

# Quebec Racing Saga

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Barristers and Solicitors

# Societe Nationale du Cheval de Course (SONACC)

- A non-profit provincial agency responsible for horse racing
- Owns/leases and operates the four major tracks in Quebec – Montreal, Quebec City, Aylmer and Three Rivers
- Between 1995 and 2003, the Quebec government directly and indirectly had subsidized horse racing losses, to the extent of \$250 million
- Issues as to whether subsidies would continue, in view of higher priority for government financial resources
- There had been various plans proposed to revamp the industry over the years, including possible privatization of some or all of the assets of SONACC

# Loto-Québec

- Another government agency
- In addition to operating the commercial casinos in Quebec, owns and operates the VLT system in the various bars, restaurants, and race tracks (400)
- Accordingly, the concurrence of Loto-Québec would be required to increase the number of VLTs at tracks and for operations

# Hospitality

- Government pre-disposed to provide additional VLTs to race tracks
- However, there was a reluctance to increase the gross number of VLTs in Montreal
- Plan was developed to reduce the corresponding number of VLTs in bars and restaurants, with a compensation payment
- Hospitality associations aggressively opposed plan

# Grant Thornton Report – May 2004 – Revitalization Scenario: Horse Racing Industry

- Confirmed
  - Historical losses of SONACC
  - Government contribution by permitting SONACC to retain 22% of the win on VLTs and lump sum subsidies to cover losses
  - Diminishing number of traditional customers and obsolescences of the various race tracks requiring significant capital investment

# Recommendations

- Loto-Québec assuming a more significant role over SONACC in assuming responsibility for the construction and/or renovation of tracks and the VLT parlours, and to assume ownership of the race tracks and the contiguous betting centres, which it would manage
- Report stimulated discussion

# Information for Consultation, Private Projects – Race Tracks – July 2004

- Ultimately government issues a Request for Proposal for the involvement of the private sector in the race track
  - Limits VLT number at the four race tracks to 1900 machines, operators to be entitled to a 22% commission on the win
  - Requires the relocation of the Montreal Race Track off the island of Montreal, as the property is too valuable to continue for race track operations
  - Proponents were required to confirm funds available for investment, construction and renovation of the various tracks, and for purses

# Information for Consultation, Private Projects – Race Tracks – July 2004

- Process to be two prong – initially to decide if privatization was appropriate and then who is the successful proponent
- Ultimately a privatization process commenced
- Seven Proponents, including Magna Entertainment, perceived to be the leader through the process, Remstar (the Remillard Family) and Attractions Hippiques (Paul Massicotte)
- All Proponents have great familiarity with the horse racing industry
- Initial submissions were to be made by August 15, 2004

# Information for Consultation, Private Projects – Race Tracks – July 2004

- Decision December 2005, successful proponent Attractions Hippiques (“AH”) which committed to:
  - \$153 million over five years to be allocated to purses, which will rise from \$17 to \$25 million in the first year of the agreement. The amount of purses will gradually increase each year, reaching \$35 million in the fifth year.
  - \$100 million to be invested in upgrading racetrack infrastructures and in the large-scale project to relocate the Hippodrome de Montreal to northern suburban ring of Montreal
  - \$5 million per year to be allocated to promotion and marketing for Quebec’s horse racing industry

# Information for Consultation, Private Projects – Race Tracks – July 2004

- In return, AH would receive 22% of the win, on 1900 VLTs. Comments of Mr. Massicotte, in a joint press release, issued in response being selected as the successful proponent:
  - “The horseracing industry provides employment for numerous breeders, trainers, promoters and racetrack owners in Quebec. I firmly believe in the future of this industry, which is a tourist and commercial attraction in several regions of the province. I’m also pleased to be able to work closely with industry players who are enthusiastic about what they do and determined to make it as attractive as possible. I am working with my team to design high-quality entertainment centres to complement horseracing activities, which will appeal to the general public.” – August 17, 2006

# Restructuring Proceeding

- July 26, 2008 – AH filed a freeze order in accordance with *Company Creditors Arrangements Act* (“CCAA”)
- Comparable to Chapter 11
- Creditor Protection afforded to provide reasonable time for restructuring and/ultimate sale of assets
- Revenue from VLTs reached only 30% of projected revenue
- Alleged causes of reduced revenue:
  - Mandatory institution of Loyalty Cards at Ludoplexes, limiting the time and the amount for betting patrons. Prior declaration required by players – not otherwise used in Quebec.
  - Location of Ludoplexes as separate structures to race tracks
  - Poor selection of the machines

# Restructuring Proceeding

- Live racing suspended at Montreal, while other tracks with connecting Ludoplexes continue to operate
- AH had invested \$74 million in race track improvements and purses, taking on in excess on \$50 million in debt
- Allegation that various Quebec government agencies in material breach of agreement in that members of the local assembly lobbied against the relocation of the race track in its ridings
- No relocation and redevelopment of the Montreal Hippodrome, and no revenue opportunity for the 400 VLTs that were to be housed in that facility

# Restructuring Proceeding

- Independent government inquiry into original AH award, and proliferation of litigation
- August 8, 2008 – limited horse racing at Montreal with \$2 million in purses committed
- Horse auctions cancelled and/or revenue from yearling sales substantially reduced
- HQ continues to negotiate with government to settle revised commercial arrangements going forward, but without an agreed-to plan, financing and exit from CCAA impossible

# Revitalization Plan proposed by Court appointed Monitor

- A Montreal teletheatre would be built at an estimated cost of \$12 million at the new site, either through purchase or lease from its current owner SONACC
- AH would be allowed to stay at Hippodrome de Montreal – due to close permanently as part of the agreement – until the teletheatre is completed in 2011 without paying the \$1.5 million in municipal taxes stipulated in its 2005 contract with SONACC
- The racetrack operator also will get to keep, for at least 15 years, all provincial taxes collected on horseracing wagers in the province – equivalent to about \$10 million a year at current wagering levels of roughly \$135 million a year

# Revitalization Plan proposed by Court appointed Monitor

- In addition, Loto-Québec will supply \$9 million of the \$12 million due to be paid out annually in Quebec for horseracing purses for the next 15 years. AH would be required to contribute \$3 million a year for purses from the roughly \$40 million a year it would collect from horserace betting and VLTs.
- Massicotte required to write-off 25% of his loans to AH financial institutions who have currently advanced \$51 million will be required to do likewise
- End result – still no live racing in Montreal
- *AH bailout plan fading at the post: not supported by Horsemen and Breeders – Montreal Gazette, February 4, 2009*
- Perception, that although proposed plan works for AH, it is not necessarily in the best interests of other industry stakeholders

