Office of the Auditor General of Ontario

Ontario Lottery and Gaming Corporation's Modernization Plan

Special Report

April 2014

Office of the Auditor General of Ontario

To the Honourable Speaker
of the Legislative Assembly

I am pleased to transmit my Special Report on the Ontario Lottery and Gaming Corporation's Modernization Plan, as requested by the Standing Committee on Public Accounts under Section 17 of the *Auditor General Act*.

Bonnie Lysyk
Auditor General

April 2014

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1.0 Reflections

A considerable amount of information and detail is contained in this report addressing the seven-part motion passed by the Standing Committee on Public Accounts requesting my Office to review the Ontario Lottery and Gaming Corporation (OLG) with respect to the specific issues in **Figure 2**. In our Summary (Section 4.0), we highlight some of our key specific conclusions and observations. Reflecting on this report, I'd like to highlight four high-level "takeaways" from our work:

- **The importance of realistic timelines and financial projections in publicly communicated information.** The Modernization Plan anticipated that OLG could complete significant downsizing, restructuring and privatization within 18 months without sufficient upfront consultation with municipalities and other key stakeholders, whose cooperation and agreement would be critical to meeting its modernization initiatives. This was unrealistic.
- **The importance of Ministries and Crown agencies clarifying and conducting the monitoring activities required of them under agreements with third parties, and the importance of third parties also clarifying, acknowledging and co-operating in providing information requested under such agreements.** The Slots At Racetracks Program has provided benefits to both OLG and the horse-racing industry in Ontario since it was launched in 1998. If OLG, working with racetrack operators, had confirmed how reporting and monitoring was to be handled at the time the Slots At Racetracks Program was launched, the abrupt decision to cancel the Slots At Racetracks Program without transition funding and the subsequent government decision to provide new transition and support funding might have been handled differently.
- **The importance of consultation with stakeholders that are significantly impacted by decisions.** Although OLG had a termination-with-notice clause in its agreements with racetrack operators that it could contractually exercise, the abrupt cancellation of the Slots At Racetracks Program caught the horse-racing industry by surprise. Exercising the termination clause subsequently led to significant pressures on the government to reach alternative arrangements, which it ultimately did. As well, the success of OLG's Modernization Plan depended heavily on the location of gaming facilities in several large municipalities. However, non-acceptance of OLG's plans by some large municipalities, including those in the Greater Toronto Area, has resulted in a significant reduction to revenue projections in the Modernization Plan.
- **The importance of stability in leadership and governance for a Crown agency.** Since its inception in 1975, OLG has demonstrated

success in providing significant revenues to the province of Ontario. However by 2010, the government and OLG management determined that the organization needed to make substantial changes and operational improvements to sustain and enhance revenues. Since 2005, OLG has gone through a series of Board and executive management changes, including the appointment of five different Board chairs and seven Chief Executive Officers. As well, OLG has reported to four different Ministries since 2005 and is now reporting to its fifth Minister. In the absence of a long-term gaming strategy for the province that also included horse racing, the development of the Modernization Plan was needed to address OLG's stagnant and declining profits. Hindsight is always 20/20, but one wonders if stable leadership and governance could have benefited OLG and the gaming industry in Ontario.

2.0 Background

2.1 Gambling Industry Overview[1]

Under the Canadian *Criminal Code*, a provincial government is permitted to conduct and manage gambling in its province in accordance with the laws enacted in that province. In Ontario, gambling is conducted and managed in accordance with the *Ontario Lottery and Gaming Corporation Act, 1999* and the *Gaming Control Act*. Charities are allowed to conduct gaming for charitable purposes if authorized by the provincial government. The federal government has responsibility for pari-mutuel betting on horse racing.[2]

Appendix 1 shows OLG's relationships with other key players in Ontario's gaming industry, and **Appendix 2** provides details on their responsibilities.

Even before OLG was tasked with conducting and managing gaming facilities, horse racing had a long history in Ontario. The *Criminal Code* was amended in 1886 to permit betting between individuals on horse races, and the Ontario Racing Commission (ORC) was created in 1950 to regulate the horse-racing industry. The Slots At Racetracks Program was launched in 1998, and by 2006 each of the 17 racetracks in Ontario had OLG slot machines at their racetrack facilities and shared the slots revenue generated with the provincial government.

Ontario has been home to a world-class horse-racing and horse-breeding industry, and as **Appendix 3** indicates, in 2012 this industry generated the third-highest horse-race betting revenues in North America. This industry is labour-intensive—in 2012 it employed an estimated 32,000 to 55,000 people full-time and part-time, making horse racing one of the largest agricultural sectors in the province. [3]

The amount bet on horse races in Ontario declined by 25% during the past decade, from $1.244 billion in 2002 to $935 million in 2012. In 2012, the industry derived its income from two primary sources: a commission of $130 million on the $935 million betting revenue, divided about equally between racetrack operators and horse people[4]; and a 20% share of revenues from slots at racetracks, about $347.3 million.[5]

By 2012, the gambling industry overseen by OLG consisted of the gambling components outlined in **Appendix 4**.

Across Canada, there were over 35,000 gaming venues, including horse racing, lotteries and

1. This overview generally describes the gambling industry before OLG introduced the Modernization Plan in March 2012.
2. In pari-mutuel betting, bets are placed together in a pool, taxes and the house take are removed, and payoff odds are calculated by sharing the remainder of the pool among all winning bets. The federal Canadian Pari-Mutuel Agency regulates and supervises pari-mutuel betting on horse racing in Canada.
3. Modernization plans the Ministry of Finance submitted to Cabinet on February 7, 2012, said that approximately 32,000 people, including jockeys, trainers, owners, breeders, veterinarians, groomers and others, are involved within the industry in some way, based on the Ontario Racing Commission issuing about 26,000 licences and there being almost 6,000 employees at racetracks (excluding OLG staff). A report titled *It's all about Leadership—Strategic Vision and Direction for the Ontario Horse Racing and Breeding Industry* (often referred to as the Sadinsky Report) cited approximately 55,000 full-time and part-time jobs in the industry, many of which are in the agricultural sector.
4. People directly employed in the horse-racing industry are commonly referred to as "horse people."
5. **Figure 17** illustrates how Slots At Racetracks Program funding was distributed to racetrack operators and horse people.

slot machines; every province had casinos except Newfoundland Labrador. Ontario and British Columbia were the only provinces that did not permit slot machines (also commonly referred to as video lottery terminals) in commercial businesses such as bars and restaurants. Ontario, along with Alberta, Saskatchewan and Manitoba, did not yet offer Internet gaming. Bingo halls operated in every province; however, in New Brunswick, Nova Scotia, Newfoundland Labrador, and Prince Edward Island, bingo halls operate only part time.

For the fiscal year ending March 31, 2012, OLG's revenue from land-based gaming, lottery and bingo was $6.717 billion and expenses (including win contribution payments collected from resort casinos of $258 million) were $5.095 billion, which resulted in net income of $1.622 billion. For the year ending March 31, 2012, OLG paid net profit to the province (NPP) of $1.880 billion, including the win contribution payments. This NPP was a decline from the approximately $2.4 billion in NPP paid in the year ending March 31, 2003.[6]

In the year ending March 31, 2012, in addition to the horse-racing sector, other beneficiaries from gaming revenues were as follows:

- **Municipalities:** Municipalities received about $85 million from hosting slots at racetracks and casinos and $27 million for payments in lieu of municipal property taxes.[7]
- **Ontario First Nations:** OLG's predecessor, the Ontario Casino Corporation, entered into an agreement in 1996 with the Chippewas of Mnjikaning First Nation (Rama), CHC Casinos Limited (a private-sector operator) and various corporations wholly owned by Rama for the construction and operation of the Casino Rama complex. In 2000, OLG and the province signed a revenue-sharing agreement with the Mnjikaning First Nation Limited Partnership, and the Ontario First Nations Limited Partnership (OFNLP), which represents 132 other First Nations communities in the province, that provided them with a share of the net revenues of Casino Rama. For its first five years of operations (from August 1996 to July 2001), the agreement provided the OFNLP and Rama with 65% and 35% of net revenues, respectively. Afterwards, the agreement continued to provide the OFNLP with 65% of net revenues, and 35% would be distributed in accordance with the direction from the Chiefs in Assembly of the 133 First Nations in Ontario (or pursuant to a court order).

  Rama brought a legal action against the province and OLG in June 2001 to assert that it was entitled to continue receiving 35% of the ongoing net revenues of Casino Rama beyond July 2001 into perpetuity, instead of a lesser share then proposed by the Chiefs in Assembly. As a result of this claim, OLG paid 35% of net revenues from Casino Rama into a separate account until July 2010, when Rama's claim was dismissed by the Supreme Court of Canada. The $248 million that had accumulated in the account was paid to the OFNLP, of which Rama did not receive any share as determined by the Chiefs in Assembly. Rama initiated a new legal action against the OFNLP claiming a share of the $248 million.

  Effective April 1, 2011, a new revenue-sharing agreement signed in 2008 replaced the 2000 agreement. Under the 2008 agreement, OLG provides 1.7% of its total gross revenues from all operations (for example, lotteries, gaming and non-gaming revenue such as food sales and hotels) to a new First Nations partnership [Ontario First Nations (2008) Limited Partnership].[8] For the year ending March 31, 2012, this amounted to about $119 million (OFNLP had received $59 million for the year ending March 31, 2011, under the 2000 agreement). In addition, for the year ended March 31, 2012, OLG provided $27.5 million to certain First Nations communities for fees and

6. OLG's net annual profit for the year ending March 31, 2013, was approximately $1.8 billion.
7. See Section 5.3 for municipal hosting-fee arrangements.
8. In February 2008, the Chiefs of Ontario and the OFNLP discontinued another legal action against the province and OLG over a 20% win contribution (tax) on Casino Rama's revenues. This was a requirement for acceptance of the new revenue-sharing agreement.

services relating to Casino Rama and the Great Blue Heron Casino.[9]

- **Charities and not-for-profit groups:** In the year ending March 31, 2012, six bingo halls were operating as electronic bingo centres, offering electronic games, as part of an OLG pilot project.[10] The share of revenues going to charities and not-for-profit groups from these sites amounted to $8.4 million in the year ending March 31, 2012.[11]

In 2005, the government announced a moratorium on new gaming facilities,[12] which remained in place until July 2010. During this five-year period, OLG was criticized publicly for problems such as misprinted scratch tickets, malfunctioning slot machines, a Mercedes car giveaway, insider wins on lottery tickets and inappropriate expense claims. Over the same period, OLG went through a series of executive management changes, including the appointment of three different Board chairs and four different Chief Executive Officers (CEOs). A fourth Board chair was appointed in February 2010 and a fifth CEO started on an interim basis in July 2010. A sixth CEO was appointed in June 2011. On May 16, 2013, the government terminated the appointment of the Chair of OLG's Board of Directors, and all members of the Board resigned. A new Chair and new Board members were appointed in November 2013. The sixth CEO resigned in January 2014 and an executive vice-president was appointed acting CEO at that time.

As well, the government repeatedly reassigned responsibility for OLG to different ministries—four between 2005 and 2010.[13] In February 2013, the government appointed a new Minister of Finance, who then became the fifth Minister (in the fourth Ministry) to be responsible for OLG since 2005.

Appendix 5 provides a detailed history of Ontario's gambling industry.

In July 2010, Cabinet directed OLG to work with the Ministry of Finance to increase net provincial revenue by modernizing commercial and charitable gaming. This request included expanding charitable gaming to allow bingo halls to have electronic games; developing Internet gaming (including a process for private-sector vendors to deliver Internet gaming with appropriate oversight);[14] and conducting a strategic business review of land-based gaming facilities and a review of the lottery distribution network, with a report to be submitted back to Cabinet by late 2011.

Also in 2010, OLG had begun a review to determine the extent to which funding from the Slots At Racetracks Program distributed to racetrack operators in the past had been used to improve the horse-racing industry.

In November 2011, the OLG Board recommended to the Minister of Finance that the Slots At Racetracks Program should be replaced with a new horse-racing funding model, with transitional funding provided in the interim.

At the same time, work on the 2012 Report of the Commission on the Reform of Ontario's Public Services (the Drummond Report) was concluding. The Drummond Report was commissioned to advise government on ways to eliminate the provincial deficit by March 31, 2018, including eliminating or redesigning programs that no longer serve their intended purpose. It was publicly released on February 15, 2012, and stated that "Ontario's approach [of sharing slot revenues with racetracks] is unsustainable and it is time for the [horse-racing] industry to rationalize its presence in the gaming marketplace....so that the industry is more appropriately sustained by the wagering revenues it generates."[15] It characterized these revenue shares as a subsidy to the horse-racing industry. The Drummond Report also recommended allowing

9. See section 5.3.1 for details on OLG payments to these First Nations communities.
10. Electronic games include electronic bingo (bingo played on the touch screens of electronic bingo terminals), personal play-on-demand games and electronic break-open-ticket games (for example, a game where pushing a button on a video terminal scans and displays a break-open ticket with winning or losing combinations of rows of symbols).
11. See Sections 5.2.1 and 5.4.2 for revenue-sharing arrangements.
12. Gaming facilities consist of slots at racetracks, OLG casinos and resort casinos, and exclude bingo halls.
13. Economic Development and Trade, Public Infrastructure Renewal, Energy and Infrastructure, and Finance.
14. Internet gaming involves playing games such as poker, roulette, blackjack and baccarat online, with players competing against each other or the house (that is, OLG).
15. Drummond Report, p. 316.

slots-only gaming facilities "at sites that are not co-located with horse racing venues."[16] (See Section 5.6.3 for more details.)

On February 7, 2012, the Ministry of Finance reported to Cabinet on modernizing OLG. The Ministry received approval for OLG to work with it to increase net profit to the province by optimizing and expanding land-based gaming and the lottery distribution network.

For land-based gaming, the approved changes included:

- closing three slots at racetracks;
- relocating six slots at racetracks and one OLG casino;
- introducing five new gaming facilities in underserviced communities;
- introducing live table games at remaining slots at racetracks where market demand permits;
- competitively outsourcing the day-to-day operations of gaming facilities that OLG was operating to private-sector operators and having them fund new capital development and buy existing OLG capital gaming assets;
- establishing gaming zones for gaming facilities to minimize competition among sites; and
- establishing a consistent fee model for host municipalities of current and new gaming facilities.

For the lottery distribution network, the approved changes included:

- competitively selecting one or more private-sector operators to purchase existing lottery terminals and distribute new lottery terminals to retailers; and
- increasing distribution channels by introducing multi-lane sales at major retail outlets.

For the Slots At Racetracks Program, OLG was directed to provide notice to terminate all site-holder agreements with racetrack operators, effectively ending the program on March 31, 2013.

For socially responsible gambling, the approved changes included:

- continuing to have no video lottery terminals (slot machines) in commercial businesses such as restaurants and bars in Ontario; and
- having OLG incorporate the Alcohol and Gaming Commission of Ontario's responsible gambling standards into its contracts with private-sector operators.

In March 2012, OLG published a report titled *Modernizing Lottery and Gaming in Ontario – Strategic Business Review/Advice to Government* (Modernization Plan) and highlighted a need for change because its business model was not sustainable in the long term. It stated, "Advances in technology, changes to shopping patterns, aging demographics, and declining visits from the U.S. have combined to threaten the industry and the contribution to the province." Other factors cited in support of the need for change were that:

- OLG's existing agreements with the operators of resort casinos and other gaming facilities fostered internal competition, resulting in less value for marketing dollars spent;
- profits from gaming facilities close to the U.S. border had dropped from $800 million in 2001 to $100 million in 2011;
- lottery game sales were beginning to plateau, due partially to a decline in players under 45 years old;
- Ontario's per capita annual gaming profit of $149 was lower than the Canadian average of $220 and had been flat over the last five years, while provinces like B.C. and Alberta were seeing growth—the conclusion drawn was that the customer base needed to be broadened, with more people playing a little; and
- over the next five years, it could cost the government up to $1 billion to maintain existing OLG infrastructure, and up to $3 billion more to transform and modernize it.

16. Drummond Report, p. 409.

2.2 The Modernization Plan

The Modernization Plan was approved by Cabinet in February 2012. Subsequent to its release in March 2012, the Minister of Finance provided OLG with a letter clarifying its expectations on the implementation of the Modernization Plan and requiring OLG to work in conjunction with the Ministry of Finance in this process.[17] The Modernization Plan outlined the following projected financial, capital investment and employment gains to the Ontario gaming industry, which were to be achieved by March 31, 2018:

- an additional cumulative $4.6 billion in net profit to the province (between April 1, 2012, and March 31, 2018) from modernization initiatives (see **Figure 5**);
- about $3 billion in new private-sector capital investment in Ontario (see **Figure 12**);
- about 2,300 net new gaming-industry jobs (see **Figure 14**); and
- 4,000 net new jobs in the hospitality, entertainment and retail sectors.

Before Modernization, OLG was forecasting that it would generate about $1.7 billion in net profit to the province in each of the years ending March 31, 2016, March 31, 2017, and March 31, 2018. It was anticipated that, in addition to this annual net profit to the province of $1.7 billion, there would be an additional $1.3 billion in annual net profit to the province as a result of modernization, starting April 1, 2017.[18] The $3-billion total for the year ended March 31, 2018, was expected to be sustainable for years thereafter. The Modernization Plan stated that the additional $1.3 billion would be based on the following:

- $260 million annually from improving the efficiency of OLG operations;
- $100 million annually from its new Internet gaming initiatives;
- $180 million annually from privatizing and expanding the lottery network; and
- $740 million annually from casinos and slots-only facilities modernization and ending Slots At Racetracks Program funding.[19]

The planned changes were to:

- **Reconfigure the Casino Landscape and Become More Customer-Focused:** To improve access to gaming and attract new patrons, gaming facilities would either move to or be opened in more densely populated urban areas. The plan was to close three existing slots at racetracks, relocate six slots at racetracks and one casino to more populated communities, and create as many as five new casinos. A new fee model for the municipalities that host gaming facilities would also be implemented.
- **Expand Private-sector Delivery of Lotteries and Gaming:** OLG planned to use private-sector investment to relocate and build the new casinos. The plan also called for outsourcing the day-to-day operation of casinos and the lottery network to the private sector. OLG's capital assets would be sold and the development and ownership of capital assets would be shifted to the private sector. New agreements would be reached on sharing the revenues from casinos.
- **Cancel the Slots At Racetracks Program:** The government would decide to end this program effective March 31, 2013. This program had generated $4.1 billion in revenue for racetrack owners and for horse people since its 1998 launch. Under this program, slots-only facilities were located just at racetracks,

17. The April 27, 2012, letter from the Minister of Finance to the then Chair of the Board reiterated the initiatives approved by Cabinet on February 7, 2012, that OLG was to proceed with. It also listed additional expectations that the government had for OLG to carry out work in the following areas: procurement processes, reducing OLG's workforce, working with lottery ticket sellers, procurement processes to support participation by First Nation businesses and communities, meeting statutory and AGCO regulatory requirements for new and relocating gaming facilities and sale of assets, establishment by OLG of an operational plan of key activities over the next 6,12 and 18 months for sharing with Ministry of Finance staff for ongoing oversight, monitoring and co-ordination of work between OLG and the Ministry; obtaining the required ministerial and municipal approvals for gaming zones and for opening new gaming facilities and relocating existing gaming facilities; and responsible gambling.
18. Figure 5 provides a breakdown of projected additional NPP for each of the six years of the Modernization Plan. The Modernization Plan public document information presented here does not exactly match the projections OLG provided to us. For instance, OLG's publicly stated projection of $1.3 billion in additional NPP for the year ending March 31, 2018, was actually $1.263 billion.
19. The Slots At Racetracks Program provided $347.3 million in funding to the horse-racing industry in the year ending March 31, 2012.

which OLG claimed impeded its ability to serve customers closer to where they live.

- **Expand the Sale of Lottery Tickets:** Tickets would be sold at additional major retail outlets, such as big-box stores, and lottery sale software would be integrated with retailers' cash registers.
- **Enhance Responsible Gambling Programming:** OLG would ensure all operations meet rigorous external standards, and expand its use of technologies and collection of data to encourage players to make informed choices and support problem gamblers. OLG would continue ongoing partnerships with independent, provincially funded agencies and maintain a strong funding base to promote responsible gambling.
- **Continue the Implementation of Digital Gaming:** Digital gaming (electronic bingo and casino-style Internet gaming) had already been approved by Cabinet in July 2010. The implementation of digital gaming was to continue under the Modernization Plan.

A chronology of key events from when Modernization was first requested by the Ontario government to March 31, 2014, is provided in **Appendix 6**. The key events are organized by component affected.

2.3 Status of Modernization Plan

OLG established a governance structure for the implementation of its Modernization Plan that included the Board of Directors and OLG executives, who were to oversee the implementation of the Modernization Plan, and teams of senior staff, who were to carry out the implementation. OLG was to work closely with the Ministry of Finance.

The implementation of the Modernization Plan, which was to take place over the six-year period ending March 31, 2018, has been delayed for many reasons, including municipalities needing more time to respond to OLG's plans; some municipalities rejecting new gaming facilities or the relocation of existing gaming facilities; OLG's procurement processes taking longer than planned; OLG's launches of new initiatives taking longer than planned; and the government's subsequent decision to integrate horse racing into the Modernization Plan, resulting in OLG keeping slots at racetracks. As a result, OLG revised its original timelines and projections of revenues and economic impacts. As of March 31, 2014, it has revised its original six-year projection of $4.624 billion in new net profit to the province by March 31, 2018, down to $2.402 billion. (See **Figure 8.**) OLG continues to implement the Modernization Plan, but the lack of municipal approvals for several new large casinos will significantly alter its plans for land-based gaming. In addition, unanticipated costs to the province for transition and support funding to the horse-racing industry were incurred after the cancellation of the Slots At Racetracks Program and will continue to be incurred over the next five years.

We believe that OLG's revised projection of $2.402 billion as of March 31, 2014 (see **Figure 8**) may still be overly optimistic by approximately $562 million, and that our assessment of $1.840 billion at this point in time (see **Figure 7**) is a more realistic projection.

Figure 1 outlines the status of various initiatives under the Modernization Plan.

3.0 Review Objective and Scope

On April 10, 2013, the Legislature's Standing Committee on Public Accounts (Committee) passed a seven-part motion requesting that "the Auditor General of Ontario commence an immediate review of the Ontario Lottery and Gaming Corporation" regarding the items noted in **Figure 2**. We accepted this assignment under Section 17 of the *Auditor General Act,* which states that the Committee can request that the Auditor General perform special assignments.

