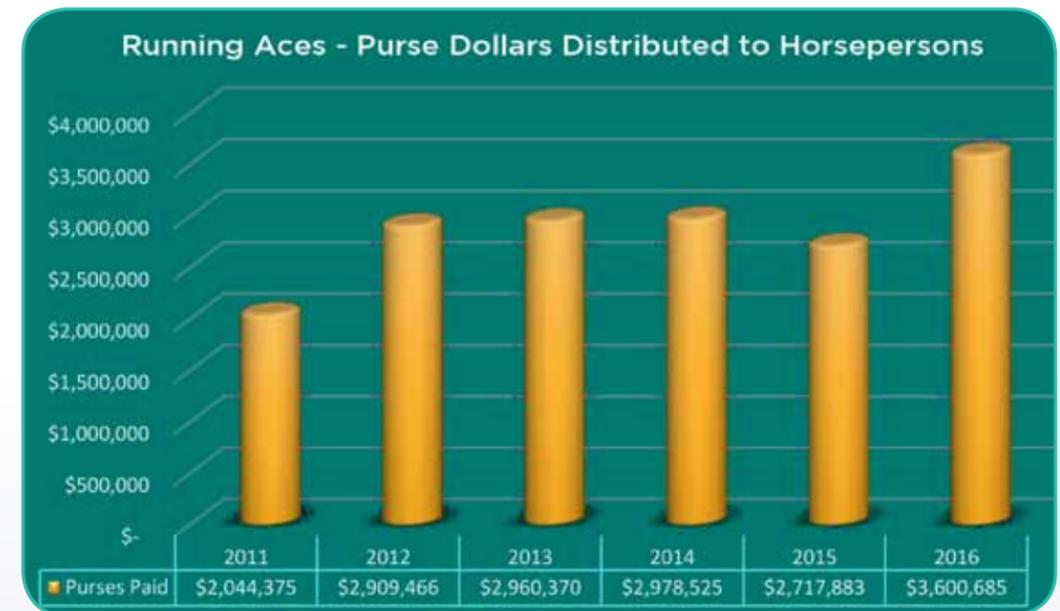
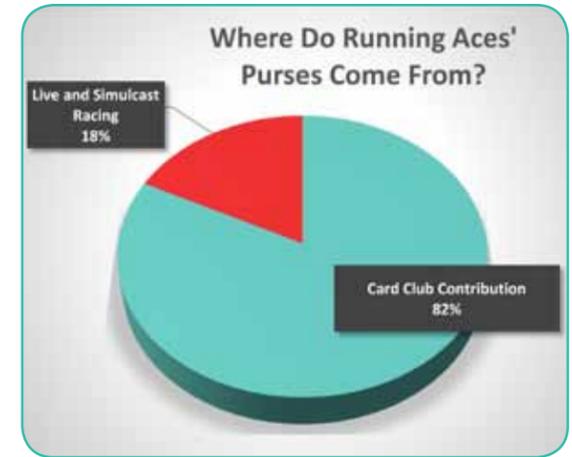
These wagering increases are significant since overall industry wagering activity has remained

flat. Running Aces is one of only seven racetracks in the U.S. that does not benefit from slot machine-fueled purses, which is another reason 2016 results were so impressive.

Running Aces Card Club Keeps Horseracing Purses Flush

After posting a 24% increase in card club revenue in 2015, Running Aces upped the ante by adding another double-digit increase of 11.3% to total card club revenues in 2016.

The intent of the Legislature when card clubs were established at Minnesota horseracing venues was to benefit the horseracing industry by improving purses. As shown below, purses continue to grow at Running Aces - the purse money generated by card club operations now accounts for 82% of all money won by horses racing at the track.



2016 SEASON CHAMPIONS



Top Standardbred Driver
Nick Roland



Top Standardbred Trainer
Steve Wiseman

SEND IN THE SEASONALS

Though most people think because the agency is titled the Minnesota Racing Commission, our work is limited to the oversight and regulation of horseracing at Canterbury Park and Running Aces each summer. That is only part of the story.

The Commission is also responsible for oversight and regulation of the card clubs operated at the racetracks, which operate 24 hours a day, 364 days a year. Licensing of individuals who work within both the horseracing and card club operations happens year round.

There are 10 full-time employees who are responsible for both horseracing and card club oversight. These employees include the executive staff, investigators, licensing staff and support staff.



