

ANNUAL REPORT
2017

— TEXAS —
RACING COMMISSION



January 31, 2018

TEXAS RACING COMMISSION 2017 ANNUAL REPORT

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TEXAS RACING COMMISSION 2017 ANNUAL REPORT

TEXAS RACING COMMISSION

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January 31, 2018

The Honorable Greg Abbott
Governor of the State of Texas
State Capitol, Room 200
Austin, Texas 78701

Dear Governor Abbott:

On behalf of my fellow Commissioners and staff, I am pleased to submit the Texas Racing Commission's 2017 Annual Report in accordance with Section 3.10 of the Texas Racing Act, Article 179e, Vernon's Texas Civil Statutes. The Annual Report covers the operations of the Commission over the last calendar year and describes the condition of horse and greyhound racing and breeding as we begin calendar year 2018.

The total amount of dollars wagered at racetracks in Texas, a critical measure of the health of a jurisdiction's pari-mutuel industry, has seen a significant decline since reaching a peak of \$633.7 million in the year 2000. This decline was reversed slightly in 2004, the year in which Lone Star Park in Grand Prairie hosted the Breeders Cup. In 2005, the decline resumed and continued through 2017, when the total amount of dollars wagered at Texas racetracks was approximately \$287 million, a 5.25 percent decrease from 2016. Overall, the 2017 figure represents a decrease of approximately 55 percent compared to the total amount of dollars wagered at Texas racetracks in the year 2000.

Obviously, horse racing in general has struggled over the same period of time, but Texas has been particularly hard hit due to the fact that our surrounding states all offer either alternative gaming and/or additional forms of pari-mutuel wagering—off-track wagering locations (OTBs) or advance deposit wagering (ADW)—to supplement the prize money.

Owners and trainers go where the bigger purses are, and they're not finding them in Texas. Greyhound racing has faced similar and even more difficult challenges and, in fact, the greyhound meets are now much shorter, 36 race dates a year, in place of what had been year-round racing just a couple of years ago.

-more-

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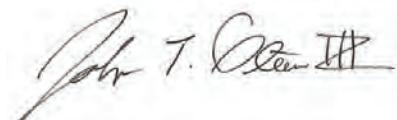
The Honorable Greg Abbott – Page 2

As a direct byproduct, the breeding industry and associated agricultural businesses are also suffering. For example, the Texas horse breeding industry has seen a significant decline in foals produced and stallions standing for stud. From 2011 to 2016, the most recent year for which complete information is available, the total number of Accredited Texas-Bred quarter horses and thoroughbreds declined from 2,160 to 1,372, a decrease of more than a third in just five years.

Perhaps the greatest and most immediate challenge facing the Texas Racing Commission in 2017 and continuing in 2018 and beyond, is related to the agency's current method of funding. The Texas Racing Act specifies that the agency's funding is provided by fees from the racetracks and occupational licensees. This funding method directly ties the viability of the Commission, and thus its ability to regulate horse and greyhound racing, to the viability of the industry and the industry's ability and willingness to continue payment of the licensing fees. If licensees surrender their licenses, as three racetracks have recently done, the Commission must recover those lost license fees either through cost savings or from among the remaining licensees. As this occurs, the resulting fee increases may cause the remaining licensees to consider discontinuing their licenses as well. Given the agency's current budgetary state, the loss of even a few more licensees could effectively bring about the end of pari-mutuel racing in Texas as the increased fees eventually become too burdensome to the remaining tracks.

Despite these struggles, the Commission's role remains unchanged. On behalf of the Texas Racing Commission, I reiterate our goal to provide fair, effective, and efficient regulation of the pari-mutuel industry, and our horse and greyhound racetracks, and our mission to ensure the safety, integrity and fairness of pari-mutuel racing.

Respectfully submitted,



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January 31, 2018

The Honorable Greg Abbott
Governor of the State of Texas
State Capitol, Room 200
Austin, Texas 78701

Dear Governor Abbott:

I respectfully submit the Commission's 2017 Annual Report.

The Commission regulates a complex industry that operates seven days a week, 365 days a year. Our Commissioners give time and energy, and, based on a wealth of professional and business expertise, provide quality leadership. Their contributions are invaluable.

I highly commend my staff. Agency employees work long hours in a highly regulated industry and do so with an ultimate sense of teamwork. We all remain determined and dedicated to protecting the broad public interest and integrity, as well as the health, safety and welfare of all involved in racing.

On behalf of the Commissioners and agency staff, I thank the Texas Department of Public Safety, the Texas Comptroller of Public Accounts and the Texas Department of Agriculture* as each consistently provides critical assistance in regulating the pari-mutuel industry. These state agency partnerships effectively demonstrate the benefits derived from coordinated efforts and resources.

Sincerely,

A handwritten signature in blue ink, appearing to read "Chuck Trout", is written over a light blue circular background.

Chuck Trout
Executive Director

* An amendment of the Texas Racing Act by the 85th Texas Legislature replaced the Comptroller of Public Accounts or the Comptroller's designee as an ex-officio member of the Texas Racing Commission with the Commissioner of Agriculture or the Commissioner's designee, effective Sept. 1, 2017.

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THE COMMISSION

The Texas Legislature created the Texas Racing Commission in 1986 to be the state agency responsible for overseeing and regulating pari-mutuel horse and greyhound racing in Texas. The Commission functions pursuant to authority granted in the Texas Racing Act, Vernon's Texas Civil Statutes, Art. 179e.

MISSION

To enforce the Texas Racing Act and the Rules of Racing to ensure the safety, integrity and fairness of Texas pari-mutuel racing.

PHILOSOPHY

The Texas Racing Commission performs its responsibilities in strict compliance with state laws. The agency conducts its regulatory activities fairly, consistently, efficiently and courteously.

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THE COMMISSIONERS

Of the nine board members*, the governor appoints seven with the advice and consent of the Texas Senate. Two commissioners, the Commissioner of the Department of Agriculture and the Chair of the Public Safety Commission, are ex-officio members. The seven non-salaried commissioners serve overlapping six-year terms.

Of the seven appointees, five represent the public and have general knowledge of business or agribusiness. One may be a veterinarian. One member must have experience or special knowledge of greyhound racing and one must have experience or special knowledge of horse racing. The governor designates the Commission's chairman. The nine members elect a vice chair for a two-year term.

COMMISSIONERS	TERM	HOMETOWN
John T. Steen III, Chairman	11/06/2015 - 02/01/2021	Houston
Ronald F. Ederer, Vice Chair	07/17/2007 - 02/01/2019	Corpus Christi
Gloria Hicks	11/09/2007 - 02/01/2017	Corpus Christi
Robert Schmidt, M.D.	11/09/2007 - 02/01/2017	Ft. Worth
Margaret Martin	11/06/2015 - 02/01/2021	Boerne
Ex-Officio Members		
Sid Miller, Commissioner, Department of Agriculture	N/A	Stephenville
Stephen P. Mach, Chair, Public Safety Commission	N/A	Houston

* (As of Jan. 31, 2017, two seats on the Commission are vacant.)