Figure 1: Status of OLG's March 2012 Modernization Plan Activities as of March 31, 2014

Source of data: OLG

Activity and Original Planned Completion Date	What's Been Done	What's Left to Do as of March 31, 2014 and Revised Completion Date
Reconfiguration of the number of gaming facilities and tailoring the types of gaming activities made available at each location (summer 2012)	• Gaming business model developed • 29 gaming zones (areas where a gaming facility is permitted to operate) established (24 of them have existing gaming facilities) • New statutory regulation in force replacing public referendum with other requirements for establishing a new gaming facility in a municipality • Responses obtained from municipalities to OLG's proposed changes, locations and types of gaming facilities	• Finalize locations and reconfigure gaming facilities in zones on the basis of municipal approvals received (no revised completion date, but will be after December 2014, the revised completion date for securing private-sector operators)
Securing private-sector operators for gaming zones, who will be responsible for all funding, building and operation of all gaming facilities (December 2012)	• 25 of 29 gaming zones grouped into 7 larger bundles for private-sector operator service-delivery bidding • 3 gaming zones including 3 existing resort casinos subsequently removed from bidding process • Option to build a casino in the Greater Toronto Area (GTA) gaming zone should municipal approval be received in future bundled with two other GTA zones. • Requests for pre-qualification of bidders issued for each of the 7 bundles	• Evaluate submissions for pre-qualification of bidders • Issue requests for proposals to eligible private-sector operators to take over operations of existing gaming facilities and build and operate new ones as per each bundle's provisions • Award contracts to private-sector operators for each gaming zone bundle and transition day-to-day operations of existing gaming facilities • Operators to open new and relocated gaming facilities (December 2014 for the awarding of gaming zones to private-sector operators)
Implementation of new, consistent hosting fee model for municipalities with gaming facilities (late 2014)	• New hosting fee rates announced in May 2013 • All 22 host municipalities have signed new hosting fee agreements with OLG	• Completed
Securing a private-sector operator for lottery network operations (December 2012)	• Request for pre-qualification issued	• Evaluate submissions for pre-qualification of bidders • Issue Requests for Proposals to eligible private-sector operators • Award contract to a private-sector operator (March 2015)
Expansion of lottery ticket sales to large multi-lane retail outlets (late 2015)	• No significant action	• Select private-sector operator • Work with new operator to develop system to integrate lottery sales with retailers' systems (no revised completion date, but will be after March 2015, the revised completion date for securing lottery network private-sector operator)

Activity and Original Planned Completion Date	What's Been Done	What's Left to Do as of March 31, 2014 and Revised Completion Date
Ending Slots At Racetracks Program (March 31, 2013)	• End of program funding announced in March 2012 Budget • Program funding ended March 31, 2013 • Premier announced in May 2013 that horse racing will be integrated into the Modernization Plan and OLG will find new revenue streams for the industry • Transition plan announced in October 2013 worth up to $400 million over 5 years. Increased to $500 million in March 2014	• Determine how OLG will integrate horse racing with Modernization Plan (no completion date set)
Optimization of gaming facilities beyond slots at racetracks (April 2012—closed 3 slots and racetracks) (winter 2013—2 new temporary gaming facilities) (late 2015—10 new permanent gaming facilities) (late 2016—2 new permanent gaming facilities)	• 3 slots at racetracks closed in April 2012 • Municipalities informed of proposed relocations and/or plans for new casinos and have responded with approvals or rejections	• Secure private-sector operators for gaming zones • Private-sector operators to determine new locations for gaming facilities where municipalities have approved relocations of existing gaming facilities or new casinos • Obtain necessary approvals from OLG, the AGCO, municipalities and Minister of Finance for relocation of existing gaming facilities or new casinos • Establish all temporary and permanent gaming facilities (no revised completion date, but will be after December 2014, the revised completion date for securing private-sector operators)
Implementation of Internet gaming (late 2011)	• Request for proposals issued • 5-year contract signed with a private operator to manage day-to-day Internet gaming operations	• Launch of Internet gaming to public (September 2014)
Revitalizing charitable gaming by converting participating existing bingo halls to electronic bingo centres (December 2013)	• 6 electronic bingo centres piloted 2005–2012 • 8-year contract signed with a private vendor to accelerate development and installation of electronic bingo and other products • 20 of 42 participating bingo halls have been converted to electronic bingo centres	• Complete the conversion of 22 remaining bingo halls (March 2015)
Enhancement of responsible gambling programming (end of 2014—complete accreditation of all gaming facilities) (no specific dates provided for integrating existing resources and tools in all new gaming offerings)	• 20 of 24 gaming facilities achieved responsible gambling accreditation from an independent, not-for-profit organization (Responsible Gambling Council)	• Obtain accreditation for all remaining gaming facilities (December 31, 2014) • Implement responsible gambling controls for Internet gaming (September 2014) • New initiative added to apply OLG's responsible gambling expertise within the horse-racing industry (no completion date set)

During our work, we interviewed key OLG staff (including the former CEO) and Ministry of Finance senior staff. We reviewed their documents relating to the procurement of private-sector vendors, host-city-payment formulas, revenue projections and economic impact assessments, consultations that OLG held with municipalities, and responsible-gambling activities. We also reviewed Cabinet submissions by the Ministry of Finance that were used to obtain approvals for OLG's strategic business review, Modernization initiatives and the cancellation of the Slots At Racetracks Program.

We talked to OLG's current Chair and most recent former Chair and several former Board members who were in place during Modernization planning to obtain their perspective on the events leading up to and following the issuance of the Modernization Plan.

We held discussions with several municipal representatives, including elected officials, to discuss their involvement with OLG. This included discussing the impact of the Modernization process, municipal hosting fees, the relocation and closing of gaming facilities, proposed new gaming facilities, and the consultations that took place for the planned and actual changes.

We met with industry associations and stakeholders for electronic bingo, including the Ontario Charitable Gaming Association and the Commercial Gaming Association of Ontario. We also visited bingo halls operating under OLG's new electronic bingo initiative.

In our work on responsible gambling, we met with representatives of the Centre for Addiction and Mental Health (CAMH), the Responsible Gambling Council (RGC), the Ontario Problem Gambling Research Centre (OPGRC), the Alcohol and Gaming Commission of Ontario (AGCO), and the Problem Gambling Institute of Ontario regarding OLG's plans and activities to prevent and mitigate

Figure 2: Parts of Committee Motion and Report Organization
Source of data: Standing Committee on Public Accounts

Motion	Report Section
Whether the province or the corporation has conducted a broad enough consultation process to ascertain whether or not new casinos are welcome in various communities throughout Ontario	Section 5.1 Consultations with Municipalities on New Casinos
Whether the corporation has employed or is employing a clear, consistent and transparent process for tendering, contracting and planning for any and all new or proposed casinos, gaming facilities, bingo halls, online gaming and lotteries throughout Ontario	Section 5.2 Planning, Tendering and Contracting Processes
Whether the host-city-payment formulas for casinos or other gaming facilities are clear, consistent and transparent across the province and whether any special, secret or "one-off" deals are being negotiated between different municipalities for different reasons	Section 5.3 Hosting Fees for Gaming Facilities
Whether provincial or local revenue projections and local economic impact assessments for new casinos and other gaming facilities have been undertaken and are clear, fair and transparent	Section 5.4 Modernization Plan Revenue Projections and Assessments of Economic Impact
Whether the province and/or the corporation has adequately taken into consideration community impacts on mental health and/or addiction matters related to the implementation of the new "modernization" plan	Section 5.5 Mental Health and Addiction Matters
Whether the impact of cancelling the Slots At Racetracks Program on Ontario's horse racing industry was measured and whether certain communities have been impacted disproportionately as compared to other communities and if the Liberal government's decision to end the program will be offset by changes in the new modernization plan Whether the province or the corporation properly consulted or consulted various industries, businesses and municipalities impacted by the cancellation of the Slots At Racetracks Program, and did the province or the corporation assess the economic impact on said industries, businesses and municipalities and factor that into their decision(s)	Section 5.6 Cancellation of the Slots At Racetracks Program

problem gambling. We also met with municipal representatives to discuss mental health and addiction issues relating to gambling.

In addressing the Committee's motion relating to the horse-racing industry, we met with and obtained documents from the Ministry of Agriculture and Food (regarding transition and support funding), the Ontario Racing Commission (ORC), the Ontario Horse Harness Association, the Ontario Horse Racing Industry Association, Quarter Racing Owners of Ontario Inc., the Standardbred Breeders Association of Ontario, Standardbred Canada and several racetrack operators. We also attended two of the Horse Racing Industry Transition Panel sessions held at racetracks to hear first-hand dialogue between the panel and those affected by the decision to end the Slots at Racetracks Program.

We also met with the OLG's internal auditors and conducted research on gaming and horse racing in other provinces and North America.

4.0 Summary

The Standing Committee on Public Accounts' motion was very broad, asking a number of questions, as noted in **Figure 2**, that we specifically answer in Sections 5.1 to 5.6 of this report. Overall, we noted the following:

The Modernization Plan Had an Overly Ambitious Timeline—In our opinion, the government and OLG did not do enough preparation and planning before launching an ambitious, "best-case scenario" Modernization Plan for Ontario's gaming industry. OLG made commitments and projections that it could not deliver on time and as envisioned. The Modernization Plan included a significant number of changes and initiatives that needed to occur within 18 months in order to achieve net profit projections. These included obtaining municipal approvals as well as downsizing, restructuring and privatization of OLG. Delays to date have caused significant uncertainty about the likelihood of achieving the revenues projected in the Modernization Plan.

The Modernization Plan Depended on and Assumed Municipal Stakeholder Agreement, Especially in the Case of Having a Casino in the Greater Toronto Area (GTA)—OLG's Modernization Plan was projecting to generate an additional net profit of $1.3 billion annually by 2018. Over 20% of these additional profits were to come from the opening of new casinos and the relocation of existing gaming facilities to a number of large urban centres in Ontario, the largest being the GTA. OLG's planning focus was on maximizing gaming revenues based largely on population demographics. However, more consultation with municipalities was needed to assess the practicalities of getting municipal approval for OLG plans. The Modernization Plan included 12 potential new locations for gaming facilities. When municipalities voted against having gaming facilities in their jurisdictions, the Plan's financial projection was negatively impacted. To date, most large host municipalities for these potential new gaming facilities (Greater Toronto Area municipalities, Hamilton, Ottawa, Kitchener and Waterloo) either have not accepted or have significantly changed OLG's proposals.

The Modernization Plan's Financial Projections Were Overly Optimistic—OLG estimated that over the period between 2013 and 2018, implementation of its Modernization Plan would result in an additional $4.6 billion in gaming profits. Our review found that the assumptions underlying this estimate were, for the most part, far too optimistic. We believe that this was partially due to the lack of a comprehensive underlying business case based on objective and comprehensive data, as well as to the lack of information on whether the various key stakeholders would support OLG's plans. The Modernization Plan was also highly dependent on OLG's assumption that the private sector would deliver OLG's gaming and lottery network operations more efficiently, more effectively and at less cost.

OLG has already reduced its estimate of projected revenues by 48%, from $4.6 billion (March 2012 estimate) to $2.4 billion (March 2014 estimate). We estimate that approximately $562 million, or 12%, of the net profit to the province that OLG expects from its Modernization Plan by March 31, 2018, is also at risk of not being realized at this time. Significant uncertainty will remain in OLG's projection until it completes its procurement of private-sector operators. The Plan would have had to be delivered on time and exactly as planned to achieve the projected revenues that were included in the Plan. The 2012 and 2013 provincial budgets included these projected revenues (less a $356 million reduction for uncertainty).

In addition, OLG projected in its Modernization Plan that over the period between 2012 and 2020, electronic bingo initiatives would generate about $475 million in profits for Ontario charities and not-for-profit groups (referred to collectively as charities). OLG will have challenges generating the additional $475 million, as payments to charities will have to increase by more than 100% for the 42 of 66 bingo halls that have converted or plan to convert to electronic bingo centres. OLG based its projection on piloting electronic bingo at six bingo halls even though the amounts paid to charities by these sites do not fully support OLG's projections—only four of these sites have been in operation from 2006 to 2012 and their payments to charities actually declined by 22% after the first year.

Procurement Processes to Date Have Been Fair, Open and Transparent—Although OLG has not completed all of the procurements outlined in its Modernization Plan, we found that the processes it has followed to date have been fair, open and transparent.

The Modernization Plan's Job and Private-sector Capital Investment Projections Were Overstated—As of March 31, 2014, the changes required to the Modernization Plan will result in significantly fewer jobs and less private-sector capital investment than was originally projected. It is more likely that there will be a net loss of provincial gaming jobs, instead of the initially expected net gain in jobs. For instance, OLG's job projections did not factor in job losses from ending the Slots At Racetracks Program, which the Ministry of Finance estimated to be between 3,500 and 5,800 jobs. Private-sector capital investment may be about $938 million, or 71% lower than initially projected, as a result of new casinos or relocated gaming facilities in more densely populated urban areas no longer expected to materialize in the GTA, Ottawa, Hamilton, Kitchener–Waterloo and Cornwall areas, as well as OLG's decision not to end existing contracts with three resort casinos.

The Cancellation of the Slots At Racetracks Program Was Considered in the Modernization Plan But Was Unexpected by the Horse-racing Industry—The decision to terminate the Slots At Racetracks Program can hardly be considered to have been open and transparent, as we were told it caught most stakeholders by surprise. In 2012, the horse-racing industry derived its income from two primary sources: a commission of $130 million on the $935 million total wagering on horse races, divided about equally between racetrack operators and horse people; and a 20% share of slots-at-racetracks revenues of about $347 million. Based partly on an earlier government study that questioned the provincial benefit derived from the $347 million in annual racetrack funding and a recommendation in the Drummond Report, government determined that the horse-racing industry needed to move to a more self-sufficient funding model. Horse-racing industry stakeholders advised us that, leading up to this cancellation, they were operating under the assumption that the Slots At Racetracks Program would continue and that they were not at risk of losing this revenue. They believed this because in 2010, with government approval, OLG had extended most site-holder agreements with racetracks for another five years, and other racetrack operators' agreements were not set to expire until at least 2021.

OLG and the government were fully aware that the decision to cancel the program would have a significant impact on the horse-racing industry in Ontario and would force it to be downsized to levels sustained solely by the revenues that horse racing now generates on its own. The government had sufficient information to know that without program funding, the number of racetracks could be reduced from 17 to as few as six racetracks. This would mean fewer race dates, less breeding, less employment and fewer economic benefits to the agricultural industry. Notwithstanding this, the Modernization Plan did not include any transition and support funding for the horse-racing industry other than a one-year contractual obligation to pay racetracks and horse people up until March 31, 2013. As well, while initially considered, government decided not to offer any transition funding.

Since the Slots At Racetracks Program was cancelled, there has been considerable consultation with the industry to alleviate the impact of the cancellation. The overall savings from cancelling the Slots At Racetracks Program, taking into account the recent government commitment for new funding, is now estimated to be $326 million up to March 31, 2018, which is over 70% less than originally projected. Based on new arrangements to date, the horse-racing industry will have to account for how it uses 57% of the funding it will receive from government sources. The other 43% of funding consists of rent payments to racetrack operators that they will be free to spend as they wish—there is no requirement that this money be used to promote live horse racing and otherwise benefit the agricultural sector in Ontario or that racetrack operators account for how they use this money, which was a condition under the previous Slots At Racetracks Program site-holder agreements.

Some Stakeholders Have Been Disproportionately Impacted by the Cancellation of the Slots At Racetracks Program—Racetracks in three municipalities lost their OLG slot facilities. These racetracks will therefore not receive the rent payments that the other racetracks receive. The municipalities of Sarnia and Fort Erie have lost their OLG hosting fee revenues completely, and Windsor is receiving more hosting fee revenue from its resort casino.

While both racetrack operators and horse people—the people directly employed in the horse-racing industry—were negatively impacted, the impact has been especially significant for horse people. Horse people initially lost 53% of their total funding when they lost their share of slots revenue with the cancellation of the Slots At Racetracks Program. Consequently, race days and purses were reduced by 35% for the year ending March 31, 2014. For this same period, racetrack operators were less impacted and lost 12% of the amount of funding they previously received under Slots At Racetracks Program agreements. Racetrack operators with slot facilities at their racetracks will receive rent payments from OLG as well as transition funding. We estimate that for the years ending March 31 from 2015 to 2019, horse people and race track operators will receive 33% and 22% less, respectively, than the revenues they received under the Slots At Racetracks Program.

The Revised Municipal Hosting Fee is Consistent From One Municipality to the Next, With No Secret "One-off" Deals (A Separate Fee is in Place With First Nations Groups)—A new municipal hosting fee was established that is clear and consistent, with no one municipality favoured over another. This does not mean that all stakeholders necessarily agreed with the proposals on the table, but merely that the processes to establish the final agreed-upon fee were generally open and transparent—we saw no evidence of a hidden agenda with respect to the various negotiations—and the end result was that the same formula was applied to all. Different arrangements are in place for First Nations gaming facilities.

The Province and OLG Took Steps Prior to Modernization to Prevent and Mitigate Problem Gambling and Continue to Do So—OLG and the province had already undertaken many initiatives to promote responsible gambling before the Modernization Plan, and the Modernization Plan includes commitments to continue and enhance these initiatives. In October 2013, OLG was directed to incorporate betting on horse races into its responsible gambling program.

MINISTRY OF FINANCE/OLG RESPONSE

In 2012, the Ontario Lottery and Gaming Corporation (OLG) was directed to undertake its Modernization Plan to improve efficiency and optimize the value of the agency. A higher exchange rate with the U.S., new border casinos and global Internet gaming necessitated a new approach to gaming in Ontario. Gross gaming revenues from OLG were declining, existing capital assets were being written down and significant capital investments were required across all business lines. Continuing the status quo would have meant diminishing revenues available for government priorities such as health care and education. At the same time, OLG's current approach of owning and operating many of its land-based gaming sites would continue to decrease its operational efficiency if not changed.

OLG Modernization is intended to generate better returns and revenues for Ontarians, while continuing to emphasize the importance of social responsibility. As noted by the Auditor General, the government recognizes that the OLG Modernization Plan is wide-ranging and ambitious. The risks to implementation were clearly acknowledged.

OLG's Modernization Plan was designed to be consultative after the broad policy direction was announced by government in 2012. As a provincial Crown agency, OLG is required to be flexible with its implementation timelines to accommodate public policy adjustments and refining of direction from government.

Following the launch of Modernization in April 2012, OLG engaged municipalities about the new opportunities Modernization created. Some 40 communities across Ontario have expressed interest in hosting (or continuing to host) a gaming facility through formal council resolution informed by public consultation. As well, the government continues to maintain that it will not impose a gaming site on any municipality that does not support one.

The Modernization Plan is designed to maintain and grow the industry so that it continues to employ Ontarians and contribute to local economic development. The report references OLG job projections based on the original plan. The projections have changed, particularly given that there will be no new GTA casino.

We are pleased that the Auditor General acknowledges the importance of third parties co-operating with agreement-monitoring requirements. In deciding to end the Slots At Racetracks Program, the government considered the impact to the horse-racing industry in the context of public funding for horse racing in other jurisdictions, what it spends for other industry economic development programs, jobs, funding for other key government programming and current accountability practices related to government funding.

The government has responded to industry and rural economic development concerns, and has significantly changed its approach to support the horse-racing industry. OLG was directed to change its Modernization Plan to better integrate horse racing. The government is now implementing its five-year Horse Racing Partnership Plan, and the industry has been working to better align its product offerings to the benefit of its customers. While OLG is not responsible for responsible gambling programming for pari-mutuel betting, it is committed to sharing its expertise with the industry.

The Auditor General is correct in citing that stable leadership and governance at OLG is extremely important. The Ministry of Finance and OLG continue to work closely, governed by a Memorandum of Understanding that sets out clear roles and responsibilities. Strong monitoring processes are in place between OLG and the Ministry of Finance to address planning, statutory approvals, risk management and quarterly financial reporting related to OLG's Modernization Plan. The government is committed to addressing this going forward in order to support OLG in achieving success in modernizing its business and to ensure Ontario benefits from the additional revenue that Modernization will provide.

5.0 Detailed Observations

5.1 Consultations With Municipalities On New Casinos

The Committee's question in this area and our response are as follows:

Did the province or OLG conduct a broad enough consultation process to ascertain whether or not new casinos were welcome in various communities throughout Ontario?

No, prior to the release of the Modernization Plan, neither the province nor OLG formally consulted municipalities to ascertain whether they would accept new or relocated casinos in their communities. Prior communications with municipalities were limited to some informal discussions between OLG executives and individual city leaders. Most large municipalities, including those in the Greater Toronto Area, Ottawa, Hamilton, Kitchener and Waterloo, rejected OLG's proposals for locating casinos in more populated urban areas. This significantly reduces the achievement of the revenue projections in the Modernization Plan. We would have expected OLG and the province to have held more extensive consultations and conducted more due diligence and analysis before finalizing the Modernization Plan and making it official.

A key intent of the Modernization Plan was to make the gaming industry more "customer-focused." This meant making gaming facilities more accessible by locating them in more populated urban areas, and this became the main driver for determining where new casinos should be built. OLG used a model that analyzes gaming market factors and helps make revenue projections within a given geographical area. OLG's use of the model resulted in OLG identifying 29 gaming zones in the province. Each zone was to have a gaming facility. Of the 29 zones identified, 24 already had a gaming facility. OLG proposed locations for five new facilities (all of them in more densely populated urban areas) and relocation of six existing slots at racetracks and one casino from mostly suburban areas to more densely populated urban areas. OLG submitted these proposals to Cabinet, and Cabinet approved the overall plans in February 2012 prior to OLG publicly releasing the Modernization Plan.[20]

Over 20% of the new net profits to the province that OLG projected in the Modernization Plan depended on these gaming facility plans being realized. Although this required that municipal councils approve gaming facility locations, there were no prior communications or formal consultations with municipalities by OLG or any ministry regarding potential new or relocated casinos. During the 2010 strategic business review that preceded the release of the Modernization Plan, OLG was not authorized as part of its mandate from government to consult with any stakeholder groups on specific policy changes that may have been contemplated as part of Modernization. Instead, prior communications with municipalities were limited to some informal discussions between OLG executives and individual city leaders.

After public release of the Modernization Plan in March 2012, OLG advised municipalities of the potential for new gaming facilities in their communities. In June 2012, OLG invited all affected municipalities to attend regional information sessions. At these sessions, OLG presented background on the Modernization Plan, gaming zones in the region and municipalities' role in the process of establishing new gaming facilities. Upon request, OLG also appeared at city councils and public information sessions hosted by municipalities to present additional detailed information, such as expected economic impacts, and the steps and timelines of the procurement process.

20. The final decision to build a new casino or relocate an existing one was to be based on municipal approval of the project and of the location, private-sector operators' interest in the new site, approval from OLG and final approval of OLG's business case for the proposal from the Minister of Finance as set out in Regulation 81/12 of the *Ontario Lottery and Gaming Corporation Act, 1999*.

In June 2012, a new regulation, Regulation 81/12–Requirements for Establishing a Gaming Site, came into effect under the *Ontario Lottery and Gaming Corporation Act, 1999*. This regulation removed the mandatory requirement that a municipality must hold a public referendum on hosting a possible gaming facility. Now, municipalities are required instead to provide OLG with a written document of the steps they took to obtain public input, a summary of the results and a copy of the resolution passed at municipal council supporting the establishment of the gaming facility. Municipalities may set conditions on their approval, such as the specific location of the gaming facility.