When the racing season arrives and the horses start filling stalls, the action ramps up in the human resources arena as an average of 35 additional dedicated and uniquely qualified seasonal employees and contractors arrive to support the Commission. The additional staff is needed to handle a “standing room only” licensing office, the medical testing of horses competing in races, and additional investigative responsibilities. Highly skilled equine veterinarians are contracted to provide veterinary oversight and accredited stewards and judges are contracted to officiate the races at both racetracks.

A special thank you to the human resources team at Minnesota Department of Administration who help us recruit, hire, and pay what amounts to a tripling of our staff each year.

MINNESOTA HORSE RACING INDUSTRY FUELS STATE'S ECONOMY

In 2016, the Minnesota Racing Commission retained the University of Minnesota Extension to conduct an economic impact study of Minnesota's horse racing industry. Understanding the role of the industry in the state's economy is valuable for future planning.

In 2015, Minnesota's horse racing industry generated an estimated \$409.2 million of economic activity in the state. Of this, \$176.1 million was the result of direct spending by the horse racing industry—owners, trainers, breeders, Canterbury Park, Running Aces, and the MRC. Additionally, the industry stimulated an estimated \$233.1 million of economic activity in related industries across the state. At \$409.2 million, the industry's total annual economic contribution significantly impacts the state. The industry accounts for 2 percent of Minnesota's leisure and hospitality industry.

\$233.1 Million of indirect economic activity in Minnesota's manufacturing, health and social services, and agriculture industries

\$176.1 Million in direct spending by the industry

TOTAL ECONOMIC IMPACT IN MINNESOTA
\$409.2 Million

Impact on Non-Horse Racing Industries:

The biggest benefits from the horse racing industry occur in Minnesota's manufacturing, health and social services, and agriculture industries. Impacts in the agriculture industry are notable, as they reflect the horse racing industry's connections to agricultural production. The industry also has higher impacts on Minnesota businesses than typical entertainment businesses and activities.

Estimates by University of Minnesota Extension



In 2015, Minnesota's horse racing industry supported an estimated 5,590 full and part-time jobs in the state including 1,472 licensed horse owners, 211 licensed trainers, and 214 breeders.



The complete published report is available at www.mrc.state.mn.us and through the State Reference Library.

BREEDERS FUND



The Mission:

Ensure the long-term health of the Minnesota horse racing industry by providing incentives to breed horses to support the racing program at Minnesota's two racetracks and promote agribusiness in the State.

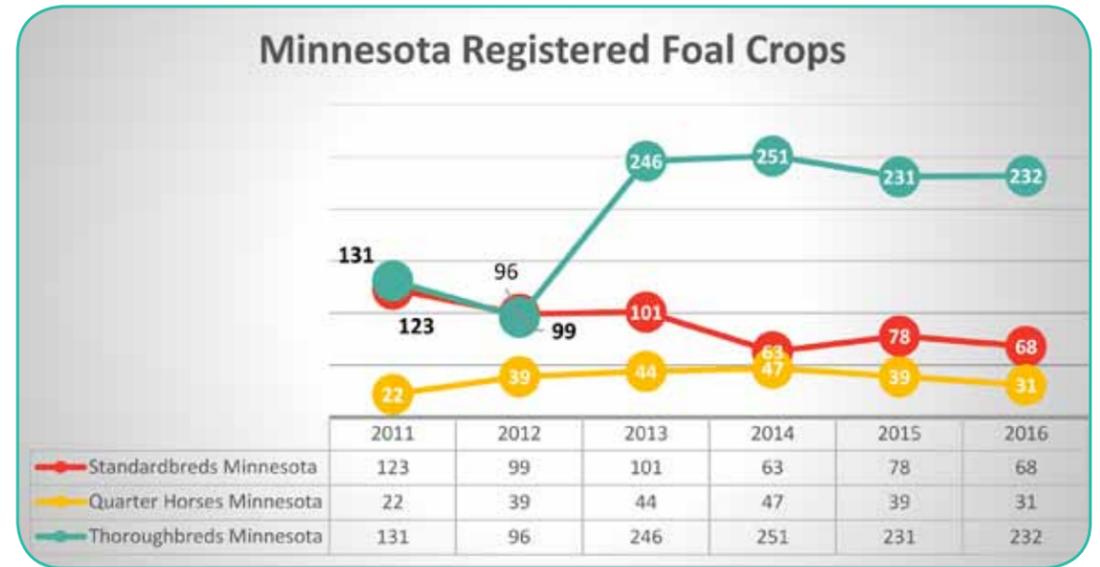
ADW Legislation Brings Additional Funding For Breeders Awards

Legislation passed in 2016 to authorize the licensure of Advance Deposit Wagering (ADW) providers will direct a percentage of all ADW wagers placed by Minnesota residents towards awards/incentives to mare and stallion owners who breed racehorses in Minnesota. Additionally, money will be made available to market and promote breeding in Minnesota to a national audience.