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AGENCY OVERVIEW

The Texas Racing Commission (TxRC) regulates all aspects of pari-mutuel horse and greyhound racing through licensing, on-site monitoring and enforcement. Statute and rule require the Commission to:

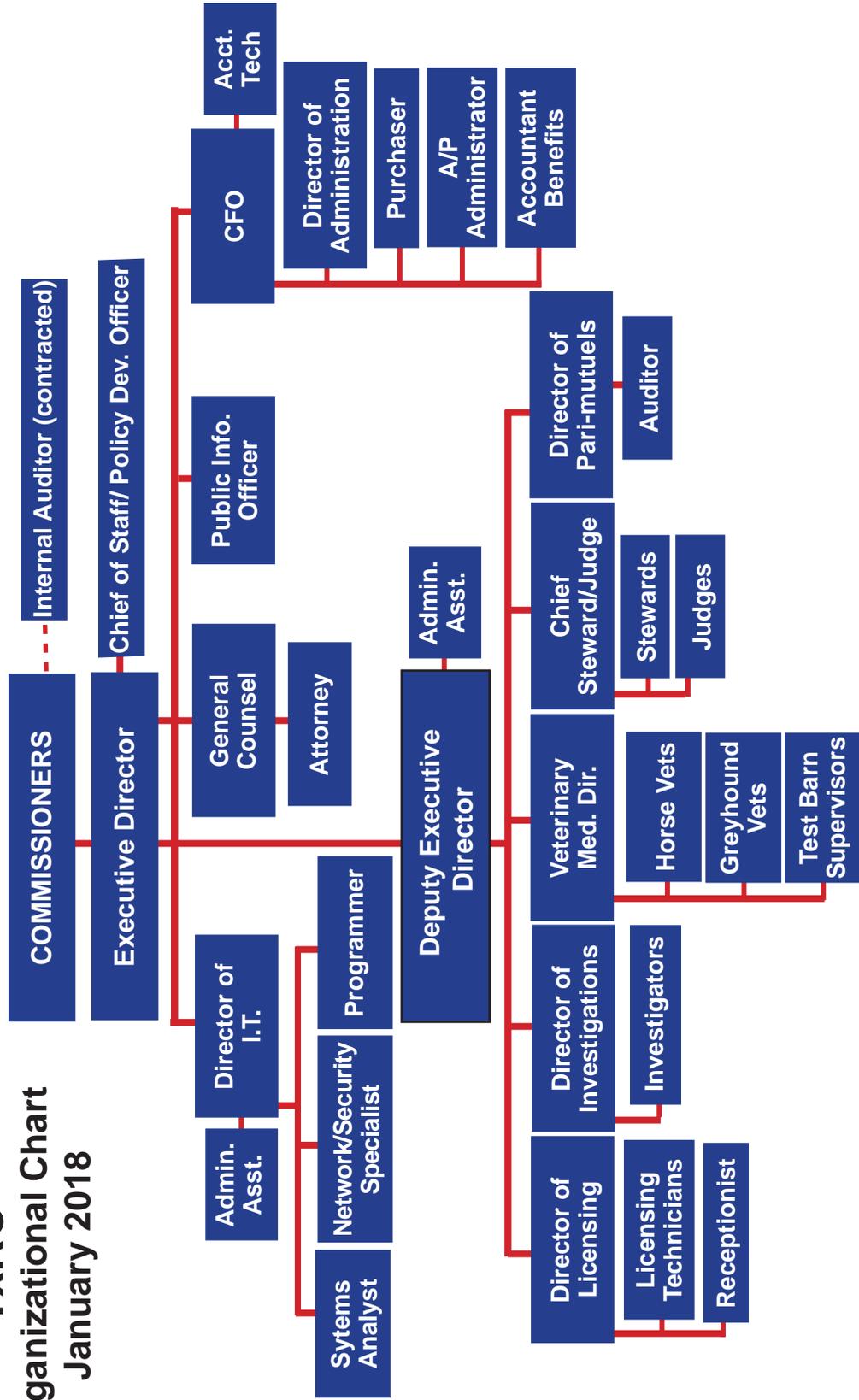
- License racetracks that offer racing with pari-mutuel wagering, those who participate in racing with pari-mutuel wagering and the people directly involved with pari-mutuel wagering who work at the racetracks.
- Allocate race dates, supervise the conduct of all races, monitor the health and safety of the race animals and conduct drug tests to ensure the animals race without prohibited substances.
- Oversee all pari-mutuel wagering activity, approve simulcasts, test the tote systems (complex computer systems that register and calculate pari-mutuel payoffs [or winnings]) and ensure the proper allocation and distribution of revenue generated by pari-mutuel wagering.
- Administer the Texas-Bred Incentive Program, which provides economic incentives to support the horse and greyhound breeding industry in the state.

Texas Racetracks



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TxRC
Organizational Chart
January 2018



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ORGANIZATIONAL STRUCTURE

The General Appropriations Act authorized the agency to have 51.2 full-time equivalent positions (FTEs) in FY 2016 and FY 2017. The actual FTE count in FY 2016 was 44.2, and the actual FTE count in FY 2017 was 43.3.

While the Racing Act requires the Commission's headquarters to be in Austin, a large number of staff members work at the operating racetracks. Many of the employees outside Austin are seasonal, working only when the racetracks conduct live racing.

TxRC's workforce features a diverse collection of professions that includes auditors, veterinarians, stewards, racing judges, investigators, licensing staff and support personnel.

TxRC maintains field offices at the three operating Class 1 horse tracks. Additionally, staff is always present when any track is conducting live racing.

The agency's structure features an executive group and support staff headed by the executive director, as well as a deputy executive director responsible for regulatory and field staff.

FISCAL INFORMATION

BUDGET AND FINANCE

The Commission is self-funded by the entities it regulates and is appropriated only GR-Dedicated funds. The agency's revenue primarily comes from fees assessed to racetracks and occupational licensees.

During FY 2016, three inactive racetracks stopped paying their annual fees. In FY 2017, the loss of revenue from these three tracks totaled \$690,000. The agency reduced FTE's and operating cost to offset the loss in revenue and exhausted its cash reserve of \$385,000, carried forward from FY 2016. Further reductions have been made in FY 2018, and approximately 47 percent of the lost revenue will be reallocated among the remaining tracks.

By law, the Commission must fund the insurance and retirement benefit costs of its employees and the insurance costs of all employees who retire from the agency. The cost of retiree insurance in FY 2017 was \$385,000. This amount is expected to increase and will continue to place a burden on the agency, and on an industry that is struggling to survive.