Figure 3 shows the responses of the affected municipalities to the casino site proposals after the Modernization Plan was released, as well as the status of the proposals as of March 31, 2014. Most large municipalities, including those in the Greater Toronto Area (GTA), Ottawa, Hamilton, Kitchener and Waterloo, have not approved OLG's proposals for either a new casino or for relocating existing slots at racetracks to more densely populated urban areas.[21]

Niagara Falls was not one of the affected municipalities, but city officials told us they had informed OLG during the strategic business review consultations process leading up to the Modernization Plan that they wanted to grow the gaming industry in their community, including expanding entertainment facilities to draw more gaming customers. After the large municipalities in **Figure 3** rejected OLG's proposed casinos, OLG took the first step in responding to Niagara Falls by publicly releasing a request for information in December 2013 to explore the possibility of the private sector developing a large-scale, high-calibre entertainment facility in that municipality.

5.2 Tendering, Contracting and Planning Processes

The Committee's question in this area and our response are as follows:

Has OLG employed or is OLG employing a clear, consistent and transparent process for tendering, contracting and planning for any and all new or proposed casinos, gaming facilities, bingo halls, Internet gaming and lottery network throughout Ontario?

Yes, OLG generally employed a clear, consistent and transparent tendering and contracting process. However, its planning processes were not transparent. Many of the assumptions in the Modernization Plan were ambitious and not realistic given that OLG did not sufficiently consult with all affected stakeholders before the release of the Plan. This resulted in delays in implementing the Modernization Plan and reduced future revenue projections.

OLG initiated clear, consistent and transparent processes for tendering to procure private-sector operators for gaming facilities (including casinos) and the lottery network. However, it is behind schedule and has not reached the key stage of issuing requests for proposals and has not awarded any contracts. As such, we will not be able to reach a conclusion on the contracting process until all procurement associated with the Modernization Plan is complete (after which we will issue an update to this Special Report). The only completed procurements were for a private-sector Internet gaming service provider, which was competitively awarded, and a private-sector service provider of electronic bingo products, which was awarded on a sole-source basis to the only interested bidder.

21. The Township of Woolwich (population about 25,000), located in the same gaming zone as Kitchener–Waterloo, has passed a municipal council resolution in favour of hosting a casino. OLG has indicated it is no longer planning to relocate the slots at racetrack at Grand River Raceway, which is in this gaming zone. Hamilton has indicated that it would prefer to have its gaming facility remain at Flamboro Downs, but if that is not viable, the municipality is willing to consider relocating it somewhere else in Hamilton.

Figure 3: Proposed New Gaming Facilities and Municipalities' Responses
Source of data: OLG

OLG Proposal	Original Timeline	Municipal Council Response	Status, March 31, 2014
New casino in GTA	Temporary site open winter 2013; permanent casino completed in late 2016	• Toronto voted against downtown site • Toronto voted against expansion of slots at Woodbine Racetrack to a casino • Vaughan voted first in favour of hosting a casino and later reversed its decision by voting against a new casino • Markham voted against a new casino	OLG no longer considering a new or temporary casino in GTA because no municipality in proposed zone has approved one
New casino in Kenora	Winter 2015	• Kenora voted in favour of a new casino	OLG in the process of procuring a private-sector operator to develop a proposal, and obtain municipal and other approvals
New casino in North Bay	Winter 2015	• North Bay voted in favour of a new casino subject to negotiations with OLG and a private-sector operator on gaming facility details, location and community benefits	OLG in the process of procuring a private-sector operator to develop a proposal, and obtain municipal and other approvals
New casino in Collingwood/ Bracebridge area	Winter 2015	• Collingwood first voted against a new casino and subsequently voted in favour of a new resort casino, but not a slots-only facility • Wasaga Beach voted in favour of a new casino	OLG in the process of procuring a private-sector operator to develop a proposal, and obtain municipal and other approvals
New casino in Cornwall	Winter 2015	• OLG no longer considering Cornwall as a potential host for a new gaming facility • New casino proposed for Belleville; Belleville voted in favour	OLG in the process of procuring a private-sector operator to develop a proposal for Belleville, and obtain municipal and other approvals
Replace slots at Dresden Racetrack (Chatham–Kent) with casino in Town of Chatham	Winter 2015	• Chatham-Kent voted in favour of a casino	OLG in the process of procuring a private-sector operator to develop a proposal, and obtain municipal and other approvals
Replace slots at Flamboro Downs (Hamilton) with casino in downtown Hamilton	Winter 2015	• Hamilton voted in favour of a casino, with its first preference at Flamboro Downs but, if not viable, then in another Hamilton location	OLG in the process of procuring a private-sector operator
Replace slots at Grand River Raceway (Wellington) with casino in Kitchener–Waterloo	Winter 2015	• Kitchener voted against a casino • Waterloo voted against a casino • Woolwich Township (borders Kitchener and Waterloo) voted in favour of a casino	OLG in the process of procuring a private-sector operator to develop a proposal, and obtain municipal and other approvals
Replace slots at Kawartha Downs (Cavan–Monaghan) with casino in Peterborough	Winter 2015	• Peterborough voted in favour of a casino	OLG in the process of procuring a private-sector operator to develop a proposal, and obtain municipal and other approvals

OLG Proposal	Original Timeline	Municipal Council Response	Status, March 31, 2014
Replace slots at Rideau–Carleton Raceway with casino in downtown Ottawa	Temporary site open winter 2013; permanent casino completed winter 2016	• Ottawa first voted in favour of a casino, but when informed that only one site allowed, voted against a downtown casino and in favour of retaining slots at Rideau–Carleton Raceway	OLG in the process of procuring a private-sector operator
Replace slots at Sudbury Downs with casino in downtown Sudbury	Winter 2015	• Sudbury voted in favour of a casino	OLG in the process of procuring a private-sector operator to develop a proposal, and obtain municipal and other approvals
Replace Thousand Islands casino (Leeds and Thousand Islands) with casino in downtown Kingston	Winter 2015	• Kingston voted in favour of a casino, subject to its not being located in Central Business District	OLG in the process of procuring a private-sector operator to develop a proposal, and obtain municipal and other approvals

The launch of Internet gaming and the rollout of new electronic bingo games are also both behind schedule. Internet gaming is now expected in the fall of 2014, which is almost three years later than planned. OLG significantly underestimated the time it would take to develop and deliver Internet gaming. As well, additional time was needed to finalize agreements with municipalities for electronic bingo.

Planning for the closing of slots at racetracks and relocating them was not transparent—the horse-racing industry and affected municipalities told us they had received no prior notice and indicated they were unprepared for the cancellation of the Slots At Racetracks Program.[22] As well, prior to the public release of the Modernization Plan, municipalities were not aware that OLG was planning for five new casinos as well as the relocation of one casino and six slots at racetracks. This lack of transparency and consultation has impacted the implementation of the Modernization Plan. (See Section 5.6)

5.2.1 Timelines for Procurements and Launches of Modernization Plan Initiatives

OLG received Board approval in April 2012 for a procurement method consisting of three stages:

- **Stage 1:** Issue public requests for information (RFIs) to enable OLG to gather data from private-sector operators about how gaming and lottery could be improved with their involvement, as well as what the project and procurement risks might be.
- **Stage 2:** Issue public requests for pre-qualification (RFPQs) to enable OLG to determine the abilities of potential respondents and whether they meet OLG's requirements.
- **Stage 3:** Issue requests for proposal (RFPs) to pre-qualified private-sector operators to allow them to make formal bids to operate specific aspects of the gaming and lottery businesses. OLG is to evaluate the bids against a number of stated criteria.

OLG's timelines for procurements and launches of modernization initiatives are discussed in the following subsections.

22. See Section 5.6.3 for details.

Gaming Facilities

OLG plans to have private-sector operators for all of the 29 gaming zones as envisaged in the Modernization Plan, with one existing or new gaming facility strategically placed per zone to maximize gaming revenue.[23] The transition to private-sector operators, which includes issuing an RFI and analyzing the results, issuing RFPQs, issuing RFPs and awarding contracts, was to be completed by July 2013. OLG now projects that the transition will be completed by June 2015.

OLG issued the RFI for land-based (as opposed to Internet) gaming, including casino gaming, in May 2012. It received responses from 30 private-sector operators, 13 racetrack and bingo hall site-holders, 16 municipalities and six First Nations communities. With the information it received, OLG decided that 25 of the 29 gaming zones would be grouped into seven gaming bundles, with each bundle representing a separate bidding opportunity. A large single zone was created that included downtown Toronto, Vaughan, Markham and areas in Mississauga (called "C1"). In April and May of 2013, OLG also decided that no new private-sector operators would be pursued for three remaining zones in the Windsor and Niagara Falls areas, since the cancellation of long-term agreements with the existing private-sector operators of resort casinos in these zones would be costly.

OLG began issuing RFPQs for each of the seven gaming bundles in November 2012, with the last set issued in December 2013. As of March 31, 2014, the four RFPQs have closed.[24] No pre-qualified private-sector operators have yet been selected to bid on gaming zones to operate gaming facilities and RFPs were scheduled to be issued in early 2014. This deadline was not met and the first RFP has been rescheduled to be released by the end of April 2014.

Electronic Bingo Centres

OLG's Charitable Bingo and Gaming Revitalization Initiative aims to transform bingo halls to electronic bingo centres that allow patrons to play bingo, break-open tickets, raffles, lottery games and other new games electronically as well as on paper. This initiative predates the Modernization Plan but was included as part of the Plan. OLG piloted six electronic bingo centres in five municipalities between 2005 and 2012.[25] OLG reported successful financial results to Cabinet in 2010, and Cabinet directed OLG to offer electronic bingo centres province-wide.

Bingo halls and charities that hold licences issued by a municipality can choose whether or not to participate—42 halls have chosen to convert to become electronic bingo centres.[26] OLG originally planned to have all electronic bingo centres launched by December 2013. Negotiations with municipalities, development of new products and installation of new equipment contributed to the delay. The first new electronic bingo centre was launched in August 2012. As of March 31, 2014, 20 of the 42 participating bingo halls had been launched as electronic bingo centres. OLG recently extended the completion date of the initiative from December 2013 to mid-2015.To complete the launch, OLG was to contract with a private-sector IT service provider interested in further developing, installing and supporting the electronic bingo products and systems;[27] sign new agreements with participating bingo halls, charities and municipalities; and to have bingo hall operators complete the

23. Private-sector operators (private-sector companies with expertise in gaming operations) currently manage the day-to-day operations of OLG's four resort casinos and of the slots at racetrack at the Great Blue Heron Casino. Slots at racetracks and OLG casinos are operated directly by OLG staff. Under the Modernization Plan, private-sector operators would operate all gaming facilities and also purchase the gaming assets and facilities OLG currently owns.

24. One of these last RFPQs, for the bundle for the two GTA zones covering the two slots at racetracks at Woodbine Racetrack and Ajax Downs, provides an option for the selected private-sector operator to have the first right of refusal to build and operate in the C1 zone in the event that a municipality in this zone would be willing to host a new casino in the future.

25. Barrie, Kingston and Peterborough in 2005; Sudbury in 2006; and two separate pilots in Windsor in 2009 and 2010.

26. There were 66 bingo halls in Ontario as of December 31, 2013. Six were converted to electronic bingo centres between 2005 and 2012 as part of a pilot project. These six are included in the 42 participating bingo halls, leaving 24 bingo halls not participating.

27. OLG developed the electronic gaming system for the pilot but decided to make a private-sector IT service provider responsible for the system's refinement and operations for the revitalization initiative, with OLG retaining oversight responsibility only.

renovations to their facilities for their conversion to electronic bingo centres.

In 2011, OLG issued an RFI to procure the private-sector IT service provider. There was one respondent—a vendor that had been licensing OLG's linked bingo gaming system (bingo machines from different halls linked together to create a bigger jackpot) since 2002. Given that only one vendor responded to the RFI, OLG judged that no other vendors would be interested in competing to be the private-sector IT service provider. It therefore skipped the stages of issuing an RFPQ and RFP and exercised its discretion as laid out in the RFI to request a formal proposal from the vendor in June 2011. In May 2012, following negotiations, OLG signed an eight-year contract with this vendor, with total payments capped at $10 million per year. The decision to sole-source the awarding of this contract was approved by an executive vice-president and the CEO in accordance with OLG's procurement policies.

Under the agreements that OLG signs with participating bingo halls, the bingo hall operator is responsible for the cost of site operations, including staffing, building improvements, furnishings and utilities, and must operate in accordance with OLG policies and procedures. OLG provides oversight of gaming products and operations. Net revenues are shared as follows: 25% to OLG, which plans to operate at a breakeven; 25% to the charities holding the licence for the bingo hall; 3% to the host municipality that issues the licence; and 47% to the operator of the electronic bingo centre.[28] In addition, OLG provides to charities from its share of net revenues an amount calculated as 10% of non-gaming revenue (for example, food and merchandise sales), even though bingo hall operators do not share non-gaming revenue with OLG.

Internet Gaming

OLG originally planned to have Internet gaming available by late 2011. This would have made OLG the third Canadian province to introduce casino-style Internet gaming and the seventh with Internet games of any kind.[29] OLG's revised date to launch Internet gaming is September 2014.

OLG issued an RFI in November 2010 to help it formulate an Internet gaming business model and received 28 responses from the private sector. In April 2011, OLG competitively tendered for and contracted with a consultant to help it create an Internet gaming strategy. The adviser provided information on what costs OLG should expect in building Internet gaming and what commissions it should offer to private-sector operators. With the information it obtained from the RFI and the consultant, OLG decided to procure a single private-sector service provider to provide all of its Internet gaming products and services, including the day-to-day management of Internet gaming operations.

In December 2011, OLG issued the RFP to select the service provider. It received seven proposals and evaluated them based on several technical requirements, the quality of the proposals, site visits and reference checks. Following negotiations, OLG signed a contract with the successful proponent in April 2013. At the time of our review, Internet gaming was in the testing phase.

Lottery Network

OLG originally planned to complete the procurement of private-sector service providers for its lottery network in December 2012, with private operations beginning in July 2013. OLG informed us it had extended the procurement completion date from December 2012 to late 2014, and revised to November 2015 when the new private-sector service provider will be in place.

28. Net revenues are calculated after prize payouts and after a 7% deduction that is allocated to a provincial and site-specific marketing fund. OLG and the operator pay their operating expenses from their share of net revenue.

29. British Columbia launched casino-style Internet games in July 2010, and Quebec launched Internet poker and casino-style Internet games in December 2010. The Atlantic Lottery Corporation has operated an Internet gaming site for New Brunswick, Nova Scotia, Newfoundland Labrador and Prince Edward Island since August 2004. It does not offer Internet poker or casino-style Internet games but its Internet site does offer lottery games and sports wagering. In January 2013, Manitoba became the third province to launch Internet poker and casino-style Internet games.

OLG issued an RFI in June 2012 to obtain help in developing a modernized lottery business model. There were 31 private-sector respondents, all involved in lottery distribution and payment systems. With the information it obtained, OLG decided to procure a single private-sector service provider to be responsible for the day-to-day operations of the lottery network and for developing products and market plans.

In December 2012, OLG issued the RFPQ to select the service provider. As of December 31, 2013, no pre-qualified private-sector operators had been selected to bid to operate the lottery network and the RFP had not been issued.

5.2.2 Use of Fairness Monitor and Fairness Adviser

In December 2010, OLG hired a consulting firm to provide fairness monitoring services for its procurement of a private-sector service provider for its Internet gaming initiative. The contract ran from December 2010 to December 2011, with a payment cap of $245,000. Four private-sector consulting firms from the Ministry of Government Services' Vendors of Record for Management Consulting Services were contacted in accordance with the province's Procurement Directive and OLG's corporate procurement policies. Three responses were received and OLG selected the winning proposal based on qualifications, experience, approach and proposed methodology, and price. OLG received necessary approvals and signed a one-year contract. The time period for this contract was extended three times and ended September 2013. According to OLG, payments to the fairness monitor under this contract totalled $119,000.

In November 2011, OLG issued a Request for Services to procure fairness monitoring services to help ensure strategic procurements were conducted fairly. Three private-sector consulting firms from the the Vendors of Record were contacted. Two responses were received and OLG's selection process resulted in awarding the contract to the same fairness monitor that was being used for the Internet Gaming proposal. OLG received necessary approvals and signed a separate one-year contract (effective December 2011) with this firm for fairness monitoring services, with a cap of $250,000 in fees, in December 2011. As part of the February 7, 2012, Cabinet approval, OLG was directed to engage a fairness monitor for procurement of private-sector operators for land-based gaming and the lottery network. As a result, OLG extended the firm's contract for strategic procurement fairness monitoring for one more year and an additional $200,000 to cover all strategic procurements.[30]

As the maximum total term for the strategic procurements fairness monitoring contract was for two years and the procurements for modernization were delayed and thus expected to continue for a few more years, OLG issued a new Request for Services in July 2013 for continued services of a fairness monitor. Nine consultants from the Vendors of Record were contacted, two provided responses, and OLG ultimately selected the same firm as its fairness monitor. A new three-year contract effective December 2013 was established in December 2013 with a maximum payment of $1 million in fees. According to OLG, payments under this contract up to February 2014 were $19,000.

In addition, at the request of the Chair of the OLG Board, OLG also engaged an individual as a fairness adviser in May 2012 to provide advice (on an hourly-rate basis) until the procurements have been completed, and to provide interim and final reports on his observations.[31] The adviser, reporting directly to OLG's Board of Directors, was to oversee the implementation of the Modernization Plan to ensure fairness and transparency, and address any conflict-of-interest issues. According to OLG, the fairness commissioner has not submitted an invoice for services rendered so far.

30. According to OLG, total payments to the fairness monitor under the strategic procurements contract and one-year extension totalled $265,555.
31. OLG appointed the Honourable Coulter A. Osborne, retired Associate Chief Justice of Ontario and former Integrity Commissioner of Ontario, as fairness adviser.

As of December 31, 2013, neither the fairness monitor nor the fairness adviser had reported any issues to OLG regarding any procurement processes conducted to date.

As well, a protocol for oversight and monitoring was established between OLG and the Ministry of Finance to ensure that OLG was working in accordance with Cabinet's direction. The protocol included weekly meetings between OLG and the Ministry of Finance.

5.3 Hosting Fees for Gaming Facilities

The Committee's questions in this area and our responses are as follows:

Are the host-city-payment formulas for casinos or other gaming facilities clear, consistent and transparent across the province?

Yes. Municipal hosting fees established and included in new agreements signed with all municipalities in the second half of 2013 are clear, transparent and consistent across the province. These fees replace the previous arrangements with municipalities that differed depending on whether a municipality hosted slots at racetracks, an OLG casino or a large resort casino. For the year ending March 31, 2014, under the new agreements, OLG expects municipal hosting fee payments to increase to $105 million from $85 million in the previous year.

Are any special, secret or "one-off" deals being negotiated between different municipalities for different reasons?

As of March 31, 2014, we saw no evidence of any special, secret or "one-off" deals in place with different municipalities. The Modernization Plan recommended the implementation of a consistent fee model for host municipalities. The City of Toronto was the only municipality that declined to sign the first hosting-fee agreement based on a formula developed in 2012. Plans in early 2013 to revise the formula to provide additional fees to a city that hosts a multi-billion-dollar resort casino (which OLG was considering for Toronto) were cancelled in May 2013.

First Nations communities have separate agreements that have not changed under the Modernization Plan.

5.3.1 Hosting Fees Before Modernization[32]

Before Modernization, there was inconsistency in the calculation of payments that municipalities received for hosting gaming facilities:

- Under Racetrack Municipality Contribution Agreements established between 1999 and 2006, the 17 municipalities that hosted slots at racetracks received 5% of net revenue from the first 450 slot machines and 2% of net revenue from the remaining machines. However, if OLG operated any live table games at the racetrack, municipalities would receive 5% of all slot-machine net revenue. This provision in the agreement discouraged OLG from seeking municipal council approval for introducing live table games at racetracks.
- Under separate letters of agreement established in 1999 and 2000, the five municipalities that hosted OLG casinos received 5% of slot-machine net revenue. Starting in 2006, some OLG casinos had over 500 slot machines. This prompted the OLG to verbally amend the letters of agreement during the year ending March 31, 2006, to provide these municipalities with 5% of net revenue from only the first 453 slot machines and 2% of net revenue from the remaining machines.

32. In addition to receiving payments for hosting gaming facilities, under the *Municipal Tax Assistance Act* municipalities collect from OLG an amount similar to what they would be owed in property taxes if OLG's casino properties were subject to property tax. For the year ending March 31, 2012, OLG paid the host municipalities in total $27 million in payments in lieu of property taxes.

- Under separate agreements negotiated in 1995 and 2000, the municipalities of Windsor and Niagara Falls received different annual payments for hosting resort casinos. For the year ending March 31, 2013, Windsor received $3 million in hosting fees, $1.8 million for police services, and $240,000 for business improvement costs (for comparison purposes, we estimate that, in total, this is equivalent to about 2.7% of slot-machine net revenue). Niagara Falls received $3 million in hosting fees, and the Niagara Regional Police Services received $4.2 million for police services (in total this is equivalent to about 1.9% of slot-machine net revenue).

These agreements state that municipalities "may" use the hosting fees "at their discretion, for municipal purposes" (for example, for transit services and services relating to property registration).

First Nations communities have separate agreements that have not changed under the Modernization Plan:

- Under an agreement first established in 1999 that has been extended on a month-to-month basis beginning in June 2013, the Mississaugas of Scugog Island First Nation receive 5% of slot-machine net revenue from the Great Blue Heron Casino.[33] The agreement requires only that an unspecified portion of this amount is to be shared with surrounding municipalities. Accordingly, agreements are in place for sharing a portion of these revenues with Durham Region and the Township of Scugog. This month-to-month arrangement can run for a maximum of 24 months, until June 2015. For the year ending March 31, 2013, the Mississaugas of Scugog Island First Nation received $3.9 million.
- Under an agreement effective August 2011, the Chippewas of Rama First Nation receive a fee equal to the greater of 1.9% of the net revenues of Casino Rama or $5.5 million, as well as payments for services, such as for emergency response, and certain land and other leases. The agreement expires in 2021 for lease payments and in 2031 for the fee and other services. This agreement does not stipulate how the 1.9% of funding is to be used. For the year ending March 31, 2013, the Chippewas of Rama First Nation received $28 million in total.

In addition to these agreements, OLG provides 1.7% of its consolidated gross revenues from all its operations to the Ontario First Nations (2008) Limited Partnership, which distributes the money among the 132 First Nations communities it represents. The funding is required to be used for community development, health, education, and the economic and cultural development of First Nations. The funds cannot be distributed to individuals. OLG provided $120 million in the year ending March 31, 2013.

5.3.2 Making Hosting Fees Consistent: The First Formula (2012)

At the time the Modernization Plan was issued in March 2012, 24 municipalities were receiving hosting fees. Slots at racetracks in Sarnia and Fort Erie were closed as of April 30, 2012. The slots at Windsor Raceway also closed on April 30, 2012, but Windsor continues to receive hosting fees from Caesars Windsor resort casino. OLG paid municipal hosting fees for these three closed slots at racetracks based on the previous year's revenues until March 31, 2013.