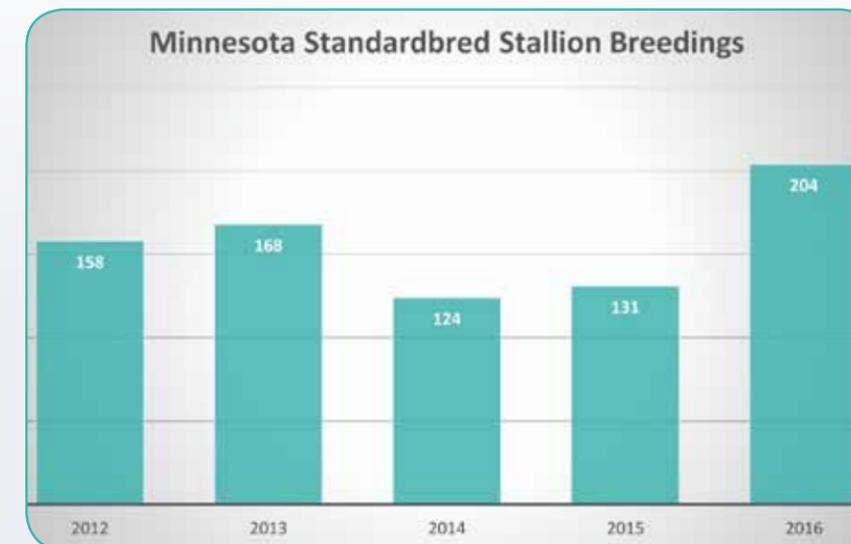
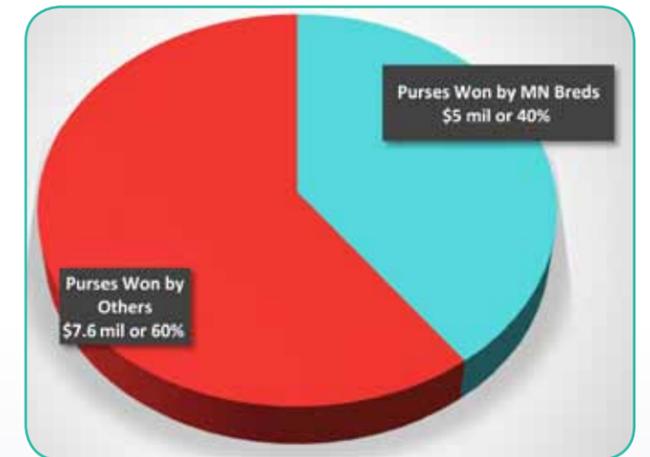
BREEDERS FUND DISTRIBUTION TOPS \$1.1 MILLION IN 2016



After a dramatic increase in Thoroughbred foal registrations in 2013, the number of foals being registered into the Minnesota Breeders Fund program for all breeds has stagnated. This reflects a national trend that has seen a flattening of foal production in recent years*.



Breeding competitive horses in a smaller racing state like Minnesota is a challenge, but Minnesota Thoroughbred breeders continue to breed horses that are finding their way to the winner's circle in greater numbers each year. The chart shows the percentage of purse money won by Minnesota-bred Thoroughbreds in 2016.



Though Standardbred foal production actually decreased in 2016, introduction of new funding for breeders awards has ignited increased activity in the breeding sheds in 2016 and 2017.

*See page 23 for national trends in foal production

SOURCES OF MRC FUNDS

FISCAL YEAR 2016

The Minnesota Racing Commission's operations are funded through a number of sources per MS Chap. 240. Below is a summary of the funding sources and the funds administered by MRC for fiscal year 2016 (July 1, 2015 thru June 30, 2016).