For FY 2017, the Commission had a total appropriation of approximately \$7.7 million. Approximately \$4.2 million in appropriations was for agency operations. The agency's actual operating cost totaled \$3.67 million, of which approximately 75 percent was salary and salary-related expenses. The total cost of employee benefits expended by the agency was \$1.07 million. The \$7.7 million appropriation included a direct, dedicated-revenue pass-through of almost \$3.5 million for the Texas-Bred Incentive Program. The actual Texas-Bred funds paid to breeders and owners was \$3.03 million.

The Texas-Bred Incentive Program is mandated by the Racing Act. It provides purse supplements and monetary awards to breeders and owners of Texas-bred greyhounds and horses to encourage economic development through

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agribusiness in the horse and greyhound breeding industries.

Funding for the Texas-Bred Incentive Program comes from breakage from all types of wagers and a small percentage of all exotic wagers. Generally, breakage is the amount available after payoffs to winning ticket holders are rounded down to the nearest dime.

AGENCY HIGHLIGHTS

ADMINISTRATIVE

During FY 2017, the agency met or exceeded four of its five key performance outcome measure targets. Those targets are related to: average time required to issue a new occupational license; having a high percentage of licensees with no recent violations; reducing the percentage of race animals injured or dismissed from racetracks; and having a high percentage of its investigations result in disciplinary action.

The executive division coordinated six regular Commission meetings in 2017. The general counsel coordinated rule reviews for Chapters 301, 303, 319, and 321 as required by Government Code §2001.039.

During calendar year 2017, the Commission proposed approximately 16 new rules or amendments to existing rules and adopted approximately 18 new rules or amendments to existing rules, including the adoption of rules that were proposed in late 2016.

TECHNOLOGY

The IT department supports the overall mission of the agency by providing technology services and infrastructure as well as leadership and support via the IT staff.

The department's primary function is to support the agency's database and applications. These applications automate manual processes and perform a key role in the areas of statistical analysis, investigations, and ensuring the safety and integrity of racing. Improvements in the investigations, licensing, veterinary, and drug testing functions continue to be the primary area of application development.

Two examples are the use of statistical analysis to identify horses that may be at risk for catastrophic breakdowns and to detect illegal activity by organized crime groups operating in the racing industry.

In addition to database enhancements, work continues on several Cloud initiatives to improve security and stability to critical agency functions, including records management and disaster recovery.

REGULATORY

In 2017, pari-mutuel auditors reviewed wagering data on 1,947 live races and 642,667 simulcast races to ensure proper reporting, collection, and distribution of funds. Audit staff reviewed a total of 1,454 import and export simulcast requests for compliance with the Texas Racing Act, the Texas Rules of Racing, and the Interstate Horse Racing Act.

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The Pari-Mutuel Department underwent a dramatic reorganization in late 2017 due to budget constraints. The department was reduced in staff from two part-time and two full-time field auditors to just one full-time field auditor. This cutback has increased the workload of the one remaining field auditor and the department director. As a direct result, many of the more time consuming tasks previously performed by the auditors are no longer being completed. Additionally, the remaining field auditor has been reassigned to work remotely resulting in no active pari-mutuel oversight presence at the racetracks. Also, there will no longer be an auditor assigned to any of the live race meets throughout the year to monitor pari-mutuel and tote operations during the racing meets.

In 2017, the Commission issued 5,911 occupational licenses—down slightly from 2016—and 57 business licenses. Of the occupational licenses issued, 1,787 were new licenses and 4,124 were renewals. The 56 business licenses consisted of six kennel licenses and 50 vendor licenses.

INVESTIGATIONS

As provided within the Texas Racing Act, the Texas Racing Commission shares an enforcement role with the Texas Department of Public Safety (DPS) for the regulation of racing within Texas. This critical cooperative effort between these agencies helps ensure the safety of the public, participants and animals involved in racing. By allocating resources tactically and partnering with DPS, the Investigations Division strives to proactively identify violations

EXAMPLES OF CONTRABAND ITEMS CONFISCATED AT TEXAS RACE TRACKS



Pistol confiscated from a hay vendor on a track backside.



Crack cocaine seized at a horse track gate check.



Plasma from donors vaccinated against Protein Volume Replacement (PVR) - undetectable in testing.

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and secure voluntary compliance with Commission rules.

As reported in the DPS annual crime report, criminal organizations operating transnationally within the state remain to be a concern to law enforcement. Historically attracted by the lure of horse racing, some of these criminals participate in horse racing as bettors and through ownership. Successful prosecution of individuals associated with Mexico drug cartels have been conducted in past years and enforcement strategies continue to be challenged by the suspected presence of these individuals.

Investigators from both agencies continue to perform criminal investigations at operational racetracks throughout the year. Additionally, random compliance inspections are conducted at these facilities to identify criminal and administrative violations that can potentially effect public and animal safety as well as racing integrity.

VETERINARY PROGRAM

The Veterinary Department contributes to TxRC's mission of ensuring the safety, integrity, and fairness of racing in Texas by performing four primary duties:

- **Perform Pre-Race Examinations**
Commission veterinarians perform pre-race examinations on each animal entered to race. These comprehensive exams are conducted on the day of the race and assist the commission veterinarians in determining if the animal is healthy and sound to race. On average, at horse tracks two commission veterinarians examine 70-100 animals per race day and the

greyhound veterinarian will examine 80 dogs per race day. In 2017, approximately 13,550 horses and 1,880 greyhounds were examined.

During pre-race examinations, commission veterinarians routinely conduct the following procedures:

-Evaluation of past-performance records

Commission veterinarians may evaluate a race animal's entire racing history to identify any performance measures indicating the animal may have an underlying injury or illness adversely compromising its performance. Charts from every race are accessible and each provides detailed information about how the animals performed. This information assists commission veterinarians in identifying at-risk animals.

-Evaluation of medical records

Commission veterinarians input and record all significant medical findings in each race animal's record maintained in the TxRC database. Monitoring medical records assists commission veterinarians in identifying at-risk animals.

-Proper identification of each race animal

Pre-race exams begin with the proper identification of the race animal by the commission veterinarian. This procedure is vital to protecting the integrity of racing and currently consists of the commission veterinarians verifying the unique tattoo number and other unique markings and traits for each race animal.

-Visual inspection

During pre-race exams, commission veterinarians visually inspect each race

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animal for clinical signs of illness or injury. The visual exam continues as the animals course their way from their stalls or kennels, to the paddock, to the post-parade, and then to the starting gates. Following the race, the animals are once again inspected as they exit the track for any injuries that may have occurred during the race. Lastly, those horses selected for post-race drug testing are sent to the test barn where they are once again inspected by the veterinarian in charge. The visual exam generally concludes once the animal leaves the race track or test barn and returns to its stall or kennel. Commission veterinarians input all significant findings into the TxRC database and report all animals determined too ill or injured to race to the racing stewards.