Under the Modernization Plan, OLG was to pay a fee to every municipality for hosting a gaming facility using a standard, consistent formula. In 2012, OLG, in conjunction with the Ministry of Finance, developed a formula for paying these fees. For clarity, we refer to this as the First Formula (2012) (a second formula was developed in 2013, as discussed in Section 5.3.3). However, it did not

33. The Great Blue Heron Casino is owned by the Mississaugas of Scugog Island First Nation (MSIFN). Under the agreement between MSIFN and OLG, MSIFN is responsible for live table games and OLG is responsible for slot machines. MSIFN does not share revenues from live table games with OLG. OLG provides 5% of net slot revenues to MSIFN. MSIFN and OLG have separately contracted with the same private-sector operator to operate live table games and slot machines at this casino.

apply to all 22 host municipalities: Windsor and Niagara Falls, the two municipalities hosting resort casinos, were specifically excluded due to existing agreements in place that were to expire in 2020 and 2029. By December 2012, 19 of the remaining 20 host municipalities had signed agreements based on the First Formula (2012), which was to be effective April 1, 2013. Toronto did not sign.

Toronto's Resistance to the Formula

Toronto was the only city that did not agree with the First Formula (2012) and wanted a much larger share of OLG's profits if it was to host a casino.

To address Toronto's concerns, OLG recommended to the provincial government that municipalities hosting a resort casino generating billions in revenues should be subject to a different hosting-fee formula. This formula would take into account the higher revenue-generating potential of such a large resort casino and the higher costs to such municipalities for infrastructure improvements such as hydro, sewers, roads and transit associated with having larger gaming facilities. Based on its preliminary analysis of the projected economic benefits and overall revenues to the province, OLG informed the Ministry of Finance that Toronto's fee for hosting a multi-billion-dollar resort casino could be set in the range of $50 million to $100 million (OLG expected that an integrated casino and entertainment complex in downtown Toronto would require a private-sector operator to make capital expenditures of more than $2 billion). In contrast, under the First Formula (2012), Toronto would receive only about $30 million.

In November 2012, Toronto City Council's Executive Committee requested the City Manager to report on the public's view regarding a casino in Toronto. The report, released in February 2013, found that Torontonians largely opposed a new casino in their city. The consulting firm engaged by the City Manager to conduct the research stated, "Many participants challenged the projected revenues the City would gain from a new casino…Because of the negotiations still required to finalize the amount of revenue the City might receive, many felt they could not determine or have confidence in what would be the actual revenues received by the City."[34]

Two months later, in April 2013, the then Chair of OLG recommended to the new Premier that the hosting-fee formula include an infrastructure support fee, plus a higher percentage of the slots revenue above $500 million from those facilities with higher capital expenditures. If the recommendation had been accepted, Toronto's hosting fee payments could have been in the range of $85 million to $105 million. We were advised that this recommendation was not accepted by the government because only Toronto would benefit from it, as it was the only municipality for which a resort casino requiring this level of capital expenditure was being proposed.

5.3.3 Making Hosting Fees Consistent: The Second Formula (2013)

The First Formula (2012) did not achieve OLG's aim of making hosting fees consistent as the two municipalities that hosted resort casinos, Windsor and Niagara Falls, already had hosting fee formulas that were unique to each of them. Toronto did not accept it, and OLG was considering unique arrangements for Toronto if it hosted a resort casino. With media reports drawing attention to potential special treatment for Toronto, the Premier and OLG announced on May 17, 2013, that a new consistent formula would be developed that would apply to all municipalities without exception (Windsor and Niagara Falls included). Just prior to this announcement, on May 16, 2013, the appointment of the then Chair of OLG was withdrawn and all members of OLG's Board resigned.

OLG, working with the Ministry of Finance, developed a revised formula, which we refer to as the Second Formula (2013). By November 20, 2013, a new agreement based on the Second Formula replaced the agreements signed in 2012 and was signed by all 22 municipalities hosting gaming

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facilities (including Toronto for the slots at racetrack at Woodbine Racetrack).

As **Figure 4** shows, the First Formula (2012) gave municipalities more generous shares of slots revenue than they received under their previous Racetrack Municipality Contribution Agreements, but was limited to slots revenue only. The Second Formula (2013) gives them revenue from slot machines and live table games.[35]

For the year ending March 31, 2013, OLG paid all municipalities a total of $85 million in hosting fees under previous agreements.[36] For the year ending March 31, 2014, under the Second Formula (2013), OLG expects payments to these municipalities to increase to $105 million.

The Second Formula (2013) will give Windsor and Niagara Falls considerably more annual revenue than they were receiving under their old agreements. OLG estimates that for the year ending March 31, 2014, Windsor will receive about $9 million, which is 75% more than OLG paid the year before under Windsor's previous agreement. OLG estimates that for the year ending March 31, 2014, Niagara Falls will receive about $21 million, which is 200% more than OLG paid under Niagara Falls' previous agreement. Also, unlike Windsor and Niagara Falls' previous arrangements where certain payments were set at amounts to help defray the costs of regional police services and business improvement, the Second Formula (2013) does not specifically provide for these types of local costs. As such, the spending of the hosting fees under the Second Formula is at the municipalities' discretion.

British Columbia is the only other province with a formal casino-hosting-fee agreement with municipalities.[37] In British Columbia, all host municipalities receive 10% of net casino income after deducting service-provider commissions and the provincial lottery corporation's operating and other administrative costs. In Ontario, municipalities' percentage share is based on net revenue before those deductions.

Figure 4: Municipal Hosting-fee Formulas of First and Second Agreements[1]
Source of data: OLG

First Agreement (Signed Aug.–Dec. 2012)
• 5.25% on first $65 million of slots net revenue
• 3% on next $135 million of slots net revenue
• 2.5% on next $300 million of slots net revenue
• 0.5% on slots net revenue above $500 million
Second Agreement (Signed May–Nov. 2013)
• 5.25% on first $65 million of all electronic-game net revenue[2]
• 3% on next $135 million of electronic-game net revenue
• 2.5% on next $300 million of electronic-game net revenue
• 0.5% on electronic-game net revenue above $500 million
• 4% on live table-game net revenue

1. The second agreement replaced the first agreement. Both agreements were effective April 1, 2013.
2. In 2013, OLG started introducing electronic versions of traditional live table games (e.g., blackjack and poker).

5.4 Modernization Plan Revenue Projections and Assessments of Economic Impact

OLG pointed out in its 2012 Modernization Plan that its forward-looking statements are not guarantees of future performance and involve risks and uncertainties that could cause actual results to differ materially from projected results. We kept this in mind in assessing OLG's revenue projections. The Committee's questions in this area and our responses are as follows:

Were provincial or local revenue projections and local economic impact assessments for new casinos and other gaming facilities undertaken?

Yes, OLG projected the new revenues and savings to be achieved from all aspects of its Modernization Plan, but as discussed in the next response:

- some projections were based on overly optimistic assumptions;

35. Under the Second Formula, OLG changed the terminology from slots revenue to electronic games revenue, which includes newer electronic table games such as poker and blackjack.
36. This excludes any payments to First Nation communities.
37. Casinos are found in every province in Canada except Newfoundland Labrador.

- as has been shown to date, if these assumptions are not realized, costs will increase or new revenues will be reduced; and
- insufficient consideration was given to the possibility of delays and/or planning for alternative options if problems arose.

Yes, OLG assessed the local economic impacts of the changes it was directly responsible for making on gaming-related jobs and capital investment.

The changes to the Modernization Plan initiatives to date have significantly reduced both revenue projections and the expected economic benefits.

Are these revenue projections and economic impact assessments clear, fair and transparent?

Not entirely. OLG did not consider a range of best- and worst-case scenarios in its projections. Instead of a range, it presented aggressive projections for increased net profit, increased net employment and increased capital investment in gaming and the lottery network in Ontario. These projections would have been achievable only if all of the extensive changes identified in the Modernization Plan were implemented on schedule and without any problems.

OLG originally projected that the implementation of the Modernization Plan would result in $4.624 billion in additional net profit to the province (NPP) by March 31, 2018. Our analysis found that this translates to increasing Ontario's per capita NPP by 65% by March 31, 2018, from $149 per person to $246 per person. Given a decade of generally declining profits leading up to the Modernization Plan, OLG's assumption that privatization and the other changes of modernization would increase player participation by such a significant amount was overly optimistic.

Our analysis also determined that nearly $2.8 billion of the $4.624 billion in additional NPP, or 60%, is at considerable risk of not being generated, and we estimate only $1.840 billion in new NPP is based on realistic assumptions as of March 31, 2014. OLG itself has reduced its original projection of $4.624 billion in additional NPP by over $2.2 billion, to $2.402 billion as of March 31, 2014. OLG is projecting $562 million more than our estimate. With most of the Modernization Plan not implemented, the slow progress to date on its key elements, such as procuring private-sector operators for its land-based gaming and lottery network, and considerable changes to the plans for new casinos, there remains significant uncertainty around the amount of additional NPP that OLG can generate and a risk of further reductions.

In addition, OLG's NPP projection includes not having to pay annually for the Slots At Racetracks Program after March 31, 2013, which was projected to save OLG over $1.1 billion over the five-year remaining period of modernization (between April 1, 2013, and March 31, 2018). However, OLG will incur higher-than-expected costs, of over $340 million, and the province's unanticipated horse-racing industry transitional and new funding support programs provided by the Ministry of Agriculture and Food will lower the overall savings to the province from cancelling the program to $326 million, or 71% less than originally expected.

OLG also projected that, apart from generating additional NPP, modernization would enable $475 million in profit payments to be made to charities and not-for-profit groups over eight years (between April 1, 2012, and March 31, 2020). This was to result specifically from the transformation of bingo halls into electronic bingo centres. We question OLG's assumption that profits will increase by more than 100% from current levels given the limited evidence from its pilot of electronic bingo at six sites. We also question predictions that the gaming revenue increases will translate into sustainable payments to charities when, at the four centres that have been piloting electronic bingo since 2005, amounts paid to charities actually declined by 22% after the first year between 2006 and 2012.

OLG's original projection of $3 billion in new private-sector capital investment has been revised to less than $1 billion, with most of this to come from the private sector paying the province to purchase OLG's existing assets.

OLG was not transparent about the importance of a GTA-based casino to its Modernization Plan and about the impact Modernization was expected to have on total jobs in each affected municipality. For instance, OLG's claim in March 2012 that 2,300 net new jobs would be created did not publicly disclose that this depended on a GTA casino creating 3,300 new jobs while 1,000 other gaming industry jobs would be lost in the rest of the province. As of March 31, 2014, building a new GTA casino lacked municipal support and there were no further plans to go forward with it.

OLG also did not factor into its assessment of employment impacts the Ministry of Finance's projection of a loss of 3,500 to 5,800 jobs in the horse-racing industry as a result of the cancellation of the Slots At Racetracks Program.

5.4.1 Projection: $4.624 Billion in Cumulative Net Profit to the Province Over Six Years

OLG Original Financial Projection

OLG publicly reported that the following initiatives would result in an additional $4.6 billion (the projected amount was $4.624 billion) in net profit to the province (NPP) (see **Figure 5**) over a six-year period of transformation between April 1, 2012, and March 31, 2018:

- expanding casinos, slots-only facilities and lotteries;
- cancelling the Slots At Racetracks Program;
- increasing the use of private-sector operators;
- introducing Internet gaming; and
- finding internal efficiencies in OLG operations.

This $4.624 billion was over and above the approximate $10.712 billion of NPP OLG forecast it would have generated anyway, without its Modernization Plan. OLG planned that, after six years of implementing Modernization, it would then continuously generate about $3 billion a year in profits (consisting in the year ending March 31, 2018, of the $1.738 billion a year already being generated outside of Modernization and $1.263 billion attributable to Modernization).

As **Figure 6** shows, OLG's NPP projections were included in the 2012 and 2013 Ontario Budgets. In both Budgets, for most future years, the Ministry of Finance adjusted OLG's projections downward to reflect uncertainty by only approximately $350 million. As such, the resulting NPP amounts included in the Budgets were similar to those in the Modernization Plan.

Our Assessment of OLG's Original Projection

In 2011, Ontario ranked ninth in Canada in NPP generated per capita, at $149 per person. For Ontario to generate an additional $1.3 billion of NPP per year, just from fully implementing the Modernization Plan, by the year ending March 31, 2018, Ontario's NPP would have to increase to $246 per person, or 65% over the next six years (based on 2011 population data). Given that in the 10 years from April 1, 2002, to March 31, 2012, OLG's annual NPP declined by about $500 million (24%), OLG's assumption that privatization and the other changes of Modernization would increase player participation and spending by such a significant amount was overly optimistic. OLG has not conducted any pilot studies of privatization of gaming facilities to assess its potential impact on profits, and has no evidence

Figure 5: OLG's 2012 Breakdown of Projected $4,624 Million Additional Net Profit to the Province (NPP) Over the Six Years of the Modernization Plan, Years Ending March 31 ($ million)

Source of data: OLG, Ministry of Finance

	2013	2014	2015	2016	2017	2018	Total
Original NPP Forecasted Without Modernization Plan Initiatives	1,776	1,853	1,869	1,738	1,738	1,738	**10,712**
Additional NPP Generated by Modernization Plan Initiatives							
Casino and slot operations and cancelling the Slots At Racetracks Program	–	347	431	547	659	731	**2,715**
Lottery operations	–	45	83	129	182	192	**631**
Existing business plans, including Internet gaming and charitable gaming[1]	–	165	237	247	247	247	**1,143**
Internal efficiencies and cost savings (net of transition costs[2])	1	(206)	59	82	106	93	**135**
Total Additional NPP from Modernization Plan Initiatives	**1**	**351**	**810**	**1,005**	**1,194**	**1,263**	**4,624[a]**
Total Expected NPP	**1,777[b]**	**2,204**	**2,679**	**2,743**	**2,932**	**3,001**	**15,336**

1. As discussed in section 5.2.1, charitable gaming (i.e., electronic bingo) and Internet gaming initiatives were already being implemented when OLG released its Modernization Plan in March 2012. Other existing business plans were for the development of hotel and entertainment centres at both slots at Woodbine Racetrack and Great Blue Heron Casino, the expansion of Niagara Fallsview Casino Resort's entertainment centre and the consolidation of casino loyalty reward cards.
2. OLG estimated transition costs of $450 million, comprising the costs of employee severances, contract terminations, legal and consultancy services and a reserve of $240 million for unexpected transition costs between April 1, 2012, and March 31, 2018.

a. OLG's public projection was $4.6 billion in additional NPP over the six-year period of the Modernization Plan.

b. OLG's actual NPP for the year ended March 31, 2013, was $1,816 million, or 2% more than forecasted.

Figure 6: How the Modernization Plan's Additional NPP Projections Were Reflected in the 2012 and 2013 Provincial Budgets ($ million)

Source of data: Ministry of Finance

	NPP Amount Per Fiscal Year Ending March 31						
	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
2012 Budget							
OLG's projection	1,737	2,089	2,548	2,744	2,933	3,001	**15,052[a]**
Adjustment[1]	0	(8)	(39)	(72)	(109)	(128)	**(356)**
Amount Included in Budget	**1,737**	**2,081**	**2,509**	**2,672**	**2,824**	**2,873**	**14,696**
2013 Budget							
OLG's projection	1,798	2,028	2,362	2,707	2,902	3,002	**14,799**
Adjustment[1]	0	(8)	(39)	(72)	(109)	(128)	**(356)**
Amount Included in Budget	**1,798**	**2,020**	**2,323**	**2,635**	**2,793**	**2,874**	**14,443**

1. The Ministry of Finance adjusted OLG's projections downward to reflect the uncertainty inherent in projecting future profits. In addition, the Budgets included a general reserve of $1.5 billion annually in future years to protect the fiscal outlook against adverse changes in total provincial revenue and expenses, including those resulting from changes in Ontario's economic performance.

a. As shown in Figure 9, OLG's projected NPP for 2013–18 was $10,712 million without Modernization Plan initiatives and an additional $4,624 million from Modernization Plan initiatives, totalling $15,336 million. The small difference between $15,336 million and the $15,052 million OLG reported to the Ministry of Finance indicates that the projected NPP from Modernization Plan initiatives was for the most part included in the amount OLG reported.

from Ontario's experience to support the significant turnaround in revenues, profits and player participation it envisages will come from the privatization of its gaming facilities.[38]

Furthermore, the $4.624-billion NPP projection is based on many assumptions involving significant risk and uncertainty. For example, it assumed that the initiatives of the Modernization Plan would be implemented on schedule, that OLG would not encounter significant delays, and that municipalities would support new casinos in their downtown cores. In **Figure 7**, we identify the key overly optimistic assumptions underlying the financial projections included in the Modernization Plan and their impact on the $4.624-billion total. We estimate that almost $2.8 billion, or 60%, of the $4.624 billion in NPP was based on assumptions with very significant risk and uncertainty. As such, there is only about $1.840 billion of the Modernization Plan's original projection of new NPP that is not based on overly optimistic assumptions. We therefore concluded that, overall, the Modernization Plan contained overly aggressive financial projections.

OLG included in its NPP projections a $240-million reserve fund (representing about 5% of the projected $4.624 billion in NPP) to pay for unexpected costs incurred during the implementation of the Modernization Plan. However, the implementation of the Modernization Plan has met with a number of challenges and delays. As a result, the negative financial impact on the projection will far exceed this reserve amount.

Our Assessment of OLG's Revised Projection as of March 31, 2014

OLG normally provides updates to the Ministry of Finance on adjustments to its projections once a year in March, or may provide them more often as needed. **Figure 8** summarizes the revisions OLG made to its projections of total additional NPP between March 2012 and February 2014. OLG's most recent revised projection of $2.402 billion in NPP takes into account OLG's updated assumptions, and the impact of municipal decisions and delays since the original projection. We note, however, that only two years into a six-year plan, OLG has already reduced its additional NPP projection by over 48%.

There remains a large difference between OLG's revised additional NPP projection of $2.402 billion and our assessment of only $1.840 billion, with OLG projecting $562 million, or 12% more, in additional NPP. Bearing in mind that both are projections of an amount that will not be realized for four more years (that is, not until March 31, 2018), we nevertheless believe that our assessment as shown in **Figure 7** is based on less risk than OLG's projection.

OLG has implemented very little of the Modernization Plan, and major changes have yet to be made to its operations and the way it conducts its business. While OLG may make considerable progress over the next four years, there still is significant uncertainty going forward (for example, OLG has not yet reached the stage of obtaining proposals from private-sector operators for their purchase of OLG's gaming assets and for running gaming facilities), and OLG could easily encounter further obstacles and delays in achieving the revenues and profits it assumes the implementation of the Modernization Plan could generate.

Additional Assumptions Specific to the GTA Casino

The impact of there not being a casino in the GTA was about $348 million in NPP in the original Modernization Plan financial projection and is taken into account in **Figure 7**. We also noted overly optimistic assumptions about revenues expected from a GTA casino had OLG proceeded with a GTA casino:

- **A new GTA casino would have taken 11.7% of total revenue away from 12 other nearby gaming facilities (e.g., Niagara Falls, Woodbine, Rama)**—OLG expected a new GTA casino to draw in players who previously played at 12 other nearby gaming facilities, and it assumed those 12 facilities combined would lose 11.7% of their

38. The Modernization Plan assumes private-sector operators will purchase OLG's gaming assets and operate all gaming facilities. OLG currently owns the gaming assets and uses private-sector operators only to run its resort casinos.

Figure 7: Overly Optimistic Assumptions Underlying OLG's March 2012 $4,624 Million Additional NPP Projection and Their Financial Impact ($ million) Over the Six-year Period

Source of data: OLG

Assumption	Amount of $4,624 Million Projection at Risk if Assumption Unrealized
Municipal councils will approve OLG's plans to either relocate slot facilities at racetracks or build new casinos in more populated urban areas of cities. There will be no changes in the plans for new casinos. OLG's projections were based on relocating six slots at racetracks, relocating one casino and building six new casinos at locations closer to potential urban customers. In 2013, large municipalities (GTA, Ottawa, Hamilton, Kitchener, Waterloo) rejected OLG's plans. As well, OLG is no longer pursuing a new casino in Cornwall.	593
OLG will meet its timetable for procuring private-sector operators of gaming facilities and the lottery network. As discussed in Section 5.2.1, OLG's procurements of private–sector operators for gaming facilities (slots at racetracks, OLG casinos and resort casinos) and lottery operations is behind schedule. Procurement for gaming facilities was to have been completed in the winter of 2012. As of March 31, 2014, OLG had not yet issued Requests for Proposals. By December 2013, OLG had planned to open temporary casinos at new sites until the new casinos could be built, but this has also stalled with procurement behind schedule and municipal approvals lacking for some anticipated new sites. A private-sector operator was to start running the lottery network by spring 2013; as of March 31, 2014, OLG had not yet issued a Request for Proposals. These delays significantly reduce OLG's ability to meet its NPP targets, especially in the first three years of the six-year plan. There is still uncertainty as to whether OLG can meet its current revised schedule for land-based gaming and the lottery network, since the timing will depend on the ability of the yet-to-be signed private operators to deliver on time, and future delays are possible in the construction of new casinos.	956
The actual rent OLG will pay racetrack operators will not exceed OLG's estimates. There will be no settlement costs resulting from the termination of the Slots At Racetracks Program. OLG's NPP projection includes not having to continue to pay annually for the Slots At Racetracks Program (costing $347 million in the year ending March 31, 2012). Instead, it planned to pay only to rent the space occupied by its slot facilities at racetracks, beginning April 1, 2013. However, the rent rates negotiated in 2012 and 2013 are almost three times more than OLG projected; add to this OLG revising its plans to keep slots at racetracks that were originally to be relocated. Also, OLG is required to pay racetrack operators the costs of two settlements: one to compensate four racetrack operators for costs they incurred to expand their slot facilities before the Slots At Racetracks Program was cancelled and the other for cancelling an agreement to build a slot facility at a planned racetrack in the Belleville area.	411
The actual amount OLG will pay municipalities to host gaming facilities will not exceed OLG's estimates. As discussed in Section 5.3, the Modernization Plan included developing a consistent, standard formula for paying fees to municipalities to host gaming facilities. OLG estimated that it would pay standard fees only to municipalities hosting slots at racetracks and OLG casinos; it planned to exclude the two municipalities hosting resort casinos and let their existing agreements expire in 2020 and 2029 before standardizing their payments. OLG also planned to exclude revenues from live table games in the payment formula. Unforeseen events led to the first payment formula being replaced by a second payment formula to include both municipalities hosting resort casinos and increasing the fees to include a share of live-table-game revenue.	171

Assumption	Amount of $4,624 Million Projection At Risk if Assumption Unrealized
Internet gaming will start generating revenue in June 2013 and will match British Columbia's Internet gaming revenue per adult. As discussed in Section 5.2.1, OLG's launch of Internet gaming is behind schedule. OLG planned to start receiving Internet gaming revenue in June 2013. It now does not expect receiving revenue before September 2014. OLG's estimate of the revenue per player that its new Internet gaming site would generate was ambitious—the same amount that the British Columbia Lottery Corporation's Internet gaming site generates. However, overall gaming revenue per adult in British Columbia in 2011 was 16.5% higher than in Ontario. If Ontario does not reach British Columbia's levels, OLG's Internet gaming revenue will be lower.	100
The percentage share of net gaming revenues that OLG will pay to private-sector operators under yet-to-be signed contracts will not exceed OLG's estimates. To project NPP, OLG had to make assumptions about the future winning bids from pre-qualified potential private-sector operators. These operators will bid to receive a percentage of net gaming revenues to cover their day-to-day casino operating costs, recover their capital investment costs and to earn a profit. Undertaking to make private-sector companies the owners and operators of casinos moves OLG into uncharted territory, and predicting their operating profit margins and expectations with respect to their return on investment and profits is highly uncertain. In addition, OLG's projected revenue from land-based gaming and lotteries remains uncertain.	553
Total Amount of $4,624 Million Projection at Risk if Overly Optimistic Assumptions Unrealized	**2,784**
Revised Projected Additional NPP over six years from Modernization Plan Initiatives if Overly Optimistic Assumptions Unrealized (as of March 31, 2014)	**1,840**

revenue. This calculation was based on data from OLG's player database showing that 34%–60% of revenue from those gaming facilities comes from GTA residents. Another report, prepared for the City of Toronto, estimated that a new Toronto-based casino would attract 25%–75% of the Torontonians who currently gambled outside of the GTA. Such large data ranges make the estimates of how much revenue will be lost at nearby gaming facilities—and factoring that into the NPP—considerably uncertain. We noted, for example, that if OLG had assumed the 12 gaming facilities would lose 25% of their revenues instead of 11.7%, NPP would have been about $200 million lower by March 31, 2018.