Sources of Funds for FY16 - Total \$2,454,411

A. FY16 Licensing Fee Revenue - \$828,653

The MRC receives fees for the issuance of Class B (racetracks) and Class C (occupational) licenses throughout the fiscal year. Fiscal year 2016 license fees are relatively flat with the two previous years.

	FY12	FY13	FY14	FY15	FY16
Class B Licensing (tracks)	\$625,300	\$635,300	\$639,800	\$640,300	\$640,200
Class C Licensing (occupational)	\$167,385	\$165,060	\$196,607	\$182,146	\$188,453

B. FY16 Racetrack Reimbursements to MRC - \$1,326,333

MRC's enabling legislation allows it to recover specific costs for providing services related to horseracing, such as the cost of stewards and judges, veterinary services, the medical testing of racehorses, and regulatory oversight of the card rooms.

The racetracks are billed monthly for the actual costs incurred by MRC for the preceding month. Below are the annual amounts each racetrack reimbursed the MRC for these costs.

	FY12	FY13	FY14	FY15	FY16
Canterbury Park	\$584,655	\$608,811	\$680,162	\$731,115	\$740,885
Running Aces	\$444,549	\$471,505	\$553,351	\$518,222	\$585,448

C. FY16 State of Minnesota General Fund Appropriation - \$269,000

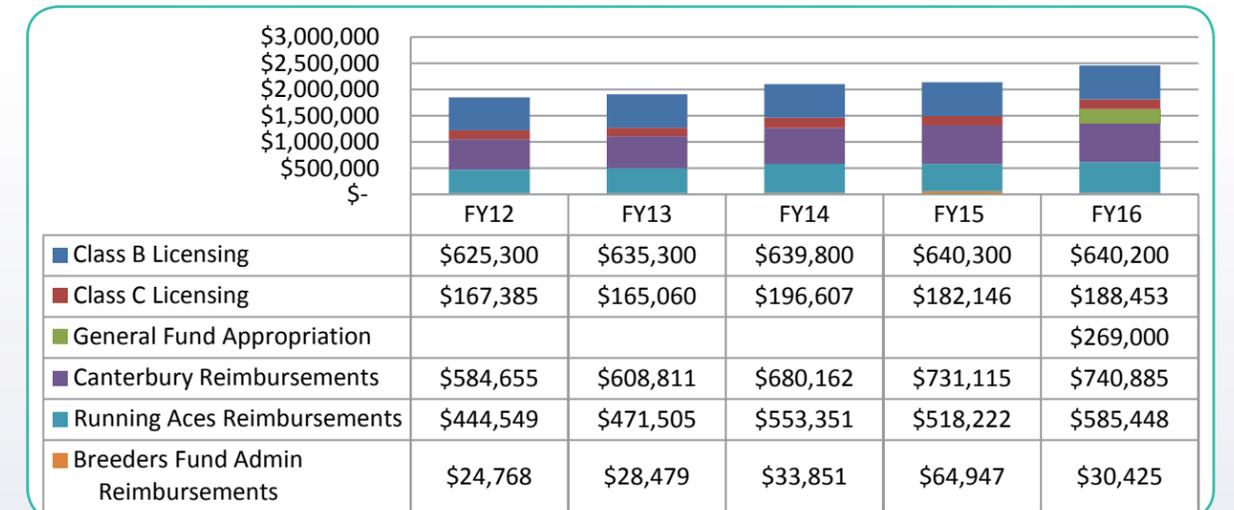
During the 2015 legislative session, the MRC secured a one-time general fund appropriation to bridge an impending funding gap, thus allowing the MRC time to obtain a more permanent funding solution, which was accomplished through the passage of advance deposit wagering legislation in 2016. This general fund appropriation was to be used for operational costs, improved IT infrastructure, and the hiring of needed personnel, including a staff attorney. The total appropriation for the FY16-FY17 biennium was \$341,000 with \$269,000 allocated for FY16 and \$72,000 allocated for FY17. Any unused FY16 general fund appropriation will roll forward to FY17, but not beyond.

D. FY16 Breeders Fund Administration Reimbursements - \$30,425

The final source of funding comes from recovery of costs related to the administration of the Breeders Fund. The funding to cover these costs is recovered proportionally by breed, based on the number of registered horses, number of checks issued to breeders, and MRC administrative hours. During FY16 over \$1.2 million passed through the fund for breeder's awards and purse supplements for Minnesota-bred horses.