- **Conduct the Drug Testing Program**

The Veterinary Department is responsible for the collection, processing, and shipment of all biological samples submitted to the Texas A&M Veterinary Medical Diagnostic Laboratory (TVMDL) for laboratory testing for prohibited substances. On race day, the Test Barn Supervisors (“TBS”) oversee the logistics of this program and are responsible for ordering all testing supplies; maintaining and operating the lab equipment; training and supervising all veterinary technicians employed by the race tracks for sample collections; collecting samples themselves as needed; supervising the collection and processing of all biological samples; preparing all samples for shipment to

DRUG POSITIVES 2013-2017

YEAR	TOTAL SAMPLES	TOTAL POSITIVES	PERCENT POSITIVE
2013	3,648	61	1.7%
2014	3,614	94	2.6%
2015	3,574	53	1.5%
2016	3,489	100	2.9%
2017	3,422	99	2.9%

TVMDL for testing; and inputting and recording all drug testing information into the TxRC database.

-Post-race testing

On average, two horses and one greyhound from each race are selected for testing. Ordinarily, a blood and urine sample is collected from each horse and a urine sample from each greyhound to be tested for prohibited substances.

-Consult with TVMDL

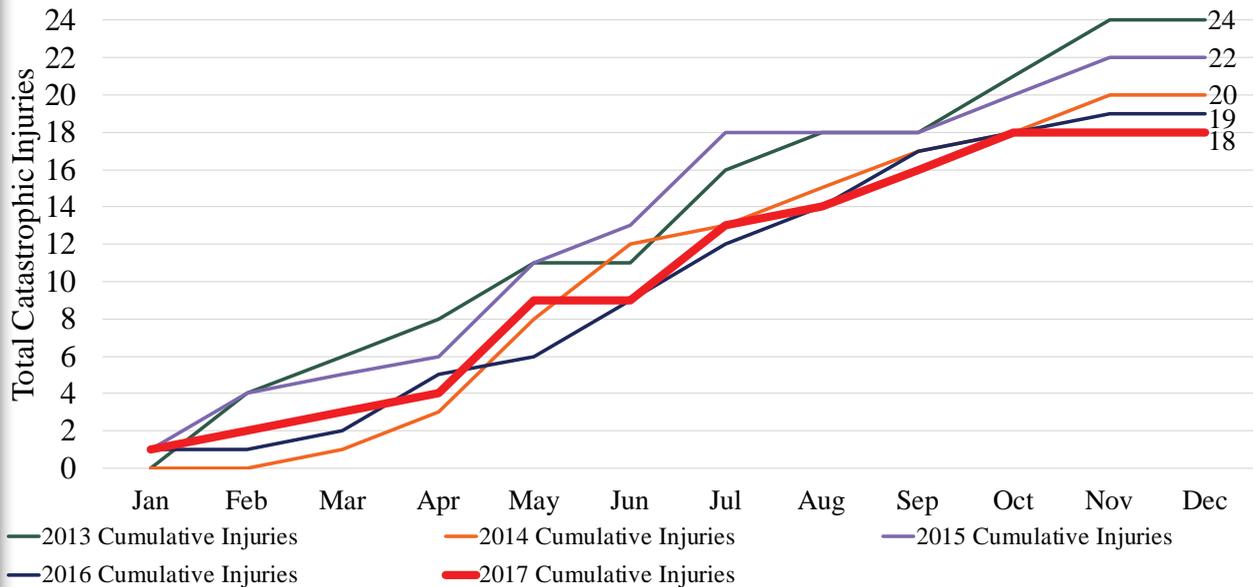
The medical director routinely consults with TVMDL and partners with their staff to discuss developments with laboratory testing in an effort to stay current with the most recent developments in drug testing matters. Recommendations for any changes to the drug testing policy or rules are provided to the executive director.

-Research drug information

The medical director researches drug information and partners with TxRC investigators in monitoring trending developments related to the use of prohibited substances in race animals.

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EQUINE EUTHANASIA AND DEATH COMPARISON 2013 - 2017



Prohibited substances can enhance an animal's performance and influence the outcome of the race thereby threatening the integrity, safety, and fairness of racing. A partial list of emerging threats to the racing industry includes:

1. Gene doping
2. Designer steroids
3. Designer stimulants
4. Gene manipulation
5. Peptide hormones
6. Peptide drugs
7. Noble gases (e.g. cobalt, nickel, xenon, krypton)

The commission veterinarian advises the executive director of emerging concerns.

- **Conduct the Necropsy Program and Catastrophic Injury Study**

- **-Necropsy program**

- The TxRC necropsy program for horses began the spring of 2015

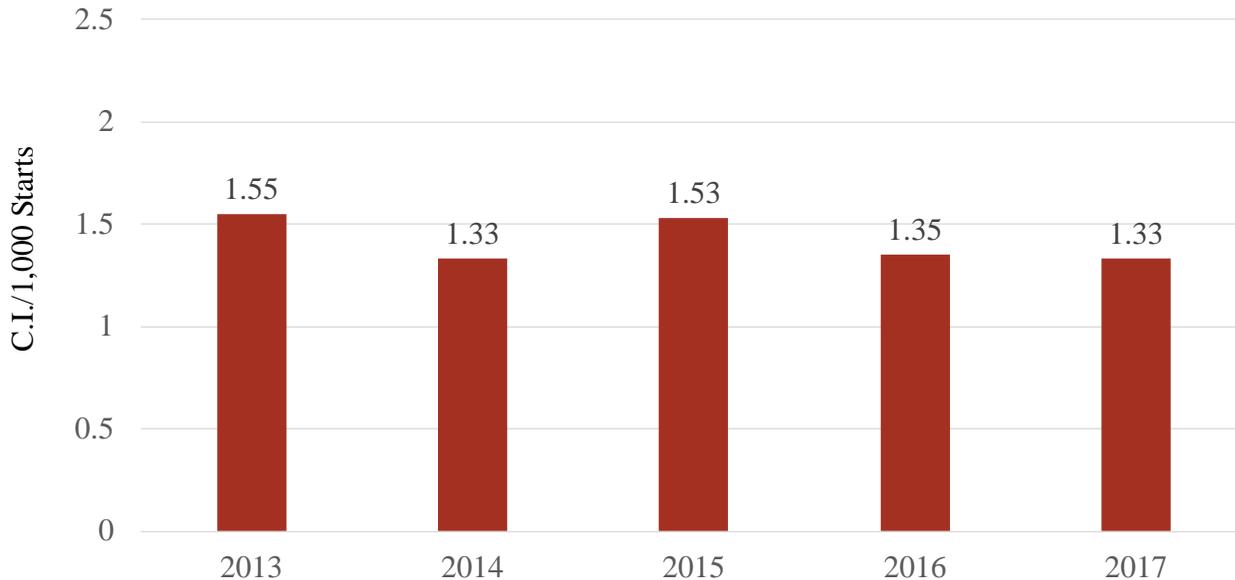
and is in its infancy relative to some other racing jurisdictions such as California and Kentucky. The program is currently limited to the study of lower limbs harvested by commission veterinarians from those horses suffering catastrophic injuries during live-racing competition. The TVMDL performs gross necropsy exams and reports all acute and chronic pathologic findings. The medical director evaluates this data to identify injury patterns and create corresponding profiles for at-risk horses. The program goal is to use the necropsy findings to protect the health, safety and welfare of horse and rider alike by preventing at-risk horses from racing.