- **Gaming facilities impacted by a new GTA casino would have recouped 10% of their lost revenues if they changed the games they offered**—OLG assumed that eight of the gaming facilities near the GTA would be able to recapture 10% of their lost revenue by tailoring their game offerings to their existing (reduced) customer base. But it had no information to support this assumption. The 10% revenue recapture made up $64 million of the $4.624 billion in NPP OLG projected.

Savings to the Province From Cancelling the Slots At Racetracks Program

OLG's six-year projection of $4.624 billion in additional cumulative NPP included $1.128 billion in net savings that OLG and the province would realize from cancelling the Slots At Racetracks Program over this Modernization period.[39] **Figure 9** shows the original projection in March 2012 of $1.128 billion in net savings, and why this original

39. The cancellation of the Slots At Racetracks Program will result in ongoing savings to OLG after the six-year Modernization Plan. Our assessment deals with only the period during the Plan.

Figure 8: OLG Revisions of Projected Additional NPP From Modernization Plan Initiatives ($ million)
Source of data: OLG

March 2012 Projected Additional NPP from Modernization Plan Initiatives Over Six Years	**4,624**
As of March 2013 update *Less:* • impact of delays • lowering of profit expectations from future gaming activities following revised forecasts of private-sector operator fees and gaming revenue growth	(540)
As of September 2013 update *Less:* • revising forecasts for return on private operators' capital investment and profit • loss of profits from not relocating various slots at racetracks to downtown city cores • higher-than-expected payments to municipalities as a result of new hosting fee agreements • impact of delays in implementing Internet gaming • impact of delays in procuring private-sector operators for gaming zones and lottery operations *Plus:* • $117 million saved by cancelling plan to terminate an existing resort casino operator's contract • $201 million upward adjustment from revised forecasts of lower costs and higher lottery revenues	(520)*
As of December 2013 update *Less:* • loss of profits from absence of casino in GTA • decreased profits from existing lottery and gaming activities • impact of further delays in implementing Internet gaming • impact of further delays in procuring private-sector operators for gaming zones and lottery operations	(478)
As of February 2014 update *Less:* • decreased profits from existing lottery and gaming activities and additional costs to deliver electronic bingo • decreased profits from lottery network modernization	(684)
Revised Projected Additional NPP from Modernization Plan Initiatives	**2,402**
Difference—March 2012–March 2014	**2,222**

* The actual reduction in NPP in the September 2013 update totals $603.8 million, but $83.8 million of this (all relating to payments to racetrack operators resulting from the cancellation of the Slots At Racetracks Program) will be covered by the $240 million reserve included in the March 2012 projected additional NPP for such costs.

projection needs to be revised down to $326 million as of March 31, 2014, because of new costs and funding arrangements that have arisen since the original OLG projection and the cancellation of the program. The revised savings of $326 million is 71% less than the $1.128 billion OLG originally anticipated.

As **Figure 9** shows, the projection of $1.128 billion in net savings took into account two factors:

- OLG would save about $1.420 billion from not having to pay racetrack owners their 20% share of slot revenues over five years (April 1, 2013, to March 31, 2018).
- OLG or its private-sector operator would have to pay either rent to racetrack operators for the floor space its slots at racetracks occupy or property taxes for owned facilities, as well as the settlement costs of development expenses at slots at racetracks. This amount was estimated at $292 million over five years (April 1, 2013, to March 31, 2018).

As **Figure 9** also shows, the following costs were not anticipated at the time the program was cancelled:

- **Higher-than-expected rent payments and settlements:** OLG underestimated its rent payments, settlement costs and the impact of

Figure 9: Savings to the Province from Cancelling the Slots At Racetracks Program ($ million)
Source of data: OLG, ORC

Savings/Cost	Amount
OLG's Original Savings Projection in March 2012	
Savings from terminating payments to racetrack owners (April 1, 2013–March 31, 2018)	1,420
Less: Rent payments to racetrack operators, property taxes and settlements with racetrack operators (April 1, 2013–March 31, 2018)	(292)
Total Original Savings Projection	**1,128**
Revised Savings as of March 31, 2014	
Savings from terminating payments to racetrack owners (April 1, 2013–March 31, 2018)	1,420
Less:	
• Higher-than-expected rent payments and settlement costs	(633)
• Unanticipated transition funding to industry (year ending March 31, 2014)	(61)
• Unanticipated support funding (April 1, 2014–March 31, 2018)	(400)
Total Revised Savings Projections	**326**

delays in when property taxes will be paid. The actual payments will now be $633 million, or $341 million more.

- **Unanticipated transition funding to the horse-racing industry:** After the Slots At Racetrack Program was cancelled, the Ministry of Agriculture and Food provided transition funding of about $61 million to the horse-racing industry for the year ending March 31, 2014.
- **Support funding in future years:** On October 11, 2013, the government announced up to $400 million in support funding to the industry over five years, and increased this amount to $500 million on March 31, 2014. This will result in up to $400 million in new funding from the Ministry of Agriculture and Food over the remaining four-year period of the Modernization Plan.

All told, the revised costs—comprising higher rent and unanticipated settlement costs, transition funding and support funding—amount to $1.094 billion. When these revised costs are subtracted from the $1.420 billion in savings OLG envisaged, the overall saving from cancelling the Slots At Racetracks Program is $326 million.

5.4.2 Modernization Plan Projection: $475 Million to Charities From Electronic Bingo Initiatives Over Eight Years

In 2005, OLG started piloting electronic bingo at three pilot sites as part of its Charitable Bingo and Gaming Revitalization Initiative.[40] It added three more pilot sites in 2006, 2009 and 2010. In the 2012 Modernization Plan, OLG projected from the results of these six pilot sites that the full rollout of electronic bingo and other new products such as electronic break-open tickets to participating bingo halls would generate about $475 million in profits for Ontario charities and not-for-profit groups (referred to collectively as charities) over eight years (between April 1, 2012, and March 31, 2020). This amount would be in addition to, and separate from, the generation of $4.624 billion in OLG additional NPP resulting from implementation of the Modernization Plan, because it would be paid to charities.

OLG will have challenges generating the additional $475 million, as payments to charities will have to increase by more than 100% for the 42 of 66 bingo halls that have converted or plan to convert to electronic bingo centres.[41] OLG assumes this is

40. The pilot sites were existing bingo halls that agreed to convert to electronic bingo centres. See Section 5.2 for more details.
41. Overall annual revenues for charities from all bingo halls went from $152 million in the year ending March 31, 2003, to $44 million in the year ending March 31, 2012. The amount patrons spent decreased by almost 50% over the same period.

Figure 10: Electronic Bingo Centre Pilot Site Gaming Revenues
Source of data: OLG, AGCO

Pilot Site	Bingo Hall Revenue—12 Months Before Conversion ($ 000)	First Full Year as an Electronic Bingo Centre ($ 000)	Increase (%)
Barrie	9,664	12,236	27
Kingston	8,827	9,797	11
Peterborough	10,759	11,403	6
Sudbury	11,710	14,713	26
Windsor 1	17,213	18,026	5
Windsor 2	17,340	26,742	54
Average Increase			**21***

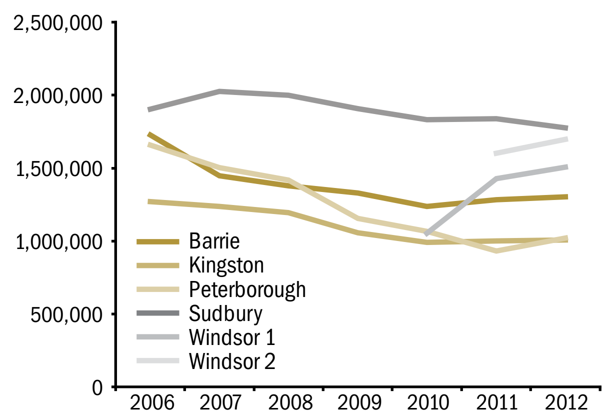
* OLG rounded down the average increase to 20% in calculating the first-year projected revenues for all new electronic bingo centres.

achievable because gaming revenue at the centres piloting electronic bingo increased by 20% overall after the first year. OLG projects that electronic bingo centre revenues will increase by 20% in the first year, 2% in the second and third years, 1% in the fourth year, and then 0% growth thereafter. This is projected to result in annual charity revenues from participating bingo halls increasing to about $75 million by the year ending March 31, 2020.[42]

We had the following concerns with this optimistic scenario:

- As **Figure 10** shows, even though the overall increase in revenues after a year of piloting electronic bingo was 21%, the bingo halls did not all experience similar increases. Increases ranged from a low of 5% at one site to a high of 54% at another site. This would indicate that the actual performance at individual bingo halls may vary significantly when they roll out electronic bingo.
- OLG pilot sites did not demonstrate that payments to charities will increase from electronic bingo to the $75 million a year that OLG projected in the Modernization Plan:
  - As shown in **Figure 11**, the amounts paid to charities from the four pilot sites that have been operating since 2006 actually *declined* by 22% after the first year between 2006 and 2012. This indicates that, after the first year, the payments to charities may not be sustainable, in contrast to OLG's financial projections.
  - OLG did not have information on payments to charities before the bingo halls were converted to electronic bingo centres. This information is critical to enable a comparison to assess whether electronic bingo benefits charities. We contacted the AGCO for this information. It could provide it for only the two Windsor sites. The difference between payments to charities before and after the introduction of electronic bingo for these two sites varied: an increase of 66% at one site but of only 4% at the other.

Figure 11: Electronic Bingo Centre Pilot Site Payments to Charities, 2006–2012 ($)
Source of data: OLG, AGCO



42. OLG's projection in March 2012 was based on 35 of 66 bingo halls participating in the initiative.

5.4.3 Modernization Plan Projection: Private-sector Capital Investment in Gaming Industry of $3 Billion by the Year Ending March 31, 2018

OLG included in the Modernization Plan in March 2012 the projection that Ontario would see an additional $3 billion in new private-sector capital investment in the province by March 31, 2018. OLG's internal projection for this amount was $3.209 billion, but OLG decided to use publicly the $3-billion amount. These investments were to cover the costs of purchasing, improving, expanding and relocating existing gaming facilities and building new ones. **Figure 12** shows the composition of the planned investment of $3.209 billion that OLG provided to us. Most of it—$2.206 billion, or 69%—was expected to be paid to the province by the private sector for purchases of OLG's existing non-Internet gaming assets (including the land, buildings and gaming assets associated with OLG-owned casinos and slots at racetracks). OLG expected private-sector investment in new and relocated casinos to total at least $1.003 billion more for up to seven casinos to be relocated and up to five new casinos to be built.

Changes to the Modernization Plan since March 2012 have eliminated much of the estimated capital investment by the private sector, including:

- OLG no longer plans to sell the three resort casinos in Windsor and Niagara Falls to private-sector operators by March 31, 2018. It decided not to break its current agreements with the existing private-sector operators of these resort casinos, which are not due to expire before 2020 and 2029, respectively. This reduces monies projected to be paid to the government for the sale of its gaming assets by over $1.5 billion.
- OLG is no longer planning a new casino in the GTA (GTA municipalities rejected OLG's casino plans). This reduces the original projected capital investment by over $400 million.
- Municipal council decisions in larger municipalities, including Ottawa, Hamilton, Kitchener and Waterloo, have resulted in OLG's plans for new casinos in these municipalities to be either cancelled or indefinitely delayed. OLG is now opting instead to keep the existing gaming facilities at local racetracks. Kitchener–Waterloo also rejected a new casino (see footnote 21). This reduces projected capital investment by over $300 million.

Figure 13 summarizes the effect of these changes on OLG's private-sector capital investment projections.

As a result of these changes, the private sector is now projected to invest only $938 million, or less than 30% of the original $3.209 billion projected. Of this $938 million, a projected 71% is to be collected by the Ontario government as proceeds from the sale of OLG's existing assets.

Figure 12: OLG's Original Projection of Private-sector Operators' Capital Investments, March 2012 ($ million)
Source of data: OLG

	Purchase of Existing Assets	New Investment	Total
Private-sector Investment • Build 6 new casinos in cities where casinos do not already exist* • Purchase OLG gaming assets at 7 existing gaming facilities and invest in relocating to new gaming facilities • Purchase OLG gaming assets at 3 existing resort casinos • Purchase OLG gaming assets at 14 gaming facilities not expected to be relocated • Purchase OLG lottery assets	2,206	1,003	3,209
Total	**2,206**	**1,003**	**3,209**

* The capital investment projection in the Modernization Plan was based on six new casino locations (the GTA, North Bay, Collingwood, Kenora, Belleville and Cornwall). OLG received approval for up to five new casinos and is no longer pursuing a new casino in Cornwall.

Figure 13: Reductions to OLG's Projected Private-sector Operators' Capital Investments, as of March 31, 2014
Source of data: OLG

	Amount ($ million)	% of Original Projection
March 2012 Originally Projected Private-sector Capital Investment	**3,209**	**100**
Less: • loss of payment to province for 3 resort casinos • loss of investment in new GTA casino • loss of investment in new Ottawa casino • loss of investment in new Hamilton casino • loss of investment in new Kitchener–Waterloo casino • loss of investment in new Cornwall casino	(2,296)	(72)
Plus: new investment in existing racetrack gaming facilities where relocation will not occur	25[a]	1
Revised Projected Private-sector Capital Investment as of December 31, 2013	**938[b]**	**29**

a. Office of the Auditor General of Ontario estimate based on OLG's past expenditures.
b. The revised total includes $665 million (71%) for the purchase of OLG's existing gaming assets and $273 million (29%) new investment.

5.4.4 Modernization Plan Economic Forecast: 2,300 Net New Lottery and Gaming Industry Jobs by March 31, 2018

OLG publicly projected that when the lottery network and gaming facilities are privately operated, net new full-time-equivalent lottery and gaming jobs would increase by 2,300 over 2011 levels. However, OLG did not provide details of where job losses and job gains would occur. Some details are presented in **Figure 14**.

OLG was not transparent with the public about the importance of a new GTA casino to its job projections. Its claim in March 2012 that 2,300 net new jobs would be created did not publicly disclose that this depended on a GTA casino creating 3,300 new jobs while 1,000 other gaming industry jobs would be lost in the rest of the province. In fact, job losses would occur in almost every municipality where a slots at racetrack, OLG casino or resort casino currently exists. Only if a municipality expressed an interest in hosting a new casino would OLG share with the municipality, as part of its presentation, what the net effect of modernization would be on gaming jobs there.

In addition, OLG was not transparent about which of its offices would experience the bulk of an

Figure 14: OLG's March 2012 Breakdown of How 2,300 Net New Jobs Were to be Achieved and Where They Were Planned to Occur
Source of data: OLG

Source and Location	Net Job Gains/ (Losses) by March 31, 2018*
Closure of 3 slots at racetracks in April 2012[1]	(505)
Change in staff at existing slots at racetracks and relocating 14 slots, 5 OLG casinos and 4 resort casinos under private-sector operators	(884)
Opening of 6 new casinos[2]	3,762
Privatization of OLG gaming and lottery network support staff	(65)
Total	**2,308[a]**

* Based on full-time equivalent jobs.
1. Fort Erie Racetrack, Hiawatha Horse Park (Sarnia), Windsor Raceway.
2. OLG's original projections included six new casinos (Belleville, Collingwood, Cornwall, GTA, Kenora, North Bay). OLG received approval for only up to five new casinos, and it is no longer pursuing a new casino in Cornwall. As of March 31, 2014, no municipal council approvals had been received for a new GTA casino, which was projected to create 3,300 new jobs.
a. OLG estimated it would have over 7,000 fewer employees as a result of the implementation of the Modernization Plan and shift to private-sector operators.

estimated 795 job losses. Most of the positions to be lost are expected in OLG's Sault Ste. Marie office and the Toronto office at Leslie Street and York Mills Road. OLG expected the job losses would have the least effect on its Yonge Street corporate office.

OLG's job projections did not include the non-gaming horse-racing industry job losses expected from the decision to end the Slots At Racetracks Program. The Ministry of Finance estimated in 2012 the loss of between 3,500 and 5,800 horse-racing industry jobs, primarily outside the GTA. Subtracting the horse-racing industry job losses from OLG's predicted gaming job gains of 2,300 would result in a net provincial job loss of 1,200 to 3,500 jobs.

As of March 31, 2014, OLG had not updated its job projections, and the March 2012 projections have been rendered outdated by changes to the Modernization Plan, especially the cancellation of a GTA casino. So far, OLG has closed slots at racetracks in Fort Erie, Windsor and Sarnia, resulting in over 500 jobs lost in these communities. Also, OLG is not pursuing a new casino in Cornwall, which was to create 78 jobs. All other Modernization Plan initiatives have not progressed sufficiently to determine the impact on jobs.

5.4.5 Modernization Plan Economic Forecast: 4,000 New Service-sector Jobs by March 31, 2018

OLG estimated that the implementation of the Modernization Plan would result in 4,000 new jobs at hotels, restaurants and entertainment centres, and in retail stores. This estimate was among the most speculative of the anticipated economic impacts of modernization since it depends entirely on what commercial amenities private-sector operators and municipalities decide to build alongside the gaming facilities. These decisions will not be made until OLG has procured the private-sector operators and they are running gaming facilities.

Because of the limited progress OLG has made in implementing the Modernization Plan, it is too early to determine whether the estimate of 4,000 new service-sector jobs is reasonable. The lack of municipal approval for a new GTA casino, along with several municipalities saying no to relocating existing slots at racetracks to more populated urban areas will certainly have a significant negative impact on the OLG's achievement of its estimate of 4,000 new service-sector jobs by March 31, 2018.

5.5 Mental Health and Addiction Matters

The Committee's question in this area and our response are as follows:

Has the province and/or OLG adequately taken into consideration community impacts on mental health and/or addiction matters related to the implementation of the new Modernization Plan?

As far as those impacts and matters related to problem gambling, generally yes. Before the Modernization Plan, Ontario had the second-lowest problem-gambling prevalence rate among adults in Canada and allocated the second-highest percentage of gaming revenues to problem gambling initiatives in Canada. OLG is continuing the process of having its gaming facilities accredited for responsible gambling. OLG plans to implement the new responsible gaming standards that the Alcohol and Gaming Commission of Ontario designed for Internet gaming. These standards are aimed at addressing the unique risks that arise with this type of gambling.

We noted that neither OLG nor any other entity (e.g., the Alcohol and Gaming Commission of Ontario, the Ontario Racing Commission, any other ministry or provincial agency, or the federal Canadian Pari-Mutuel Agency) had addressed mental health impacts and addiction matters relating to gambling on horse races. In October 2013, the Ontario government announced a five-year plan for the horse-racing industry that includes integrating responsible gambling initiatives into horse-racing operations.

5.5.1 Facts About Problem Gambling

In 2012, the Ontario Problem Gambling Research Centre and the Ministry of Health and Long-Term Care sponsored a study of problem gambling prevalence rates among Canadian adults. Ontario tied with Saskatchewan for the second-lowest rate of 1.2% (Prince Edward Island was lowest at 1.0%). The same study showed significant declines in problem gambling over the past few years in most provinces. Nowhere had it increased.

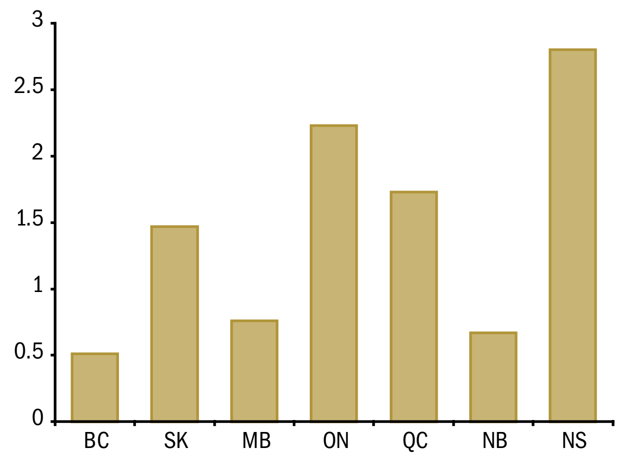
The Office of the Chief Coroner records suicides related to gambling. There were four suicides in 1998 (the first year of tracking), 13 in 2007 (the highest recorded), and then a steady decline to five in 2012 (the most recent year for which statistics are available). In 2010, the Chief Coroner noted publicly the actual number of suicides is probably higher, but it is not always obvious if someone who has committed suicide had a history of gambling, and people who commit suicide often do not leave a note.

Figure 15 shows the percentage of government gaming revenue provinces allocated to pay for problem gambling initiatives in the year ending March 31, 2012. The percentage was highest in Nova Scotia (2.8%), followed by Ontario (2.23%). In Ontario, this amounted to $54 million: about $41 million (2% of annual net revenue from slots at racetracks and OLG casinos) that the Ontario government requires go to fund the Ministry of Health and Long-Term Care's strategies for problem gambling prevention, treatment and research; and about $13 million that OLG spends on its own responsible gambling initiatives (see Section 5.5.2). The Ministry of Health and Long-Term Care did not spend almost $4 million, or 9%, of the $41 million in funding it was allocated in the year ending March 31, 2012. The remaining $37 million was distributed as follows:

- Local Health Integration Networks provided community gambling and substance abuse programs ($21 million);

Figure 15: Government Gaming Revenue Allocated to Problem Gambling Initiatives for the Year Ended March 31, 2012 (%)*

Source of data: *Canadian Gambling Digest, 2011–12*, June 2013



* In provinces where data is available.