	FY12	FY13	FY14	FY15	FY16
Breeders Fund Admin Reimbursement	\$24,768	\$28,479	\$33,851	\$64,947	\$30,425

MRC - Sources of Funds FY12-FY16



	FY12	FY13	FY14	FY15	FY16
Total MRC Funding - All Sources	\$1,846,657	\$1,909,155	\$2,103,771	\$2,136,730	\$2,454,411

USES OF MRC FUNDS

FISCAL YEAR 2016

MRC funds are divided into seven distinct budgets that are restricted by type of expenditure. The seven budgets are as follows:

- Operational Expenditures – this budget is limited by statute to the lesser of license fees collected or \$899,000.
- Canterbury Park Reimbursable Live Racing Expenditures
- Canterbury Park Reimbursable Card Room Expenditures
- Running Aces Reimbursable Live Racing Expenditures
- Running Aces Reimbursable Card Room Expenditures
- General Fund Appropriation Expenditures - used for items outlined in MRC’s request for these funds, i.e. IT, staff, etc.
- Breeders Fund Administration Expenditures

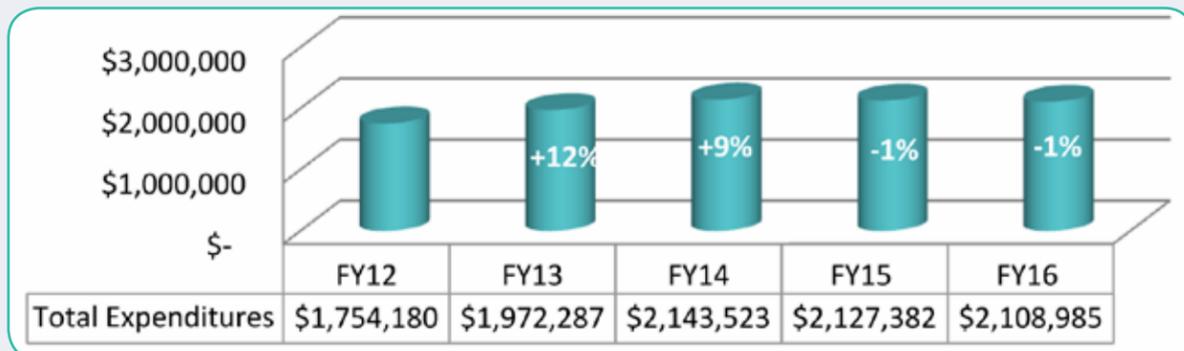
Total Expenditures of MRC Funds for FY16 - \$2,108,985

Total expenditures for FY16 came in \$18,396 below (-1%) FY15 and well within budget projections. A total of \$345,426 will be carried forward into FY17 due to funding surpassing expenditures by 14% during the fiscal year. (Funding \$2,454,411 – Expenditures \$2,108,985 = \$345,426 carryforward)

Staff reduced spending in key areas through tighter controls. Overtime and premium pay decreased \$17k (-43%) and IT costs charged by MNIT came in \$52k (-53%) lower than FY15. Additional cost reductions were achieved by hiring a staff attorney which reduced spending with the Attorney General’s office \$5K (-15%). Overhead costs were reduced by \$11K (-35%) through renegotiation of contracts and elimination of maintenance agreements.

These savings could not have been achieved without cooperation from staff and a commitment to eliminate waste, better direct our limited resources, and invest in areas that help reduce future cost increases. These savings allowed MRC to fund \$50k in increased payroll costs and \$30k of increased costs related to veterinarian, steward and judge contracts, plus other general inflationary increases.