- **-Catastrophic injury study**

- Catastrophic injuries (CI) in horses are complex biomechanical events and their elimination remains the primary goal of the veterinary department. In 2013, there were 24 catastrophic injuries on Texas tracks,

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EQUINE CUMULATIVE CATASTROPHIC INJURY RATE 2013 - 2017



compared to 18 in 2017 – a 25 percent decline.

-Racing accidents

The medical director studies injury data from the TxRC database in an effort to identify injury trends or patterns leading to the identification of specific factors contributing to catastrophic injuries of Texas tracks and uses these injury reports submitted by commission veterinarians to monitor CI rates at each particular track. The cumulative CI rate per one thousand starts is the standardized benchmark by which all jurisdictions can discuss CIs. In 2013 the cumulative catastrophic injury rate in Texas horses was 1.55 CIs /1,000 starts and reduced to 1.33 CIs /1,000 starts in 2017.

- **Perform Miscellaneous Duties**

-Maintain a Veterinarian's List

Race animals determined by

commission veterinarians as being too ill or injured to race are placed on a Veterinarian's List maintained in the TxRC database. The animals on the Veterinarian's List are ineligible to race and remain so until they have satisfied a vet-work exam prescribed and performed by the commission veterinarian.

-Provide emergency medical care to all race animals

On race day, during live-racing a commission veterinarian is on the track and provides emergency care to any horse injured on the paddock or race track.

-Monitor health of all animals at the track

Race track officials report any ill or injured horses to the TxRC. These cases are investigated by the commission veterinarian or medical director and appropriate measures such as removal of an animal, isolation, quarantine, or testing may

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be ordered by the medical director if warranted. In addition, the medical director monitors disease reports nationwide and advises the executive director as needed. The medical director may consult with the Texas Animal Health Commission as required if disease conditions are detected or reported at a track.

-Perform race track inspections

-Advise the commissioners, executive director, and TxRC department directors on veterinary related matters

INSPECTION PROGRAM

The Commission helps ensure that pari-mutuel racing is safe for the participants and the public. To accomplish this, the Commission developed a comprehensive program for inspecting licensed racetracks and training facilities. Through this inspection program, the Commission oversees all pari-mutuel racetrack license holders to monitor and ensure compliance with Commission rules.

INSPECTIONS BY AREA

The Commission's inspection program is separated into six inspection areas:

- Live racing operations inspections focus on the condition of the track surface, starting gates and boxes, rails and distance markers, and all aspects of animal housing, including

2017 INSPECTIONS BY AREA

TYPE OF INSPECTION	NUMBER
LIVE RACING OPERATIONS	5
ANIMAL HEALTH AND SAFETY/ DRUG TESTING OPERATIONS	6
PARI-MUTUEL WAGERING OPERATIONS	17
SAFETY AND SECURITY	5
ADMINISTRATIVE OPERATIONS	10
TRAINING TRACKS	1
TOTAL	44

maintenance and cleanliness of barns and kennel areas.

- Animal health and safety/drug testing operations inspections cover the sample-collection facilities and equipment, the treatment areas and the equine ambulance. The inspections include a review of the overall maintenance of the backside areas with emphasis on ensuring a safe environment for both animals and licensees.
- Pari-mutuel wagering inspections include a review of all aspects of the wagering operations, including the track's mutuel department, the tote company's operations and all related wagering equipment.
- Safety and security inspections focus on all security aspects of the facility, including outdoor lighting, fencing, medical and first aid services, and fire prevention measures, including inspecting the barns to ensure proper storage of hay and feed.

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- Administrative inspections center on association ownership records, bookkeeping and accounting systems. These inspections include a review from the patron's viewpoint, including cleanliness of patron facilities and amenities, posting of pertinent public notices and proper signage on automatic banking machines.
- Training track inspections focus on the facility's overall track condition, including the track surface, starting gate, rails and distance markers. Other areas of focus include checking for proper licensing of training facility personnel and those bringing horses for official works.

breeders and owners of accredited Texas-bred horses and greyhounds to encourage the horse and greyhound breeding industries.

GREYHOUND PROGRAM

Funding for the Texas-Bred Greyhound Incentive Program is derived from:

- 50 percent of the total breakage from live, simulcast same-species and simulcast cross-species handle; and
- 1 percent of all multiple two and multiple three wagers from simulcast same-species and simulcast cross-species handle.

The 50 percent of breakage and the 1 percent of multiple two and three wagers are paid to the Texas Greyhound Association (TGA). The breakage money is dedicated 50 percent to stakes races and 50 percent for administration of the Accredited Texas-Bred (ATB) program.

TEXAS-BRED INCENTIVE PROGRAM

The Racing Act provides purse supplements and monetary awards to

COMPARATIVE DISTRIBUTIONS YEAR 2016 VS. YEAR 2017

	2016	2017	% CHANGE
TEXAS THOROUGHBRED ASSOCIATION	\$1,774,521	\$1,667,481	-6.03%
TEXAS QUARTER HORSE ASSOCIATION	\$890,209	\$838,111	-5.85%
TEXAS GREYHOUND ASSOCIATION	\$424,165	\$371,775	-12.35%
TEXAS-BRED STAKES RACE SUPPLEMENTS	\$95,436	\$84,652	-11.30%
TEXAS ARABIAN BREEDERS ASSOCIATION	\$51,439	\$48,246	-6.21%
TEXAS PAINT HORSE BREEDERS ASSOCIATION	\$25,876	\$24,034	-7.12%
TOTAL	\$3,261,646	\$3,034,299	-6.97%

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The money received from multiple two and three wagers is paid as awards to those owners of the first four Texas-bred greyhounds to finish in races run at Texas tracks. Once a month, these funds are distributed by dividing the monthly total available for awards by the number of eligible Texas-bred greyhounds for that month.

Of the total money from breakage received by the TGA, 2 percent must be set aside for grants for the rehabilitation or locating of homes for greyhounds. For the 2017 period, grants were distributed from this source of funding to qualified Texas non-profit rehabilitation and adoption groups in the amount of \$801. The TGA contributed an additional \$6,649 in funds to bring the total distribution to \$7,450.

Purse money earned at a horse track from interstate simulcast wagering on greyhound races is also paid to the TGA for use at Texas greyhound racetrack. This source of purse funding accounted for approximately \$914,426 of added money to Valley Race Park purses and approximately \$91,667 to Gulf Greyhound Park purses in calendar year 2017.