- the Centre for Addiction and Mental Health (CAMH) provided training and support to problem-gambling treatment providers and primary care clinicians, and provided Connex-Ontario funding to run a problem-gambling helpline ($3 million);
- the Ontario Problem Gambling Research Centre (OPGRC) carried out research ($4 million); and
- the Ministry provided community problem-gambling awareness programs ($9 million).

5.5.2 OLG's Responsible Gambling Programming

OLG's responsible gambling programming for casino gaming includes:

- seeking the RG Check accreditation for each of its gaming facilities from the Responsible Gambling Council (see Section 5.5.3); [43]
- establishing Responsible Gaming Resource Centres at gaming facilities, staffed by members of the Responsible Gambling Council, who are independent of OLG;

43. The Responsible Gambling Council (RGC) is an Ontario-based independent not-for-profit organization established 30 years ago that is dedicated to problem-gambling prevention. The RGC promotes best practices in research and standards development, and offers an accreditation program called RG Check. The first time an OLG gaming facility received RG Check accreditation was in 2012. The RGC also operates OLG's Responsible Gaming Resource Centres.

- offering a "self-exclusion" tool that allows participants to make a written commitment to stay away from all gaming facilities and have their names removed from marketing databases; if detected at sites during self-exclusion, participants are escorted off-site and may be charged with trespassing, and can be fined if it happens again (to gamble after the self-exclusion period, participants must apply to reinstate and complete a responsible gambling information session);
- contracting with CAMH for CAMH to provide responsible-gambling training to OLG's staff at gaming facilities and electronic bingo centres;
- participating in research, advertising and player education; and
- measuring responsible gambling performance and reporting on outcomes.

As an organization, OLG has also received the highest level of accreditation from the World Lottery Association.[44] This means it has embraced the Association's seven responsible gaming principles and 10 program elements and is continuously improving its programs.

OLG's October 2013 report showed a significant increase in OLG staff recognizing potential problem gambling and referring individuals to the gaming facilities' onsite Responsible Gaming Resource Centres. Between April 1, 2011, and March 31, 2013, OLG staff referrals to Responsible Gaming Resource Centres increased 60%, from 1,033 to 1,652.

In addition, a number of responsible gambling key indicators for the year ending March 31, 2013, showed the following changes from the previous year:

- the number of patrons self-excluding from gaming facilities dropped from 3,139 to 2,977, or by 7%;
- the number of people who sought help from problem gambling counselling services dropped from 6,014 to 5,513, or by 8%; and
- the number of patrons who barred themselves from casinos in the self-exclusion program and who were subsequently caught on casino premises fell from 1,988 to 1,933, or by 3%.

These reductions could indicate that the self-exclusion program and problem gambling counselling services may have had a positive impact on problem gambling and awareness of this issue.

5.5.3 Steps Taken Since November 2005 to Prevent Problem Gambling and Steps Planned to March 31, 2018

In drafting its Modernization Plan, OLG consulted with a number of independent, not-for-profit stakeholders it was already working with about ways for further preventing and treating harmful gambling behaviours that could result from expanding gambling in Ontario. These included the Responsible Gambling Council, the Centre for Addiction and Mental Health, and the Ontario Problem Gambling Research Centre. **Figure 16** outlines the key steps OLG, the government and others have taken and planned to prevent problem gambling.

The RG Check accreditation process awards points to gambling facilities for meeting key requirements under eight standards covering corporate policies, self-exclusion, advertising and promotion; patron access to money and credit; venue and gaming features; informed customer decision-making; assisting patrons who may have gambling problems; and employee training. For the gaming facility as a whole to receive accreditation, it must accumulate 70% of available points overall and at least 50% of the points under each of the eight standards. As of March 31, 2014, all 20 of the OLG gaming facilities that had applied for RG Check accreditation (out of 24 gaming facilities in total) had achieved it.

Accreditation is granted regardless of which key requirements are met or not met. OLG does not meet several key requirements consistently at

44. The World Lottery Association, formed in 1999, is a member-based international organization that collects information on lotteries, establishes standards of best practice behaviour in areas such as responsible gambling, provides accreditation education, and offers professional development services. It has offices in Quebec and Switzerland. The other Canadian lottery organizations that have achieved level-four accreditation are Atlantic Lottery, British Columbia Lottery Corporation and Loto-Québec. The Western Lottery Corporation is a member.

Figure 16: Key Steps Taken and Planned to Address Problem Gambling
Source of data: OLG

Date	Responsible Gambling Activity
Nov. 2005	First Responsible Gaming Resource Centres open in Casino Windsor* and Niagara Fallsview Casino Resort.
2007–2008	OLG introduces facial recognition technology at some gaming sites to help detect self-excluded patrons who attempt to access gaming facilities.
2008–2009	OLG expands Responsible Gaming Resource Centres to all gaming facilities.
Mar. 2009	OLG launches web-based responsible gambling resource called KnowYourLimit.ca.
June 2010	OLG launches a campaign (ads and brochures) called *It Pays To Know*.
2011	• OLG establishes internal Social Responsibility Committee with a mandate that includes oversight of OLG's responsible gambling initiatives. • OLG expands use of facial recognition technology to more gaming facilities. • OLG achieves World Lottery Association certification.
May 2011	Legislature amends *Ontario Lottery and Gaming Corporation Act, 1999* to include promotion of responsible gambling.
2012	Four gaming sites achieve Responsible Gambling Council's RG Check accreditation for their responsible gambling programs.
June 2013	AGCO establishes new risk-based gaming standards, including 23 general ones for responsible gambling (e.g., not allowing advertising to target underage or self-excluded persons to participate in gambling, requiring OLG to provide a common voluntary self-exclusion program for problem gamblers) and specific ones for Internet gaming (e.g., requiring all players on OLG's Internet channel to register, in contrast to anonymous playing allowed at casinos and slots at racetracks), charitable gaming and casino gaming.
Spring 2014	OLG plans to implement responsible gambling controls for Internet gaming in accordance with new AGCO standards (e.g., allow players the option to self-impose limits on number of hours of play and amounts spent weekly). *Status as of March 31, 2014: OLG developing implementation plan.*
2012–2014	OLG plans to have every gaming facility accredited by Responsible Gambling Council's RG Check program. *Status as of March 31, 2014: 20 of 24 sites accredited.*

* Rebranded in 2008 as Caesars Windsor.

its gaming facilities, but it does meet enough to be accredited. For example, OLG's gaming facilities do not meet the requirement that ATM machines be placed outside the gaming floor to encourage a break in play by patrons that use them, and OLG's new slot machines are not screened from a responsible-gambling perspective by an external expert. In addition, the RG Check accreditors have noted that there is no evidence that OLG offers counselling to patrons who have previously self-excluded themselves and who request reinstatement.[45]

As part of the July 2010 government approval to expand electronic bingo in Ontario, OLG was directed to introduce responsible gambling standards and features in all participating bingo halls. In 2010, OLG introduced a new policy that all bingo hall staff must participate in responsible gambling seminars and receive training in the identification and handling of patrons exhibiting problem gambling behaviours. OLG worked with the Centre for Addiction and Mental Health, which designed and delivers this training to new electronic bingo centres.

During the year ending March 31, 2013, OLG signed a contract with the RGC to implement Responsible Gaming Resource Centres at bingo halls across the province. So far, 12 electronic bingo centres have Responsible Gaming Resource Centres.

In addition, as part of the February 2012 government approval for the Modernization Plan, the Ministry of Health and Long-Term Care was directed to work with the Ministry of Finance on

45. During the year ending March 31, 2013, 1,886 patrons were reinstated after previously self-excluding themselves.

the province's Problem Gambling Strategy. This included determining the base funding requirements for a renewed Problem Gambling Strategy. The Ministry of Health and Long-Term Care was to report back to the government on the Problem Gambling Strategy by March 31, 2013. The Ministry did not meet this deadline and was planning to report back in March 2014.

5.5.4 Responsible Gambling in the Horse-racing Sector

When the Slots At Racetracks Program was in place, OLG took responsibility for responsible gambling at slots at racetracks but not for betting on horse racing. Responsible Gaming Resource Centres were located in the slots at racetracks, which are in segregated areas of racetracks. Programs in these centres were available to anyone with a gambling problem, but horse-racing patrons would have to enter the slots at racetracks areas to use the centres. OLG has never had a mandate to apply responsible gambling programs to horse racing, and the betting done at the tracks has always been independent of OLG slots at racetracks. The federal Canadian Pari-Mutuel Agency has a mandate to regulate and monitor pari-mutuel betting at horse racetracks across Canada, but it does not have a mandate for addressing responsible-gambling activities. When racetrack owners received Slots At Racetracks Program funding, OLG did not obligate them to address responsible gambling for betting on horse races. There were opportunities to require racetracks to implement responsible gambling as recently as 2010, when OLG extended most of its site-holder agreements with operators.

Neither the ORC nor the AGCO have problem-gambling mandates that apply specifically to horse racing, and, as a result, they have not addressed responsible gambling in that industry under their general mandates.

On October 11, 2013, the Ontario government released a five-year plan for a sustainable horse-racing industry that proposes that OLG integrate horse racing within its Modernization Plan, including the application of its responsible-gambling expertise to the industry.

5.6 Cancellation of the Slots At Racetracks Program

The Committee's questions in this area and our responses are as follows:

Was the impact of cancelling the Slots At Racetracks Program on Ontario's horse-racing industry measured? Did the province or OLG assess the economic impact on [various] industries, businesses and municipalities [impacted by the cancellation of the Slots At Racetracks Program] and factor that into their decision(s)?

Yes. The province and OLG were fully aware that the decision made in February 2012 to cancel the Slots At Racetracks Program, which provided $347.3 million in funding to racetrack operators and horse people for the year ending March 31, 2012, would have a significant negative impact on the horse-racing industry and force it to be downsized ("rightsized" was the term used by the Ministry of Finance) to levels sustained solely by the betting revenues its horse-racing product generates and a provincial tax reduction on pari-mutuel betting. The government had sufficient information to know that without program funding, the number of racetracks could be reduced from 17 to as few as six. This would mean fewer race dates, less breeding, less employment and fewer economic benefits to the agricultural industry.

However, the province and OLG had general information that led them to believe that this program funding was not having the positive economic impact on horse racing and the agricultural sector that they had originally envisioned. For instance, as early as 2008, a panel appointed by the then Minister of Government and Consumer Services to examine the state of the horse-racing and -breeding industry acknowledged problems with the Slots At Racetrack Program and recommended an overhaul of how its funds were distributed, with greater accountability for the use of funds by recipients. Concerns that some racetrack operators were not using program funding for its intended purpose of promoting live horse racing in the province and subsequently benefiting the agricultural sector in Ontario were ongoing when the government directed OLG to conduct its strategic business review in 2010 and find ways to maximize its net profits to the province. OLG had not enforced racetrack operators' compliance with a key program funding requirement—the establishment of "benchmark indicators" for the track's live-horse-racing product (for example, increases in purses offered, attendance, number of race days and events)—and no targets for these indicators were set.

When OLG requested in 2010 that racetrack operators account for their use of the over $1.3 billion in funding they had received since 1998, the responses of racetrack operators gave no clear indication whether or how the funding had been used to improve the Ontario horse-racing experience.

By November 2011, when OLG presented the results of its strategic business review to the Ministry of Finance, it had concluded that a new horse-racing funding model was needed and recommended the program be replaced entirely (but that there be a one- to two-year transition period with no funding reductions). At the same time, work on the Drummond Report was concluding. The Drummond Report was commissioned to advise government on ways to eliminate the provincial deficit by 2017/18, including eliminating or redesigning programs that are no longer serving their intended purpose. It recommended re-evaluating program funding, which it characterized as a subsidy to the horse-racing and - breeding industry and municipalities.

Shortly after the decision to cancel the Slots At Racetracks Program was announced in March 2012, as a supplement to the earlier Cabinet submission, the Ministry of Finance submitted to the government its "Economic Impact Note: Ontario Horse Racing Industry" estimating that, as a result of the program's cancellation, 11 of 17 racetracks might have to be closed, Gross Domestic Product might be reduced by between $200 million and $400 million annually, and about 3,500 to 5,800 jobs might be lost annually.

Did the province or OLG properly consult or consult various industries, businesses and municipalities impacted by the cancellation of the Slots At Racetracks Program?

No. As part of the strategic business review it conducted between July 2010 and June 2011, OLG met with key stakeholders from the horse-racing industry and discussed the expansion and sustainability of the industry with the help of gaming at racetracks. At these meetings, the stakeholders emphasized the importance of the Slots At Racetracks Program for the continued success of the industry, and they raised concerns about the negative impact that expanding slots-only facilities to locations other than racetracks would have on racetrack slot revenues and betting. Industry stakeholders conveyed to us that at no time was cancelling the program discussed. OLG employees confirmed this. OLG had agreements in place with all racetracks to continue the program until at least 2015, with two having agreements to continue the program to at least 2021 and one to at least 2023. Stakeholders indicated that having these agreements gave the industry a sense of long-term stability. OLG used early termination provisions in those agreements when it cancelled the program. The horse-racing industry and municipalities advised us that they were unprepared for this to happen.

Have certain communities been impacted disproportionately as compared to other communities?

Yes. Rural communities where horse people (horse owners, trainers and breeders) live and work have been negatively impacted. This is especially true of communities where horse people involved in standardbred and quarter-horse racing live and work. The Ontario Horse Racing Industry Association estimated in July 2013 that 3,000 owners had left the horse-racing industry since 2011; 9,000 jobs had been lost, primarily in rural Ontario; and breeders' activities had dropped by about 60%. The Ministry of Finance and the Ministry of Agriculture and Food have not prepared an analysis on the actual job losses in the industry since the cancellation of the Slots At Racetracks Program.

In the year ending March 31, 2014, following the cancellation of the program, horse people's overall key revenues decreased by 53%. Racetrack operators were less affected and lost 12% of their previous year's key revenues. The projected key revenues for the years ending March 31 from 2015 to 2019 will be distributed to provide racetrack operators 22% less in key revenues and horse people 33% less in key revenues than they received prior to the cancellation of the Slots At Racetracks Program.

With the closing of the slots at racetrack at Hiawatha Horse Park, Sarnia has lost its municipal hosting fees as of April 1, 2013. This amounted to $1.5 million annually (2.6% of Sarnia's 2012/13 tax revenues).

As well, Fort Erie lost its municipal hosting fees as of April 1, 2013, with the closing of the slots at racetrack at Fort Erie Racetrack. This amounted to around $1.4 million annually (6.9% of Fort Erie's 2012/13 tax revenues).

Although the slots at racetrack at Windsor Raceway were also closed, the City of Windsor's hosting fees increased overall as a result of the new hosting fee formula applied to Caesars Windsor.

Will the Liberal government's decision to end the program be offset by the changes in the new Modernization Plan?

Initially, no. The government decided in February 2012 to end the $347 million in annual funding from the Slots At Racetracks Program as of March 31, 2013, without providing any financial support to offset the loss of this program's funding to the horse-racing industry.

The Modernization Plan also did not include funding to the horse-racing industry to offset the loss of this program. OLG planned to pay only rent to operators for slots at racetracks that were to remain at racetracks. OLG advised the Minister of Finance in November 2011 that it should no longer administer payments to the horse-racing industry. OLG also recommended that slots-at-racetrack performance should be decoupled from funding to the horse-racing industry and that a new funding model should be established.

An industry and public outcry followed the cancellation, including speculation that, with the loss of program funding, thousands of rural agricultural jobs would disappear and race horses might be slaughtered. In June 2012, the government announced the establishment of a Horse Racing Industry Transition Panel (Panel) and $50 million in transition funding to the industry over three years. From June 2012 to October 2012, the Panel consulted with and took submissions from several industry experts and stakeholder groups to determine the amount of public investment needed to transition the industry to a sustainable base of public funding. In October 2012, the Panel recommended that the $50 million in transition funding over three years announced in June 2012 be increased to $180 million. The Ministry of Agriculture and Food signed short-term transition funding agreements with 13 racetracks that accepted the funding conditions, and it paid out about $57 million to racetrack operators in the year ending March 31, 2014. The Ministry of Agriculture and Food also gave over $4 million to the Horse Improvement Program.

In October 2013, the government released a five-year plan for the horse-racing industry based on the Panel's final report. Under this plan, instead of $180 million being provided to the industry as recommended initially by the Panel in October 2012, up to $400 million as recommended in the Panel's final report will be provided to the industry over five years, and horse racing will be integrated with the Modernization Plan. Integration with the Modernization Plan includes OLG conducting research into potential horse-themed lottery products and bringing OLG's business, marketing and responsible-gambling expertise to bear on the horse-racing industry. On March 31, 2014, the government announced that up to $500 million, instead of the $400 million previously announced, will be provided to the industry over five years.

With the cancellation of the Slots At Racetracks Program, OLG is paying racetrack operators, beginning in April 2013, new rent of $113 million per year for co-locating slots at racetracks. OLG did not establish any requirement in the lease agreements for racetrack operators to promote live horse racing and benefit the agricultural sector in Ontario. In contrast, agreements signed under the Slots At Racetracks Program included a requirement for racetrack operators to establish benchmark indicators and set annual targets for the use of the $173 million they received in annual program funding. Although racetrack operators were not initially required (nor monitored) by OLG to comply with this requirement, the intent was at least there in the agreements to hold them accountable for all Slots at Racetracks Program funding they received. Now, under the new arrangements the horse-racing industry as a whole may be held accountable for only about 57% of the funding it will receive, through the accountability mechanisms that the Ontario Racing Commission will put in place.

5.6.1 The Introduction of the Slots At Racetracks Program

Pari-mutuel betting on horse racing, Ontario's first legal gaming activity, began experiencing competition with the introduction of lotteries in the 1970s and casinos in the 1990s. In the late 1990s, the Ontario government sought to further increase its gaming income, at the same time that horse racing was declining in the face of growing competition from other forms of gaming.

In 1996, the government significantly reduced the provincial tax on pari-mutuel betting to provide support funding to the horse-racing industry to help combat the decline in betting on horse races.[46] The reduction—from 7.4% to 0.5%—put Ontario's tax in line with other jurisdictions and has generated about $50 million to $75 million annually since January 1, 2009. The industry allocates these funds to horse improvement programs, owner and breeder incentive programs, customer benefit initiatives at racetracks and purse supplements.

In 1998, the government determined that racetracks could be an excellent place to introduce slots-only facilities into communities. But because slots gambling at racetracks could reduce betting on races, OLG agreed to give racetrack operators 20% of the net revenue from slots at racetracks (after

46. In pari-mutuel gambling on horse racing, bets are placed together in a pool, taxes and the house take are removed, and payoff odds are calculated by sharing the remainder of the pool among all winning bets. The federal Canadian Pari-Mutuel Agency regulates and supervises pari-mutuel betting on horse racing in Canada.

prize payout and before operating expenses). This resulted in total purses for races increasing from $120.2 million in 1997 to a high of $300.9 million in 2002. Purses have been consistently over $259 million every year since 2001. **Figure 17** gives details on how revenue from slots at racetracks was shared under the Slots At Racetracks Program.

By the year ending March 31, 2012, slots-at-racetracks revenue provided to racetrack operators and horse people had reached $347.3 million.

5.6.2 Questions Over the Use of Slots At Racetracks Program Funds

Site-holder agreements, which gave OLG "free rent" for its slot facilities' floor space at racetracks and gave racetrack operators a 20% share of slot revenues, stated that the Slots At Racetracks Program "is intended to promote live horse racing in the province and subsequently benefit the agricultural sector in Ontario." Two key features of the agreements were intended to ensure that funds were properly allocated to benefit the industry and to hold racetrack operators accountable:

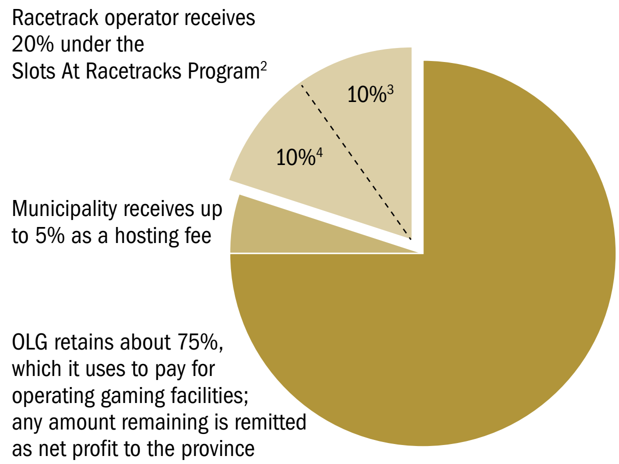
- As indicated in **Figure 17**, half of racetrack operators' 20% revenue share had to be set aside for purses and other direct benefits for horse people.
- At the beginning of each operating year, OLG, with the assistance of the Ontario Racing Commission (ORC), was to establish with the racetrack operators "benchmark indicators" for the track's live-horse-racing product (for example, purses offered, attendance, and the number of race days and events) and targets to reach that year for each indicator. If the operator did not meet a target that year, the operator was to provide a plan of action to show how the target would be achieved within three years' time.

However, OLG and the ORC never established these benchmark indicators under the site-holder agreements, nor did they use any other means to monitor how the operators were spending their Slots At Racetracks Program funding. Therefore, other than splitting this share with horse people (mainly to increase purses), racetrack operators were not held accountable for their use of program funds. The funds amounted to $343.1 million in the year ending March 31, 2013, and totalled $4.1 billion for the life of the program (from April 1, 1998, to March 31, 2013), with the racetrack operators and horse people each receiving over $2 billion.

We found in our discussions with horse people that they expected racetrack owners to use their revenue share to make the horse-racing experience better by investing in and improving their racetrack facilities and increasing race days; however, they observed that this was not the case for certain racetrack operators. Racetracks generally operated at a loss from their horse-racing activities and

Figure 17: Sharing of Net Revenue[1] from Slots At Racetracks Program to March 31, 2013*

Source of data: ORC, OLG



* The cancellation of the Slots At Racetracks Program was announced in March 2012 and funding ended effective March 31, 2013. The Slots At Racetracks Program provided $347.3 million in funding for the year ending March 31, 2012.

1. Revenues less prize payouts.
2. Different arrangements exist for two racetracks. Ajax Downs operator receives 10% of net revenues plus a set $8 million (equivalent to about 4%) for quarter-horse racing development programs administered by the ORC. Fort Erie Racetrack operator receives a set amount of about $5.6 million (equivalent to about 20%) and purses/programs benefiting horse people receive 10%.
3. Racetrack operator keeps 10% of net revenues to provide the premises for the slots at racetrack and for related property management services and to promote live horse racing.
4. Racetrack operator is required to provide 10% to programs benefiting horse owners, breeders and other horse people. About 92% of this goes into purses (cash prizes to owners of horses that are top finishers in races), and about 8% goes to the Horse Improvement Program administered by the ORC.

the owners grew reliant on their growing Slots At Racetracks Program funding just to sustain their horse-racing operations. They often submitted requests to the ORC for fewer, rather than more, race days per year.