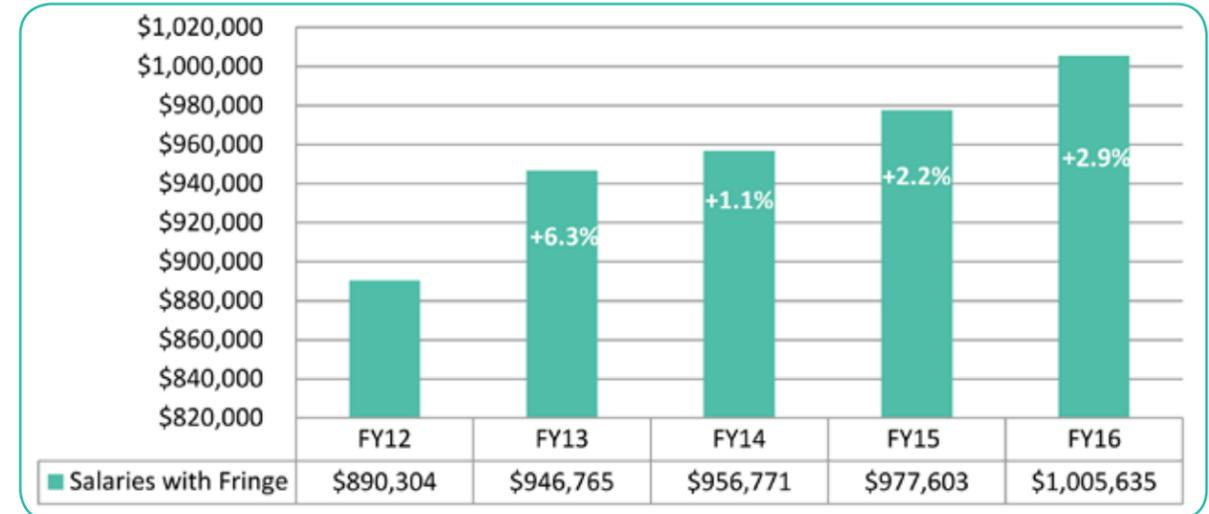
Total MRC Expenditures FY12-FY16



Major Uses of FY16 Funds:

The MRC’s total use of funds can be broken down into four major areas with **employee compensation** being the largest at 48%. The \$1,005,634 in total compensation, which includes fringe benefits and taxes, covered nine full-time and one part-time staff member, along with 25 seasonal employees hired during the racing season for areas such as the detention barn, vet administrative support, and additional licensing personnel. The following chart depicts the modest upward trend in payroll expenditures over the last five years.

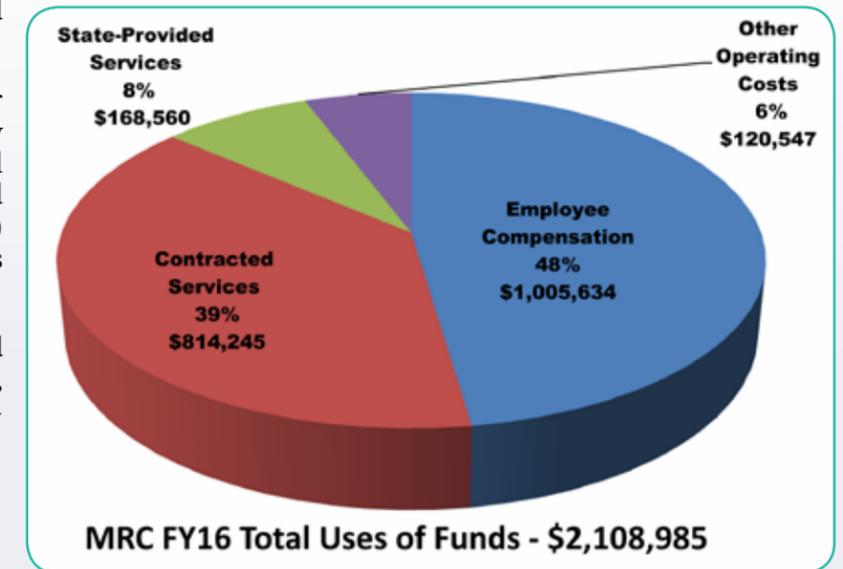
Total MRC Payroll Including Fringe Benefits Costs



The second largest portion of MRC’s budget is for **contracted services** (39%), which includes contract payments for veterinarians (\$333k), stewards and judges (\$236k), and an outside accredited laboratory for medication testing (\$241k). These expenditures are reimbursed by the racetracks.

State-provided services make up another 8% of total MRC expenses. This category includes IT services, Attorney General fees, HR and financial services provided by SMART (Small Agency Resource Team) as well as statewide administrative costs assessed to each agency by the State.