HORSE PROGRAM

The Racing Act provides an incentive award for each owner, breeder and stallion owner of an accredited Texas-bred horse that finishes first, second or third in any race other than a Texas-bred stakes race. The awards are funded (less 2 percent set aside for the Equine Research Fund) from:

- breakage from all pari-mutuel pools; and
- 1 percent of all multiple two and multiple three wagers from live,

simulcast same-species and simulcast cross-species handle.

Texas-bred stakes race supplements are funded from 9.8 percent of the breakage from all pari-mutuel pools. This money is retained by the racetracks for distribution through the horsemen's bookkeeper. Horses finishing in an accredited Texas-bred stakes race receive an incentive award as a purse supplement according to the payout conditions of the race.

The remaining money is distributed on a 40 percent, 40 percent and 20 percent split, respectively, among the owners, breeders and stallion owners of accredited Texas-bred horses that finish first, second or third in a race.

The Racing Act names the official breed registries responsible for determining qualifications for Texas-bred accreditation, maintaining the eligibility lists and distributing the monetary awards: the Texas Thoroughbred Association, the Texas Quarter Horse Association, the Texas Appaloosa Horse Club, the Texas Arabian Breeders Association, the Texas Paint Horse Breeders Association and the Texas Greyhound Association. The Texas Appaloosa Horse Club does not participate in this program.

SIGNIFICANT COMMISSION ACTIONS AND ACTIVITIES

The Texas Racing Commission met six times during calendar year 2017. The Commission's meetings are open to the public and, in addition to the required postings in the Texas Register, the agendas and agenda materials are posted on the agency's website before meetings.

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Transcripts of each Commission meeting are also available at www.txrc.texas.gov.

RACE DATE ALLOCATION

Between 2009 and 2014, the number of race dates that Texas horse tracks requested declined from 265 to 186. With Lone Star Park (76), Retama Park (46), Sam Houston Race Park (56) and Gillespie Fair and Festivals Association (8) offering a total of 186 days of live racing in 2017, racing opportunities seemed to have stabilized. However, based on the race date requests approved at the Dec. 20, 2017, Commission meeting, the frequency of live racing in Texas will decline again in 2018, with Lone Star Park (60), Retama Park (25), Sam Houston Race Park (52) and Gillespie Fair and Festivals Association (8) offering a total of 145 days of live racing.

At the April 2016 Commission meeting, industry representatives proposed a three-year plan for conducting live greyhound racing and simulcasting. Under the plan, which was approved by the Commission:

- Valley Race Park conducted 36 live race dates from Nov. 25, 2016, through Feb. 4, 2017.
- Gulf Greyhound Park began a 36 live-race meet on Nov. 24, 2017, which will continue through Feb. 3, 2018.
- Gulf Coast Racing will conduct a similar live race meet in late 2018 and running thru Feb. 23, 2019.
- All three greyhound racetracks will conduct simulcasting throughout the three year period.

COMMITTEE ON RULES

The charge for the Committee on Rules is to provide a forum for an in-depth review of proposed new rules and rule changes relating to all aspects of racing. The committee has established working groups of experts, members of the public, or other interested parties and shares their recommendations for any proposed changes to the rules with the full Commission. During 2017, the Committee on Rules, chaired by Commissioner Ederer, met four times.

AD-HOC COMMITTEE ON FINANCE

The Ad-Hoc Committee on Finance provided a forum for the racetracks, breed associations, horsemen's organization, racing industry stakeholders, and the public to provide input on potential changes to the Commission's financial policies and rules due to the recent loss of three track licensees and the associated loss of \$690,000 in annual license fees. The Ad-Hoc Committee on Finance, chaired by Commissioner Mach, met three times in 2017.

ANNUAL REVIEW/RENEWAL OF INACTIVE RACETRACK LICENSES

Sunset legislation passed by the 82nd Legislature requires the Commission to conduct an annual review of each inactive racetrack license and determine whether to renew that license. During 2017, the Commission reviewed and renewed the inactive racetrack licenses of Manor Downs, Laredo Downs, and Valle de los Tesoros.

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OWNERSHIP AND MANAGEMENT REVIEWS OF ACTIVE RACETRACK LICENSES

Sunset legislation passed by the 82nd Legislature requires the Commission to conduct an ownership and management review of each active racetrack license every five years. The only ownership and management review scheduled for 2017 was of Retama Park. At its meeting on Aug. 8, 2017, the Commission completed its ownership and management reviews of Retama Park and scheduled the next review of this track for 2022.

ENFORCEMENT

The efforts of TxRC's investigation and legal departments, along with the racing stewards and judges, result in hundreds of disciplinary rulings annually. Cases range from low-level drug-test positives, possession of prohibited contraband or racing protocol violations to positive test results for serious drugs ranging from dangerous drugs to illegal devices intended to affect the outcome of a race. These rulings can result in modest fines up to a maximum of \$100,000 and years-long suspensions.

One case that saw its final resolution in 2017 illustrates the extreme and dangerous lengths to which a minority of pari-mutuel racing participants are willing to go to gain an unfair (and illegal) competitive advantage, and why agency staff must maintain an

increasingly vigilant attitude toward such activity.

On Jan. 19, 2015, jockey Roman Eric Chapa was summarily suspended by the Sam Houston Race Park Board of Stewards after published photographs showed him holding a hand-held electrical shocking device (known as a "buzzer" or "machine") in a race run two days prior. On Feb. 27, a full evidentiary hearing was held for Mr. Chapa, after which the Board of Stewards found him in violation of four separate sections of the Texas Racing Act and Rules of Racing, and imposed the maximum penalties they were allowed: a five-year suspension and a \$25,000 fine.

After reviewing Mr. Chapa's history, which included two similar prior violations (a 1994 incident in Texas involving the use

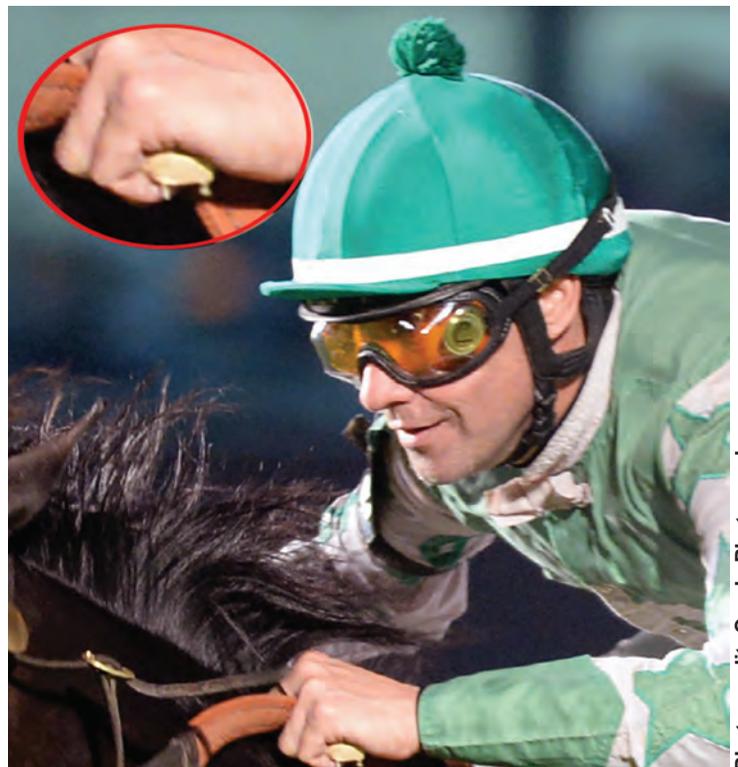


Photo credit: Coady Photography

Jockey Roman Chapa palming an illegal electrical horse shocking device while winning a stakes race at Sam Houston Race Park on Jan. 17, 2015.