On July 5, 2007, the then Minister of Government and Consumer Services appointed a three-member panel to examine the horse-racing and -breeding industry. The Chair of the panel was Stanley Sadinsky. The panel was to develop a strategic vision and direction that would ensure continued future growth, identifying the challenges and opportunities the industry faced within the gaming environment at the time.

In June 2008, the panel issued its report titled *It's all about Leadership—Strategic Vision and Direction for the Ontario Horse Racing and Breeding Industry* (often referred to as the Sadinsky Report). The Sadinsky Report stated that the horse-racing and horse-breeding industry required a strategic vision and direction for the future, and that Slots At Racetracks Program funding had had mixed success. The main problem was that the program was introduced without specific government direction on how the funding should be spent and there was a lack of performance benchmarks. More broadly, the province lacked a comprehensive gaming strategy, and horse racing operated independently of the province's other gaming sectors with no direction on how the horse-racing and -breeding industry should relate to them.

The panel noted in June 2008 that most of the site-holder agreements OLG then had with racetrack operators would have expired by January 1, 2012. It therefore recommended that the following should occur starting January 1, 2012:

- a new body should regulate the industry, fixing race dates, developing a strategic plan, structuring and administering all racing and breeding development programs, overseeing the spending of funds generated by the pari-mutuel betting tax reduction, branding horse racing, and developing a marketing strategy;
- Slots At Racetracks Program funding should be distributed differently, such that racetrack operators should get only a quarter of the 20% revenue share instead of half, with the other three-quarters going to support larger purses, industry-wide initiatives, marketing and the new body's operating costs; and
- the ORC should no longer be involved in any economic or operational activities supporting the industry and should return to its original mandate as regulator of the horse-racing industry.

It was thought that these recommendations could reduce the direct control that both racetrack operators and horse people have over program funding. This led to a controversy among stakeholders over the implementation of the recommendations; the government did not act on them.

All the site-holder agreements, established between 1998 and 2006, had initial terms of five years. After five years, OLG could exercise options to twice renew the agreements, up to total terms of 15 years. Woodbine and Mohawk racetracks had slightly different arrangements—OLG could renew their agreements just once, but that renewal could extend the agreements to 15 years. In 2009 and 2010, the first extension options of eight agreements expired. Given the uncertain future direction of the industry, OLG extended these first five-year term renewals for only six months. In July 2010, OLG received government approval to grant the second five-year extension-term renewals to 12 expiring agreements. This left all racetracks with agreements in place until at least 2015 or 2016. The only racetracks with longer agreement terms were three large operators that had recently paid for large expansions of their gaming facilities under OLG's direction: Ajax Downs (agreement in place until at least 2021), Georgian Downs (agreement in place until at least 2021) and Woodbine Racetrack (agreement in place until at least 2023).

The site-holder agreements included conditions that permitted OLG to cancel the agreements with cause (for example, if the racetrack operator would be in default or would have materially breached the agreement), as well as an early termination clause that gave OLG the option to unilaterally terminate the agreements at any time, with notice periods of either nine or 12 months.

In July 2010, the newly appointed Chair of OLG wrote to all racetrack owners about the need for better information from the industry and for owners to demonstrate how they used their Slots At Racetracks Program funding to improve horse racing in Ontario. He requested that by October 1, 2010, they submit reports on how they had used the funding over the past decade (detailing, for example, any upgrades to horse-racing facilities they had made, and any investments they had made to other parts of the business to draw pari-mutuel customers).[47] With that information, OLG worked with the ORC from October 2010 to July 2011 to define potential key performance indicators that they could use to ensure consistent reporting in the future and establish benchmarks. The process also included following up on inconsistencies in racetrack operators' revenue and expense reporting.

The reporting exercise did not achieve its objective of informing OLG about racetrack operators' use of Slots At Racetracks Program funding. Operators reported all of their spending (totalling over $3.6 billion from all revenue sources for the 10 years up to 2009) instead of specifying how they used their half of the 20% share of slot revenue (totalling just $1.34 billion over these 10 years). In addition, improvements to horse racing in Ontario did not feature strongly in their expenditures. Instead, they reported spending a total of $630 million on capital projects, $226 million on debt charges and about $2.72 billion on racetrack operating expenses up to 2009. While some capital projects were clearly related to improving the live-horse-racing experience, many involved improvements to the buildings accommodating the slot machines. Most of the racetrack operators cited increased purses as an indicator of how they improved horse racing in Ontario, but the money for this comes from the revenue share given to horse breeders and owners, not the share that operators keep (which was what they were reporting on).

Overall, the reports gave no clear indication whether or how racetrack operators had used their Slots At Racetracks Program funding to improve the Ontario horse-racing experience. At the time the decision was made to cancel the program in February 2012, OLG and the ORC had not finalized defining the key performance indicators and benchmarks that they were working on up to July 2011.

5.6.3 The Decision to Cancel the Program

OLG was conducting its strategic business review and meeting with key stakeholders at the same time that it was working on racetrack operators' spending reports. Stakeholders conveyed to us that at no time was cancelling the Slots At Racetracks Program discussed at these meetings. We were advised by stakeholder groups that, rather, the focus of these consultations was on improvements to gaming at racetracks, new accountability measures for program funding and the importance of the program for the continued success of the industry. Industry stakeholders also raised concerns about the negative impact that expanding slots-only facilities to locations other than racetracks would have on racetracks' slot revenues and pari-mutuel betting. During the review and consultations, OLG indicated to us that it was not authorized as part of its mandate from government to consult with any stakeholder groups on specific policy changes that may have been contemplated as part of modernization.

The decision to end the Slots At Racetracks Program was made during the short period between October 2011 and the announcement of OLG's Modernization Plan on March 12, 2012, just before the Budget announcement on March 27, 2012. Three key events occurred during this time and are outlined in the next sections.

47. Submitting the report was made a condition of the extension for the 12 racetracks that received approval for a second extension term of their site-holder agreements in July 2010.

Recommendations Arising From OLG's Strategic Business Review

On November 25, 2011, the OLG provided the final recommendations from its strategic business review to the Minister of Finance. In light of its plans to privatize and expand land-based gaming and move slots-only facilities away from racetracks, OLG recommended the decoupling of slot performance from funding to the horse-racing industry and a new funding model that would effectively end the Slots At Racetracks Program. OLG also recommended the following:

- the Ministry should freeze annual payments for purse funds at a specific dollar amount (based on recent levels) until a new horse-racing funding model is established;
- pending any future strategic procurement, OLG should pay rent to racetrack operators for new gaming facilities, based on local market rates;
- the annual amount of Slots At Racetracks Program funding to racetrack operators under the site-holder agreements in force should be frozen at a specific dollar level;
- three slots at racetracks should be closed;
- five existing slots at racetracks should be relocated away from racetracks; and[48]
- the Ministry should consider a one- to two-year industry transition period with no funding reductions.

In essence, OLG's recommendation was for funding support for live horse racing to continue, but also to link it more clearly to outcomes. OLG recommended that the province should assign another central body the responsibility of administering the funding and setting standards that site holders would need to meet in order to receive funds.

Controversy Over Use of Program Funding at Woodbine Racetrack

OLG was aware of an allegation that the not-for-profit operator of Woodbine Racetrack may have been allocating its Slots At Racetracks Program funds to executive employees' and board members' salaries, bonuses and severances. On January 24, 2012, OLG's CEO met with the President of Woodbine Entertainment Group to discuss the matter and asked for information on these payments. Woodbine Entertainment Group declined the request, saying that this information was highly sensitive and confidential for key competitive reasons, and was in any case protected under privacy legislation.

On April 5, 2012, OLG asked the AGCO to deal with the compensation scheme of Woodbine Entertainment group executives and related issues. The AGCO informed us that it had received a complaint about certain governance and accountability issues with respect to Woodbine Entertainment Group. The investigation was ongoing and would not be completed until all outstanding issues were addressed. The AGCO also indicated that it was continuing to review the status with Woodbine Entertainment Group, including the Group's continued eligibility for registration as a non-gaming-related supplier. As of February 24, 2014, the AGCO's investigation was still ongoing.

Recommendations Arising From the Commission on the Reform of Ontario's Public Services (Commission)

Work on this Commission's report, referred to informally as the Drummond Report, was concluding during the period between October 2011 and the announcement of OLG's Modernization Plan on March 12, 2012. The government established the Commission in March 2011 to provide advice on how to make long-term, fundamental changes to the way the government delivers services in order to eliminate the provincial deficit by 2017/18. The Commission's mandate included examining programs that were no longer serving their intended purpose and could be eliminated or redesigned. Regarding the horse-racing industry, the Commission recommended that the government:

48. A sixth slots-only facility in Dresden was added to the February 2012 Cabinet Submission.

- "[a]llow slot machine operations at sites that are not co-located with horse racing venues";[49]
- "[r]e-evaluate, on a value-for-money basis, the practice of providing a portion of net slot revenues to the horse racing and breeding industry and municipalities in order to substantially reduce and better target that support";[50] and
- "[r]eview and rationalize the current provincial support provided to the horse racing industry so that the industry is more appropriately sustained by the wagering revenues it generates rather than through subsidies or their preferential treatments."[51]

Subsequent Developments

While the Ministry of Finance was preparing its submission to Cabinet for approval of OLG's Modernization Plan in January 2012, the government decided to cancel the Slots At Racetracks Program. The Ministry of Finance developed a draft horse-racing strategy in consultation with the Ministry of Agriculture, Food and Rural Affairs (now the Ministry of Agriculture and Food), the Office of Economic Policy and the ORC. It planned for this strategy—which proposed transition funding in the form of transfer payments of $250 million in the year ending March 31, 2014; $150 million in the year ending March 31, 2015; $100 million in the year ending March 31, 2016; and flatlining it annually at $100 million after April 1, 2016—to be included in the Cabinet submission.

However, Ministry of Finance staff advised us that the Chief of Staff of the Minister of Finance's Office advised them of the decision to remove the transition plans and any of the transition funding that had been considered in the draft Cabinet submission for the February 7, 2012, Cabinet meeting. This meant that funding would only continue as per the site-holder agreements—that is, until March 31, 2013, since OLG terminated the program with one year's notice and offered no further funding afterwards.

On February 7, 2012, Cabinet approved terminating the site-holder agreements with racetrack operators, effectively ending the Slots At Racetracks Program effective March 31, 2013. It was acknowledged that without the Slots At Racetracks Program, fewer racetracks would survive on pari-mutuel betting alone. This would result in fewer race dates, less breeding, fewer economic benefits to the agricultural industry and job losses.[52] It was noted that, with no Slots At Racetracks Program funding, the market would decide how much horse racing there should be in Ontario and where it should be offered. It was projected that there would likely be a need to consolidate or close racetracks, with as few as six remaining by April 2017.

In remarks to the Economic Club of Canada on February 13, 2012, the Minister of Finance echoed the Drummond Report's characterization of Slots At Racetracks Program funding as a subsidy, saying that "Since 1998, Ontario taxpayers have been subsidizing horse-racing in Ontario to the tune of $345 million a year through the OLG's Slots At Racetracks Program." We were told that this was the first time the government publicly stated that program funding might be in jeopardy.

On February 20, 2012, the Ministry of Finance began work on an internal Economic Impact Note about how cancelling the program would affect employment and economic activity. This note was to supplement the information it provided in its February 7 Cabinet Submission.

On March 12, 2012, OLG released its Modernization Plan and officially announced the decision to end the Slots At Racetracks Program.

On March 14, 2012, the Ministry of Finance's Economic Impact Note: Ontario Horse Racing

49. Drummond Report, p. 409.
50. Drummond Report, p. 409.
51. Drummond Report, p. 520.
52. The Cabinet submission did not include an estimate of the number of expected job losses, indicating it was difficult for the government to accurately assess the employment and economic impact on the horse-racing industry because there is limited data and analysis from Statistics Canada or other sources. Included in the submission was an estimate of about 32,000 total jobs in the industry: 5,885 racetrack employees (not including OLG slots-at-racetracks staff) plus about 26,000 licensed jockeys, trainers, owners, breeders, veterinarians and groomers.

Industry to Cabinet, estimated that direct spending on horse racing alone (excluding slots-at-racetracks spending) was $970 million in 2010, supporting about 13,540 annual jobs at racetracks and farms associated with the industry. The Ministry predicted the following might happen without program funding:

- Eleven of 17 racetracks then operating might close, eliminating the revenue from betting at those 11 tracks.
- Gross Domestic Product (using 2010 dollar estimates) might be reduced by between $200 million and $400 million annually.
- About 3,500 to 5,800 jobs might be lost annually.[53]

Around the time of the March 27, 2012, provincial Budget, the government indicated that revenues of $340 million from cancelling of Slots At Racetracks Program would go to fund health care and education. The Ministry's Economic Impact Note indicated that this would boost Ontario's GDP by between $360 million and $380 million annually and lead to annual employment gains of 5,700 to 6,700 jobs.

The March 27, 2012, provincial Budget stated the following:

> Since 1998, $3.7 billion has been provided to the horseracing industry in Ontario, including $345 million in 2011/12. As part of OLG's modernization process, the government reviewed this support for the horseracing industry, as outlined in the previous government's 1998 letter of intent. In doing so, the government determined that the industry needs to move towards greater self-sufficiency without government support. This will allow the industry to respond competitively to market demands for its racing product.

The Budget also indicated that the only financial support the government would provide the horse-racing industry would be its continuation of a reduced tax on pari-mutuel betting (see Section 5.6.1), stating:

> The government remains committed to supporting horseracing through its reduction to the province's pari-mutuel tax. This leaves wagering revenues with the industry for programming support.

Public outcry over the severe negative impact of the cancellation of the Slots At Racetracks Program on the horse-racing industry was considerable. The media reported that owners and breeders might be forced to cut significant numbers of rural agricultural jobs, might go bankrupt and might have to slaughter thousands of race horses. In response to the public outcry and following its negotiations with opposition parties to seek support for its Budget, the minority government announced on June 7, 2012, the establishment of a new Horse Racing Industry Transition Panel (Panel) and $50 million in transition funding over three years.

From June 2012 to October 2012, the Panel consulted with and took submissions from industry experts and stakeholder groups to determine the amount of public investment needed to transition the industry to a sustainable base of public funding. In October 2012, the Panel recommended that the $50 million in transition funding be increased to about $180 million over three years and proposed certain changes to the industry. It noted that the Slots At Racetracks Program had funded more than 60% of purses and proposed that, in order to sustain these purses, the industry share of pari-mutuel betting income should fully fund them. It also determined that the other beneficiaries of program funding—operators and the Horse Improvement Program—would require public funding to continue to function.

In November 2012, the Ministry of Finance engaged a consulting firm to study how best to distribute the transition funding. The Ministry of Agriculture and Food acted on the consultant's

53. For both Gross Domestic Product and jobs lost, the Ministry based its low estimate on 2008 Statistics Canada data and its high estimate on a study commissioned by the Ontario Horse Racing Industry Association.

recommendations, signing short-term transition-funding agreements with 13 racetracks.[54] These 13 racetracks agreed to funding conditions, such as controlling salaries and operating costs, and received about $57 million from the Ministry of Agriculture and Food in the year ending March 31, 2014. The other four racetracks received no funding.[55] In addition, in the year ending March 31, 2014, the Ministry of Agriculture and Food paid $4.3 million to top up funding for the Horse Improvement Program and bring it to at least $30 million annually.

On October 11, 2013, the Ontario government released a five-year plan based on the Panel's final report.[56] This plan, to commence April 1, 2014, includes four key areas covering industry restructuring, reformed industry governance, public investment and integration with the provincial gaming strategy.[57] The plan calls for:

- providing up to $400 million over five years (replacing the $180 million in transition funding over three years recommended by the Panel in October 2012), to sustain a wide range of racing opportunities that are supported by strong business plans;
- integrating horse racing with OLG's Modernization Plan, with the possibility of developing horse-themed lottery products and bringing OLG's business, marketing and responsible-gambling expertise to bear on the horse-racing industry; and
- restructuring the ORC into two divisions: one to continue existing regulatory functions and the other to distribute funding and work with OLG to develop the industry and increase the racing fan base.

On March 31, 2014, the government announced that up to $500 million, instead of the $400 million previously announced, will be provided by the Ministry of Agriculture and Food to the industry over five years.

5.6.4 Relative Impacts on Communities of Cancelling Slots At Racetracks Program Funding

With the program cancelled, purses in 2013 were 35% lower than the year before and the ORC approved 35% fewer race days.

Figure 18 shows the variable overall financial impact of the cancellation of the Slots At Racetracks Program and related fallout on racetrack owners versus horse people. Overall, comparing the year ending March 31, 2013, to the year ending March 31, 2014, key revenues decreased by 12% in the case of racetrack owners and by 53% in the case of horse people. In addition, the ORC reported that purses and race days both decreased by 35% (purses went from $259.1 million to $163.1 million, and race days went from 1,461 days to 960 days). We noted that these decreases mostly affected horse people, who rely to a substantial extent on purses and race days. **Figure 18** also shows that the projected key revenues for the years ending March 31 from 2015 to 2019 will be distributed to provide racetrack operators with 22% less in key revenues and horse people 33% less in key revenues than they received prior to the cancellation of the Slots At Racetracks Program.

Horse people, particularly those involved in standardbred and quarter-horse racing, were hit hardest by the Slots At Racetracks Program's cancellation. We were advised that they had assumed in 2010, when OLG extended site-holder agreements for another five years, that program funding was stable, and so, they told us, they had planned for growth, investing in their farms and in the multi-year horse-breeding process. In July 2013, the Ontario Horse Racing Industry Association estimated that 3,000 owners had left the industry since 2011; 9,000 jobs had been lost, primarily in rural Ontario; and breeders' activities had dropped by about 60%. The number of licences the ORC issued to horse-racing

54. Woodbine Racetrack, Mohawk Racetrack, Western Fair, Clinton Raceway, Grand River Raceway, Hanover Raceway, Kawartha Downs, Sudbury Downs, Flamboro Downs, Georgian Downs, Hiawatha Horse Park, Rideau Carleton Raceway and Fort Erie Racetrack.

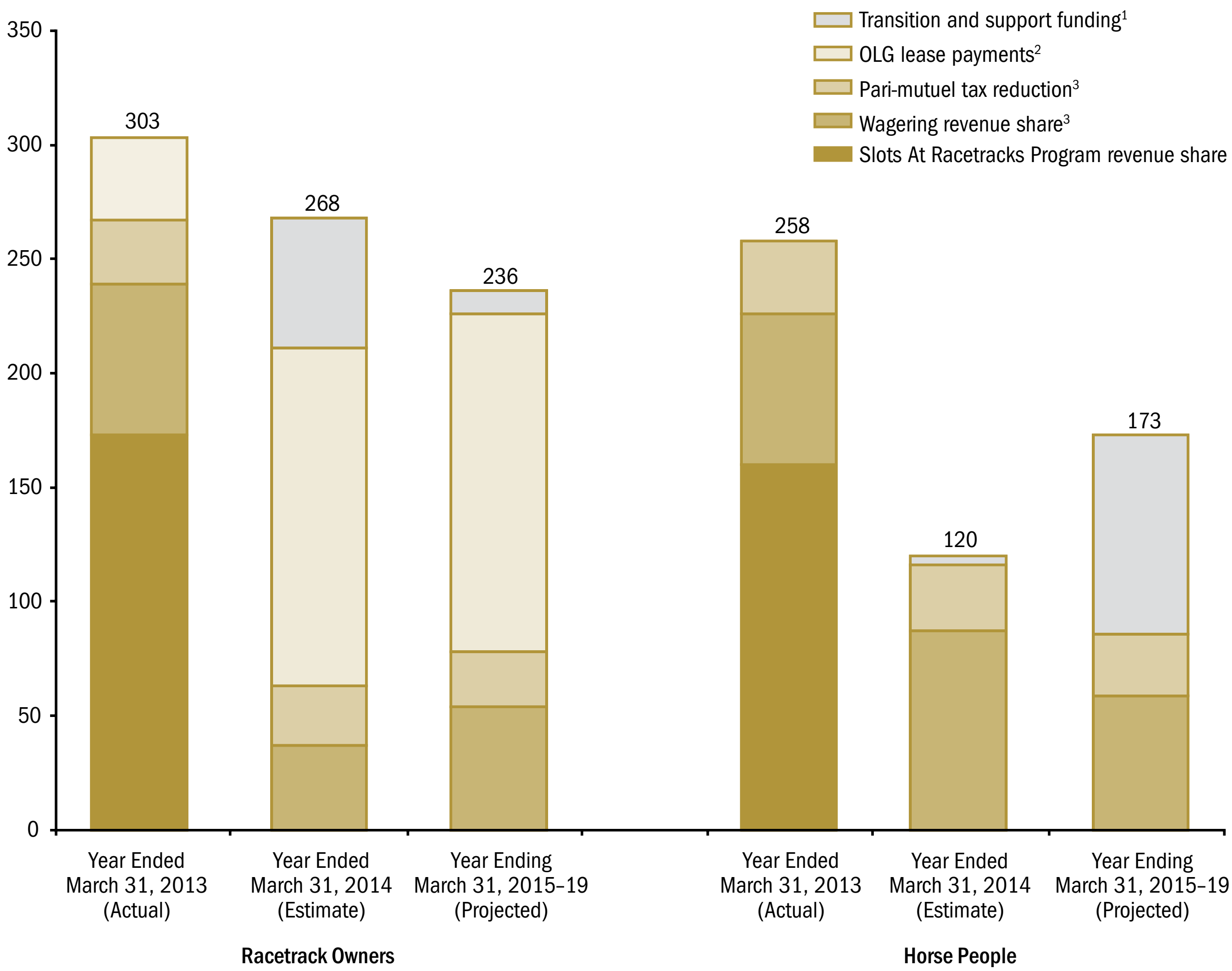
55. Dresden Raceway, Woodstock Raceway and Ajax Downs declined transition funding along with the conditions attached. Windsor Raceway closed August 31, 2012.

56. On February 12, 2014, the government gave final approval that established the Horse Racing Partnership Funding Program. This program details how the funding for the five-year plan will be distributed from February 20, 2014, to March 31, 2019.

57. The Ministry of Agriculture and Food has established a Memorandum of Understanding and an Accountability Agreement with the Ontario Racing Commission that require the Commission to put in place accountability measures for the new horse-racing program funds.

Figure 18: Effect on Certain Key Revenues for Racetrack Owners and Horse People of Cancellation of the Slots At Racetracks Program, 2013–2019 ($ million)

Source of data: OLG, ORC



1. Transition funding from the Ministry of Agriculture and Food for 2014 and the new Horse Racing Partnership Funding Program for 2015–19.
2. Excludes $80.6 million in settlements OLG paid to four racetrack operators in April 2013 as reimbursement for the capital they invested to expand their slots at racetracks. For the year ended March 31, 2013, OLG paid racetrack owners rent only for common areas at racetracks. For the years ending March 31, 2014, and thereafter, OLG also began paying rent for gaming areas.
3. Based on calendar years.

industry participants decreased by 29% from 2011 to 2013, from about 24,700 to 17,500.[58]

The small quarter-horse-racing sector first started receiving Slots At Racetracks Program funding at the Ajax Downs racetrack in 2006, enabling it to grow from about 100 race horses to around 600 by 2011. The sector successfully lobbied to increase its share of revenues after the slots at racetrack at Ajax Downs expanded from 256 to 800 slot machines in 2009. Initially, it received about $4.5 million a year from a share on only the first 200 slot machines. After Ajax Downs expanded, the sector received a commitment from the Minister of Finance in May 2010 for a fixed $8 million a year from January 2011 to February 2016. As a result, the quarter-horse-racing industry believed it had stable multi-year funding and was investing in its operations up until this commitment was cancelled at the same time the Slots At Racetracks Program was ended.