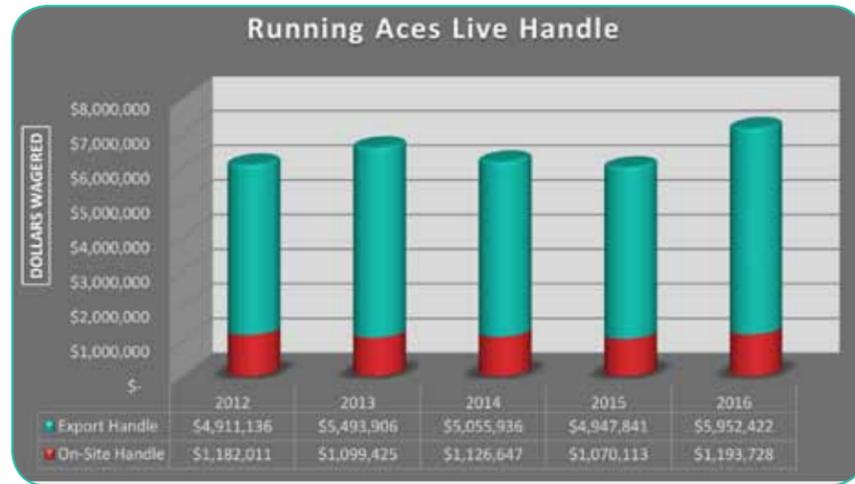
The final portion includes basic **overhead expenditures** including supplies, printing, meeting costs, and both local and out-of-state travel.



INDUSTRY TRENDS

Live Racing Handle

Live horseracing is at the epicenter of the overall industry. From card club revenues to simulcasting, and now ADW, all these activities funnel dollars into purses used to attract horses to race in Minnesota. The quality of live horseracing is measured predominantly by the amount of money, or “handle”, individuals are willing to wager. Live racing handle can be compared to the “sales” in the retail world. Both racetracks in Minnesota saw live handle (wagering on live races at Minnesota tracks) increases in 2016. Canterbury has now established a solid trend in growth, and Running Aces put up impressive numbers last year, but has yet to show consistent growth year over year.



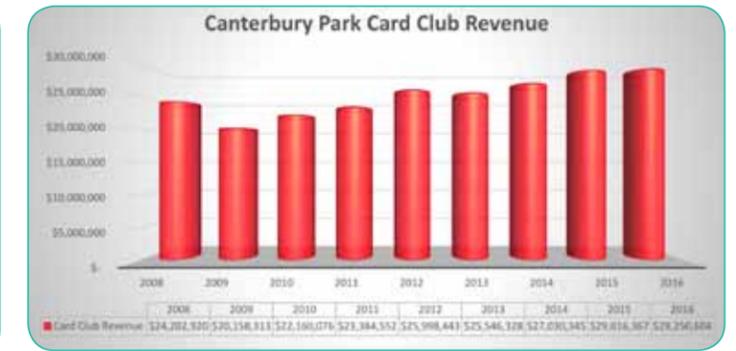
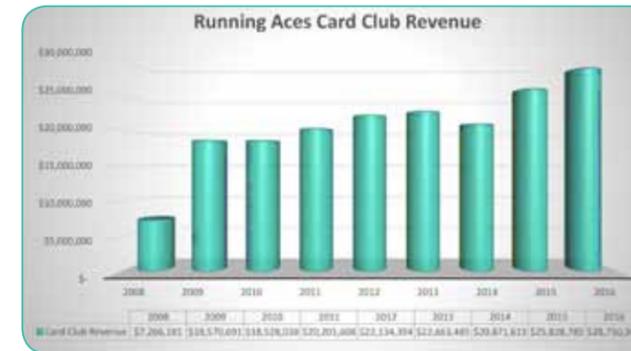
Simulcast Wagering

Since the advent of Advance Deposit Wagering (ADW) over a decade ago, the amount of money wagered at Minnesota racetracks on televised racing outside of the state has steadily declined. This downward trend of on-track simulcast wagering will continue, but under the new legislation, Minnesota’s racing industry will benefit from ADW wagering on out-of-state races.