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of a nail on a horse and a 2007 incident in New Mexico involving the use of an electrical device), TxRC Executive Director Chuck Trout exercised his authority to enhance the \$25,000 fine to \$100,000. Separately and concurrently, Mr. Chapa was also charged with two felony counts in Harris County.

In imposing stiff fines and penalties, and through disqualifications and redistributions of purses, the Commission attempts to make the other non-cheating participants whole. However, the damage to the integrity of the sport and pari-mutuel wagering is far more difficult to restore, as is the confidence of the betting public. Consequently, the Commission must continue its successful and critical mission to enforce all violations, large and small, of the Texas Racing Act and the Rules of Racing.

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2017 PURSE STATISTICS

SOURCE OF FUNDS	QUARTER HORSE	THOROUGH-BRED	ARABIAN	PAINT	TOTAL HORSE
EARNED PURSE	\$4,552,531	\$12,863,611	\$320,800	\$72,700	\$17,809,642
TEXAS BRED STAKES	\$8,200	\$40,000	\$6,800	\$0	\$55,000
STAKES	\$3,310,609	\$425,820	\$26,650	\$45,195	\$3,808,274
SPONSORS	\$428,780	\$160,610	\$36,800	\$55	\$626,245
FUND TRANSFERS	\$42,500	\$0	\$0	\$30,000	\$72,500
ATB SPONSORED PURSE	\$18,500	\$96,839	\$0	\$0	\$115,339
TOTAL PURSES PAID	\$8,361,120	\$13,586,880	\$391,050	\$147,950	\$22,487,000
AVERAGE PURSES PAID PER PERF.	\$103,224	\$124,650	\$13,966	\$49,317	\$101,751

NOTE: All figures are based on racetrack submissions and have not been audited. Therefore, these figures should be used only as estimations.

SOURCE OF FUNDS	TOTAL GREYHOUND	SOURCE OF FUNDS	2016 COMBINED	2017 COMBINED	% CHANGE
EARNED PURSE	\$206,474	EARNED PURSE	\$18,760,158	\$18,016,116	-3.97%
TEXAS BRED STAKES	\$0	TEXAS BRED STAKES	\$49,000	\$55,000	12.24%
STAKES	\$0	STAKES	\$3,537,193	\$3,808,274	7.66%
SPONSORS	\$0	SPONSORS	\$1,300,678	\$626,245	-51.85%
FUND TRANSFERS	\$543,370	FUND TRANSFERS	\$206,870	\$615,870	197.71%
TGA CROSS SPECIES PURSE SUPPLEMENTS	\$1,006,093	TGA CROSS SPECIES PURSE SUPPLEMENTS	\$550,766	\$1,006,093	82.67%
TOTAL PURSES PAID	\$1,755,937	ATB SPONSORED PURSE	\$177,000	\$115,339	-34.84%
AVERAGE DAILY PURSES PAID PER PERF.	\$7,023.75	TOTAL PURSES PAID	\$24,581,665	\$24,242,937	-1.38%

NOTE: All figures are based on racetrack submissions and have not been audited. Therefore, these figures should be used only as estimations.

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2017 OVERVIEW OF PARI-MUTUEL RACING GREYHOUND & HORSE RACETRACKS

	GREYHOUND	HORSE	TOTAL
# of Active Racetracks	3	4	7
On-Track Handle:			
Live	\$508,080	\$22,049,353	\$22,555,433
Simulcast	<u>\$37,704,546</u>	<u>\$226,617,408</u>	<u>\$264,321,954</u>
TOTAL	\$38,210,626	\$248,666,761	\$286,877,387
# of Live Performances	24	186	210
# of Simulcast Signals Taken	22,625	34,927	57,552
Purses Paid	\$1,755,937	\$22,487,000	\$24,242,937
State Tax	\$417,866	\$2,339,046	\$2,756,912
Tx Bred Incentive Program	\$334,897	\$1,853,063	\$2,187,960
Attendance	93,213	1,155,164	1,248,377

NOTE: All figures are based on racetrack submissions and have not been audited. Therefore, these figures should be used only as estimations.

FIVE-YEAR OVERVIEW OF PARI-MUTUEL RACING GREYHOUND & HORSE TRACKS COMBINED

	2013	2014	2015	2016	2017
# of Active Tracks	8	8	7	7	7
Handle On-Track:					
Live	\$36,038,115	\$34,045,632	\$31,346,752	\$23,625,077	\$22,555,433
Simulcast	<u>\$279,693,122</u>	<u>\$291,334,139</u>	<u>\$285,706,220</u>	<u>\$279,156,653</u>	<u>\$264,321,954</u>
TOTAL	\$315,731,238	\$325,379,771	\$317,052,972	\$302,781,731	\$286,877,387
Live Performances	483	421	439	202	210
# of Simulcast Signals Taken	65,921	66,488	58,671	58,512	57,552
Purses Paid	\$26,931,778	\$26,750,502	\$28,251,996	\$24,581,665	\$24,242,937
State Tax	\$2,927,816	\$3,046,432	\$2,989,837	\$2,913,572	\$2,756,912
Tx Bred \$	\$3,385,136	\$3,514,007	\$3,393,141	\$2,300,109	\$2,187,960
Attendance	1,483,977	1,502,979	1,619,288	1,532,594	1,248,377

NOTE: All figures are based on racetrack submissions and have not been audited. Therefore, these figures should be used only as estimations.