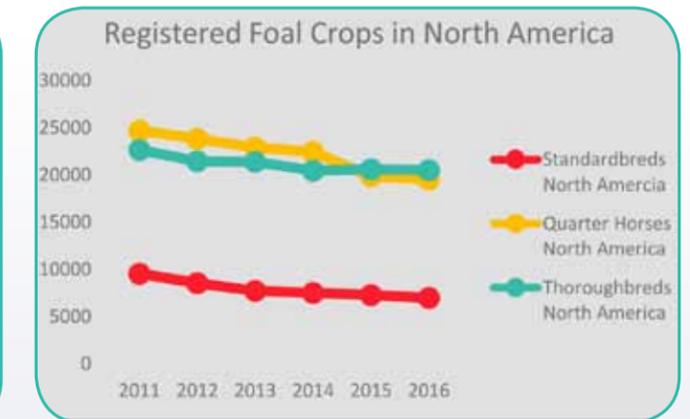
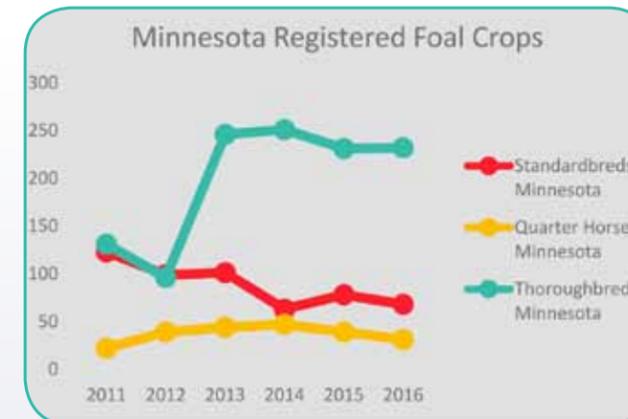
Card Club Handle

The trends seen in the card clubs at Canterbury Park and Running Aces are positive with both venues posting record revenues in 2016. Though growth rates have been good, the continued expansion of other forms of internet gaming will limit future growth. Statutory limits on card room wager amounts also place ceilings on growth potential.



Breeding

The life blood of horseracing is the racehorse. Each year tens of thousands of foals are born with their breeders dreaming of winning the Kentucky Derby, American Futurity, or Hambletonian. The recent trends, both in North America and Minnesota, show fewer foals are being born to help support current racing programs. This is having a negative effect on field size (the number of horses competing in a race) and thereby reducing the amount of money being wagered overall. The MRC is working with the industry to spur breeding locally through the Breeders Fund program so Minnesota racetracks can offer full fields with plentiful wagering opportunities.



Occupational Licenses Issued

The number of occupational licenses issued each year by the MRC reflects the number of individuals and entities participating in the industry. Watching for trends in licenses issued lends insight into the overall health of the industry. The last three years have shown solid growth over the previous three-year period. The fact that there were 25% more licenses issued in 2016 than just five years ago is a cause for optimism.

ENHANCED COMMUNICATION WITH OUR CONSTITUENTS

One objective in 2016 was to adopt technology changes to enable better customer service, increased operational efficiencies and enhanced communication with the industry. The MRC believes that good communication with our constituents leads to more effective regulation. Our new website, Facebook page and licensing system are designed with these goals in mind.

New MRC WEBSITE www.mrc.state.mn.us

- ✓ New user-friendly design
- ✓ Easy access to licensing information
- ✓ Features to join mailing lists for updates on MRC activities
- ✓ Easily accessible forms and documents
- ✓ Easy access to MRC statutes, rules and dockets
- ✓ Meeting agendas, minutes and audio available for review



FACEBOOK PAGE

- ✓ Frequent updates on current industry topics
- ✓ Reminders to reach more people on upcoming deadlines
- ✓ Reaching out to a younger audience to stimulate involvement in the racing industry

NEW LICENSING SYSTEM

The incumbent licensing system was antiquated and existed on a very unstable platform. Old hardware and outdated software caused numerous business interruptions and stress on MRC's budget. The new system provided by GL Solutions is currently being integrated, and once at full capacity, will provide a lower-cost, more efficient system that will better serve our customers.



RACETRACKS/ CARD ROOMS



Canterbury Park
1100 Canterbury Road
Shakopee, MN 55379
952-445-7223
www.canterburypark.com



**Running Aces
Casino and Racetrack**
15201 Zurich Street
Columbus, MN 55025
651-925-4600
www.runaces.com

HORSEPERSON ORGANIZATIONS



**Minnesota
Thoroughbred
Association**
1100 Canterbury Road
Shakopee, MN 55379
952-233-4802
www.minnesotabred.com



**Minnesota Harness
Racing, Inc.**
414-379-2494
www.mnharness.com



Minnesota HBPA
1100 Canterbury Road
Shakopee, MN 55379
952-496-6442
www.mnhbpa.com



**Minnesota Quarter
Horse Racing
Association**
www.mqhra.com