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KEY AGENCY STATISTICS: SUMMARY OF FY 2017 FINANCIAL DATA

Source: Annual Financial Reports	FY 2016	FY 2017	CHANGE +/- %
REVENUES:			
Federal Pass-through Revenue	0.00	0.00	
Legislative Appropriations	0.00	0.00	
Licenses, Fees & Permits	4,505,529.73	4,504,253.76	-0.03%
Interest & Other Investment Income	14,392.00	12,745.88	-11.44%
Other Revenues	3,280,396.51	3,032,501.00	-7.56%
TOTAL REVENUES	7,800,318.24	7,549,500.64	-3.22%
EXPENDITURES:			
Salaries & Wages	2,892,682.77	2,666,607.50	-7.82%
Payroll Related Costs	1,122,149.65	1,141,077.23	1.69%
Professional Fees & Services	166,298.87	275,458.33	65.64%
Travel	194,582.60	194,560.56	-0.01%
Materials & Supplies	155,867.33	53,298.13	-65.81%
Communications & Utilities	111,652.99	103,575.35	-7.23%
Repairs & Maintenance	64,296.93	61,155.82	-4.89%
Rentals & Leases	91,100.87	99,369.05	9.08%
Printing, Reproduction & Publications	1,709.87	884.49	-48.27%
Claims & Judgments	66.32	95.75	44.38%
Distributions to Others	3,361,420.75	3,094,275.33	-7.95%
Depreciation Expense	0.00	0.00	0.00%
Capital Outlay	11,840.00	13,268.80	12.07%
TOTAL EXPENDITURES	8,173,668.95	7,703,626.34	-5.75%
EXCESS REVENUES OVER EXPENDITURES	(373,350.71)	(154,125.70)	-58.7%
OTHER FINANCING SOURCES (USES):			
Sale of Capital Asset	0.00	0.00	0.00%
Gain on Sale of Asset	0.00	0.00	0.00%
Operating Transfers Out (Agy 902, Fund 0001)	(14,948.83)	0.00	-100.00%
Operating Transfers Out (Agy 556, Fund 0001)	(58,758.65)	(54,562.64)	-7.14%
Total Other Financing Sources (Uses)	(73,707.48)	(54,562.64)	-25.97%
NET GAIN/LOSS FROM OPERATIONS	(447,058.19)	(208,688.34)	-53.32%
BEGINNING FUND BALANCE	890,677.51	443,619.32	-50.19%
Adjusting entry to fund balance:			
Funds in Suspense	15,000.00	20,000.00	33.33%
Restatements	0.00	0.00	0.00%
After AFR deadline	0.00	0.00	0.00%
BEGINNING FUND BALANCE – RESTATED	458,619.32	254,930.98	-44.41%

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KEY AGENCY STATISTICS: SUMMARY OF FY 2017 PERFORMANCE MEASURE DATA

FY 2017 KEY MEASURES	TARGET	ACTUAL	% OF TARGET
Number of Horse Racetracks Regulated	10	7	70.0%
Number of Greyhound Racetracks Regulated	3	3	100.0%
Number of Racetrack Inspections	95	50	52.6%
Number of Texas-bred Awards	9,500	8,501	89.5%
Number of Occupational Licenses Suspended or Revoked	100	161	161.0%
Number of Investigations Completed	96	136	141.7%
Percentage of Investigations Resulting in Disciplinary Action	95.00%	97.5%	102.6%
Percentage of Licensees with No Recent Violations	95.00%	96.3%	101.4%
Number of Race Animals Inspected Prior to Participating in a Race	41,284	17,008	41.2%
Percentage of Race Animals Injured or Dismissed from Racetracks	0.40%	0.34%	85.0%
Number of New Occupational Licenses Issued	2,200	1,895	86.1%
Number of Occupational Licenses Renewed	4,500	4,244	94.3%
Average Time (minutes) Required to Issue a New Occupational License	13	13.1	100.8%
Percentage of Compliance Audits Passed	95.00%	93.3%	98.2%
Total Pari-Mutuel Handle (in millions)	\$317.00	\$288.24	90.9%
Total take to the State Treasury from Pari-mutuel Wagering (in millions)	\$2,900,000	\$2,765,953	95.4%

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TEXAS DEPARTMENT OF PUBLIC SAFETY

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January 17, 2018

John T. Steen III, Chairman
Texas Racing Commission
8505 Cross Park Drive, Suite 110
Austin, Texas 78754-4594

RE: ARTICLE 179e, SECTION 3.10
VERNON'S TEXAS CIVIL STATUTES

Dear Chairman Steen,

Pursuant to the requirements outlined in Article 179e, Section 3.10 of Vernon's Texas Civil Statutes, the Texas Department of Public Safety provides the following information relating to organized crime and illegal gambling in Texas for the year 2017.

CRIMINAL ACTIVITY AND CRIME TRENDS

Today, Texas faces far more insidious threats than it has in the past, to include ruthless Mexican cartels, violent transnational and statewide gangs, high-threat criminals such as sex offenders who prey upon children, domestic terrorists, and international terrorist organizations that seek to destroy us and our way of life.

In 2017, the Department was committed to enhancing its resources regarding Homeland Security in order to continue to protect Texas from increasingly dangerous criminal and terrorism threats. To accomplish this goal, the Department concentrated its resources on criminal organizations and transnational gangs involved in criminal enterprises such as drug trafficking, human trafficking, vehicle theft, and other types of major criminal activity. The Texas-Mexico border region contains distinctive and complex security challenges that impact not only local areas, but also metropolitan areas across the United States. The continued violence along the border and the multi-billion dollar drug and human smuggling businesses posed the most serious threat to Texas and the nation. Efforts to curtail the border violence continued to be effective due to the growing partnerships cultivated with local, state, and federal agencies in Texas. This multi-agency collaboration contributed to numerous successes in 2017 through extensive investigations regarding high-risk criminals and predatory criminal gangs.

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John T. Steen III, Chairman
January 17, 2018
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Additionally, the increasing number of identity theft and other fraud schemes, aided by rapidly changing technology, continued to plague law enforcement agencies at all levels of government. Law enforcement officials continued to work to protect citizens who have fallen victim to these types of criminal activities.

The reportable crime index for 2017 will not be available until late 2018.

ILLEGAL GAMBLING

Illegal gambling involving 8-liner businesses continued to be an issue, reflected by the number of referrals received by local and state officers this past year. Gambling related to animals, such as dog fights and cockfights, is known to occur and challenge law enforcement, predominantly in the rural areas and the inner metropolitan city neighborhoods of Texas.

Unsanctioned horse racing at non pari-mutuel tracks, or “brush tracks,” continued to occur in both metropolitan and rural areas in Texas. Racing authorities and racing interests are certain these unsanctioned tracks have an adverse impact on the legitimate pari-mutuel tracks and the racing industry in Texas, both operationally and economically. While unsanctioned horse racing is an issue, using covert operations to identify individuals involved in illegal activities at these tracks is difficult due to the familiarity the participants have with each other. Moreover, the erratic scheduling of these operations and the undisclosed rural locations further hindered investigations by law enforcement officers. The Department continues to coordinate with local and state law enforcement agencies in an effort to reduce and eliminate these illegal businesses.

Sincerely yours,

Thomas Ruocco
Texas Department of Public Safety
Division Director
Chief - Criminal Investigations Division



Justin Owen
Texas Department of Public Safety
Major - Criminal Investigations Division

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Note: Except where otherwise indicated, information in this report is for calendar year 2017 and has not been audited.



— TEXAS —

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