58. Any individual or business actively involved in horse racing must obtain a licence every year from the ORC. This includes owners of race horses, trainers, drivers and jockeys, grooms, anyone requiring access to the backstretch or paddock of the racetrack, pari-mutuel clerks and management staff of the racetrack. The business that operates the racetrack must also be licensed and must apply to license any off-track sites, known as teletheatres.

In the first month after the March 2012 announcement of the Slots At Racetracks Program ending, OLG closed three slots at racetracks: Fort Erie Racetrack, Hiawatha Horse Park (in Sarnia) and Windsor Raceway. Over 500 jobs were lost by OLG employees working at the slots at racetracks. Two of the three racetracks still operate but have experienced significant job losses and fewer race days. All three municipalities lost their hosting fees starting April 1, 2013. According to Sarnia's mayor, OLG did not consult his city beforehand, and Sarnia lost $1.5 million annually, representing 2.6% of its tax revenues for the year ending March 31, 2013. Fort Erie also lost around $1.4 million annually, representing 6.9% of its tax revenues for the year ending March 31, 2013. Windsor's slots hosting fee loss has been more than offset by the new hosting fee for its casino, Caesars Windsor, giving it $2 million more overall annually.

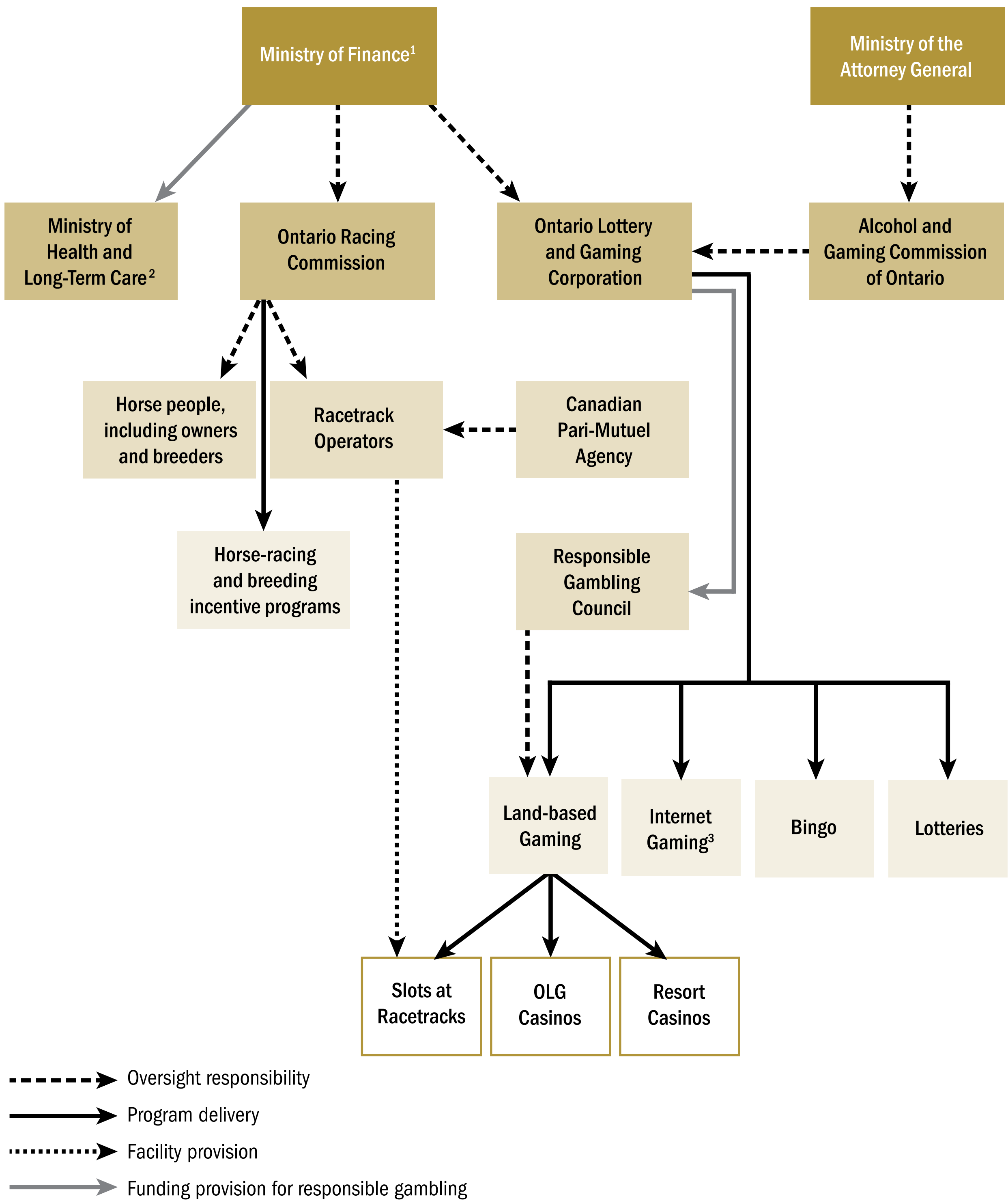
Racetrack owners (except for the three that lost their slots at racetracks) have been less affected by the ending of the Slots At Racetracks Program—they have recouped 65% of their former revenues from OLG through the newly negotiated rent for the space occupied by the slots at racetracks. OLG also reached settlements with four racetracks in March 2013 totalling $80.6 million.[59] These settlements arose from the capital investments the four racetracks undertook under OLG direction in their site-holder agreements to expand their slots at racetracks (the costs were to be recouped from Slots At Racetracks Program revenues, now gone). In addition, on March 12, 2014, OLG settled a claim with a private company for $3.2 million. The company had been seeking $10 million for OLG's cancelling its agreement to build a slots at racetrack at a proposed new racetrack in the Belleville area.

The new rental agreements OLG signed with racetrack operators in 2013 provide them with $113 million per year. These rent payments represent about 43% of the total financial support the horse-racing industry will be receiving over the next five years. Racetrack operators do not have to use this money to promote live horse racing and benefit the agricultural sector in Ontario. In contrast, agreements signed under the Slots At Racetracks Program included a requirement for racetrack operators to establish benchmark indicators and set annual targets for the use of the $173 million they received in annual program funding. Although, as discussed in section 5.6.2, racetrack operators were not asked by OLG to comply with this requirement, at least the intent was there in the agreements to make them accountable for all Slots At Racetracks Program funding received. Instead, now the horse-racing industry as a whole may be held accountable for only the other 57% of the funding it will receive over the next five years (that is, the up to $500 million the government will provide directly through the new Horse Racing Partnership Funding Program and the money made available through the government's continuation of the pari-mutuel tax reduction, both of which will require that accountability measures be established by the ORC with recipients for the promotion of the horse-racing industry as a condition of receiving the funding).

59. The four racetracks were Woodbine Racetrack (Toronto) , Georgian Downs (Innisfil), Western Fair (London) and Ajax Downs.

Appendix 1—OLG's Relationships and Activities with Key Players, 2012

Prepared by the Office of the Auditor General of Ontario



1. The Ontario Racing Commission reported to the Ministry of Government Services effective July 2012 and Ministry of Agriculture and Food effective January 2013.
2. The Ministry of Health and Long-Term Care distributes funding to Local Health Integration Networks, the Centre for Addiction and Mental Health, Ontario Problem Gambling Research Centre and communities for problem gambling research, awareness, prevention and treatment.
3. Internet gaming was not scheduled to start until late 2014.

Appendix 2—Key Players in Ontario's Gambling Industry

Prepared by the Office of the Auditor General of Ontario

Key Player	Key Responsibilities
Ontario Lottery and Gaming Corporation (OLG)	• Manage and conduct, and/or oversee, gaming facilities (slots at racetracks, OLG casinos, resort casinos) and lotteries* • Oversee Internet gaming (starting in late 2014) • Oversee electronic bingo at participating bingo halls • Provide revenue to the government, host communities, First Nations communities and local charities through its business lines • Promote responsible gambling at its gaming facilities, and in problem-gambling education and research
First Nations Communities	• Own Casino Rama and Great Blue Heron Casino gaming facilities on First Nations lands • Provide facilities and services to OLG • Mississaugas of Scugog Island First Nation responsible for live table games at Great Blue Heron Casino
Private-sector Companies	• Operate four resort casinos for OLG* • At Great Blue Heron Casino, operate the live table games under contract with the Mississaugas of Scugog Island First Nation and the slots under contracts with OLG* • Own and operate all bingo halls in the province, including 42 that have or are planning to have agreements with OLG to convert to electronic bingo centres
Alcohol and Gaming Commission of Ontario (AGCO)	• Regulate gaming so that it is conducted in the public interest, with integrity, and in a manner that is socially and financially responsible, including registering all gaming supplies • Issue all types of charitable gaming licences • Issue standards and directives • Enforce gaming legislation
Ontario Racing Commission (ORC)	• Govern, direct, control and regulate horse-racing industry • Manage and oversee horse racing and breeding incentive programs funded by the former Slots At Racetracks Program and a reduction in the provincial tax on pari-mutuel betting
Canadian Pari-Mutuel Agency	• Regulate and supervise pari-mutuel betting on horse racing in Canada as a federal agency
Racetrack Operators	• Provide facilities for thoroughbred, standardbred and quarterhorse racing and for public viewing and betting • Provide facilities to OLG for operating slots at racetracks open to the public year-round • Distribute purses
Horse People	• Participate or work in Ontario's horse-racing industry as breeders, horse owners, jockeys, trainers, veterinarians, groomers and stable workers
Municipal Councils	• Seek public input (referendum or other form of public consultation) and provide approval to OLG to host a gaming facility • Issue licences for most charitable lottery events and charity gaming conducted in their communities • May develop additional criteria for making licensing decisions and administering lottery licensing in their communities • Investigate any contraventions of terms and conditions of an issued licence
Ministry of Health and Long-Term Care	• Develop problem-gambling strategy • Distribute funding for problem-gambling research, awareness, prevention and treatment to Local Health Integration Networks, the Centre for Addiction and Mental Health, Ontario Problem Gambling Research Centre and communities
Centre for Addiction and Mental Health	• Work with OLG to provide employee training for responsible gambling
Responsible Gambling Council	• Operate Responsible Gambling Resource Centres located at OLG gaming facilities to deliver problem-gambling awareness and support programs • Administer the RG Check accreditation program for OLG's gaming facilities

* See Appendix 4 for more information.

Appendix 3—The Horse-racing Industry in North America, 2012[a,b]

Source of data: Statistics Canada; Ontario Racing Commission; British Columbia Lottery Corporation; Ministry of Finance, B.C.; Horse Racing Alberta; Manitoba Horse Racing Commission; New York State Gaming Commission; Pennsylvania Gaming Control Board; Pennsylvania Horse and Harness Racing Commission; California Horse Racing Board

Indicator	California	New York	Ontario	Pennsylvania	Alberta	B.C.	Manitoba
Population (million)	38.0	19.6	13.5	12.8	3.8	4.5	1.2
Tracks	12	11	16[c]	6	5	5	7
Total purse ($ million)	146	283	259	233	11	17	4
Race dates	655	1,337	1,461	991	269	146	82
Purse/race date ($ 000)	223	211	177	235	41	116	49
Total wagers ($ million)[1]	3,078	2,718	935	777	143	49	26
Live on-track wagers ($ million)[2]	288	367	187	41	12	16	4
Public funding ($ million)	0	130	347	274	23	10	10
Public funding as % of total wagers	0	5	37	35	16	20	38
Public funding as % of live wagers	0	35	185	668	192	63	250

a. Included are top three U.S. states, Ontario and top three other provinces. Jurisdictions are ordered by total wagers; Ontario ranks third in North America.

b. Information is based on each state's or province's 2012 fiscal year. In New York, Ontario, B.C. and Manitoba, the fiscal year ends March 31. In California and Pennsylvania, the fiscal year ends June 30. In Alberta the fiscal year ends December 31.

c. Windsor Raceway closed in 2012.

1. Total wagering includes all live, simulcast (off-track), phone, advanced wagering and out-of-jurisdiction wagers on local races.
2. Live wagering is the total dollars wagered on local races at the racetrack.

Appendix 4—Breakdown of Gambling Industry Overseen by OLG as of March 2012

Source of data: OLG

Gambling Components	Facilities Owned by	Operated by	Components
4 resort casinos			
• Caesars Windsor	OLG	Private sector	• 2,323 slot machines • 81 live table games
• Casino Rama	Chippewas of Rama First Nation	Private sector	• 2,516 slot machines • 121 live table games
• Casino Niagara	Private sector	Private sector	• 1,583 slot machines • 40 live table games
• Niagara Fallsview Casino Resort	OLG	Private sector	• 3,123 slot machines • 133 live table games
5 OLG casinos	OLG	OLG	• 2,363 slot machines • 131 live table games
Great Blue Heron Casino	Mississaugas of Scugog Island First Nation	Private sector	• 533 slot machines*
17 slots at racetracks	Racetrack operators	OLG	• 11,417 slot machines
Lottery products	OLG	OLG and sold by over 10,000 private-sector retailers	• Various lotteries, instant win scratch tickets and wagering on professional sports events
6 electronic bingo centres	Private sector	Private sector	• Paper- and electronic-based bingo, break-open tickets, and other games and products

* Great Blue Heron Casino has about 60 live table games operated by a private company under contract with the Mississaugas of Scugog Island First Nation. OLG does not oversee these table games—its oversight is limited to slot operations.

Appendix 5—Chronology of Ontario's Gambling Industry

Prepared by the Office of the Auditor General of Ontario

1886	Canada's *Criminal Code* is amended to permit betting between individuals on horse races.
1950	Ontario Racing Commission is created to regulate the horse-racing industry.
1969	*Criminal Code* is amended to authorize provincial governments to conduct and manage lottery schemes (i.e., lotteries).
1975	Ontario establishes the Ontario Lottery Corporation (OLC). Wintario, the first provincial lottery, is launched.
1976	Interprovincial Lottery Corporation is established to enable the operation of national lotteries on behalf of provinces.
1985	*Criminal Code* is amended to authorize provinces to conduct and manage mechanical/electronic gaming devices (i.e., slot machines).
1992	Ontario announces that Windsor will be the pilot city for its first casino.
1993	Ontario approves a licensing framework to enable charitable organizations to be licensed to conduct/manage gaming events. Ontario provides three First Nations bands with the authority to license and conduct/manage charitable gaming activities (i.e., raffles, bingo and live table games).
1994	Ontario establishes the Ontario Casino Corporation (OCC) to build and operate casinos and the Gaming Control Commission to regulate casinos. An interim Casino Windsor opens.
1996	Ontario signs the *Casino Rama Revenue Agreement* (CRRA) with the Ontario First Nations Limited Partnership, and Casino Rama opens. Casino Niagara opens in Niagara Falls on an interim basis. Ontario reduces the tax on pari-mutuel wagering on horse racing from 7.4% to 0.5% to provide funding to support the horse-racing industry, such as for enhancing purses and incentives for breeders to improve the quality of Ontario horses.
1997	SUPERSTAR BINGO (an electronic bingo game that links a jackpot between bingo halls) launches in bingo halls across Ontario.
1998	The Alcohol and Gaming Commission of Ontario (AGCO) is established (formerly the Gaming Control Commission). A permanent Casino Windsor opens. Ontario announces the Slots At Racetracks Program with the Ontario Horse Racing Industry Association, which will see OLG introduce slot machines at Ontario's racetracks. The Slots At Racetracks Program pays a commission of 20% of net slots revenues from each racetrack to the respective racetrack operators, of which half is shared with the horse people, primarily for enhanced purses. The first slots at racetracks opens at Windsor Raceway.
1999	Casinos open in Sault Ste. Marie and Brantford. Slot facilities open at six racetracks (Hiawatha Horse Park, Mohawk Raceway, Fort Erie Racetrack, Western Fair Raceway, Kawartha Downs, and Sudbury Downs).
2000	Ontario merges the OLC and the OCC to form the new Ontario Lottery and Gaming Corporation (OLG). Slot facilities at four more racetracks open (Rideau Carleton Raceway, Woodbine Racetrack, Clinton Raceway, and Flamboro Downs). Casinos open in Point Edward and Thunder Bay. Great Blue Heron Casino, operated by a First Nations band and OLG, opens. Ontario government announces a three-year moratorium on the introduction of new casinos. It will, however, honour its commitments to establish slots at racetracks under development at six racetracks. The government also accepts OLG's recommendation for a casino in eastern Ontario.

2001	Four more slots at racetracks open (Hanover Raceway, Dresden Raceway, Woodstock Raceway, Georgian Downs).
2002	Casino Thousand Islands opens.
2003	Slots at Grand River Raceway opens. Ontario government announces a 12-month extension of its moratorium on introducing gaming to new host communities. Ontario government announces Casino Niagara will remain open permanently at interim location.
2004	Niagara Fallsview Casino Resort opens.
2005	Ontario government announces that there will be no new commercial gaming sites, no slot machines in charity bingo halls and no provincial involvement in Internet gaming. OLG launches an electronic bingo pilot project to install electronic bingo games at four bingo halls (Barrie, Kingston, Peterborough and Sudbury) in order to help sustain funding to the charitable gaming sector.
2006	Slots at racetracks opens in the last remaining racetrack (Ajax Downs). All Ontario racetracks now have slots.
2008	Ontario signs the *Gaming Revenue Sharing and Financial Agreement* (GRSFA) with First Nations partnership group. Casino Windsor is renovated, expanded and newly re-branded as Caesars Windsor. Stanley Sadinsky submits the report *It's All About Leadership: Strategic Vision and Direction for the Ontario Horse Racing and Breeding Industry* to the government. The report, made public by the government, recommends changes to improve the use of Slots At Racetracks Program funding.
2009	OLG opens a fifth electronic bingo pilot site in Windsor.
2010	OLG receives Treasury Board approval to offer Internet gaming starting in 2012 and expand electronic bingo in the province. OLG receives government approval to grant five-year extension terms to site-holder agreements with racetracks, with most agreements expiring in 2015 or 2016. OLG opens sixth electronic bingo pilot site, also in Windsor.
Feb. 2011	OLG announces that 35 of 66 privately operated bingo halls and related charity associations have signed a "Letter of Interest to Participate" in electronic bingo as part of OLG's Charitable Bingo and Gaming Revitalization Initiative.
Mar. 2012	OLG publicly releases the Modernization Plan, *Modernizing Lottery and Gaming in Ontario*. Ontario government announces end of Slots At Racetracks Program, effective March 31, 2013.
Apr. 2012	OLG closes three slots at racetracks (Hiawatha Horse Park, Windsor Raceway and Fort Erie Racetrack).
Aug. 2012–Mar. 2014	14 bingo halls are converted to electronic bingo centres. The number of bingo halls to participate increases to 42 of 66.

Appendix 6—Chronology of Key Events Relating to the Modernization Plan Up to March 2014

Prepared by the Office of the Auditor General of Ontario

		Gambling Component					
Date	**Overall**	**Horse Racing**	**Slots**	**Casinos**	**Internet Gaming**	**Bingo**	**Lottery**
July 2010	Government of Ontario directs OLG to conduct a strategic business review to develop recommendations for creating new revenue for its mature land-based gaming and lottery distribution models.				Government of Ontario approves initiatives to revitalize bingo operations and implement Internet gaming in the province.		
Oct. 2010		OLG receives reports for first time from all racetrack operators on how slot revenues were used over the past decade to improve Ontario horse racing. Information does not give OLG a clear indication on whether or how racetrack operators had used funding to improve Ontario's horse-racing experience					
Dec. 2010	OLG launches a strategic business review that includes consultations with stakeholders.				OLG signs contract with fairness monitor for procurement of Internet service provider.		
Jan. 2011					OLG issues an open Request For Information to involve private-sector in developing an Internet gaming strategy.		
Apr. 2011					OLG engages a competitively procured consultant to help with its Internet gaming strategy.		
Nov. 2011	Having finished its strategic business review, the OLG Board submits its Modernization Plan for government approval.						

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<tr><th></th><th></th><th colspan="6">Gambling Component</th></tr>
<tr><th>Date</th><th>Overall</th><th>Horse Racing</th><th>Slots</th><th>Casinos</th><th>Internet Gaming</th><th>Bingo</th><th>Lottery</th></tr>
<tr><td>Dec. 2011</td><td>OLG signs contract with an independent fairness monitor to help ensure strategic procurements are carried out fairly and transparently.</td><td></td><td></td><td></td><td>OLG issues a request for proposals for providers of Internet gaming services to manage day-to-day operations (closing February 2012).</td><td></td><td></td></tr>
<tr><td>Jan. 2012</td><td colspan="3">Ministry of Finance prepares a draft report that recommends a transition plan that includes funding for industry. Final proposal to government does not include any transition plan or funding.</td><td></td><td></td><td></td><td></td></tr>
<tr><td rowspan="2">Feb. 2012</td><td colspan="3">The Government of Ontario receives the report from the Commission on the Reform of Ontario's Public Services (Drummond Report), which recommends reviewing and rationalizing the province's financial support of the horse-racing industry, allowing slots at sites besides racetracks, and re-evaluating sharing slot revenues with the horse-racing and -breeding industry and municipalities.
The Ministry of Finance submits a Cabinet document that details the strategy and reasons for OLG's Modernization Plan, which includes cancelling the Slots At Racetracks Program.
Government of Ontario approves proceeding with OLG's Modernization Plan.</td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td colspan="2">Government of Ontario approves the cancellation of the Slots At Racetracks Program without any transition plan for the horse-racing industry.
The Minister of Finance refers to slots revenue to horse-racing industry as a "subsidy" in a speech to the Economic Club of Canada.</td><td></td><td></td><td></td><td></td></tr>
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<tr><th></th><th></th><th colspan="6">Gambling Component</th></tr>
<tr><th>Date</th><th>Overall</th><th>Horse Racing</th><th>Slots</th><th>Casinos</th><th>Internet Gaming</th><th>Bingo</th><th>Lottery</th></tr>
<tr><td rowspan="2">Mar. 2012</td><td>OLG releases its Modernization Plan, which outlines its plans to increase annual profits from $1.7 billion to $3 billion as of March 31, 2018.</td><td colspan="2">The Government of Ontario announces in the Budget that it will end funding for the Slots At Racetracks Program.
An outcry from the industry and the public begins to grow.
OLG exercises a one-year-notice option in its site-holder agreements with racetrack operators to end the funding arrangement by March 31, 2013.</td><td></td><td>The Modernization Plan includes launching Internet gaming in late 2012 (to be completed in 2013).</td><td>The Modernization Plan includes rolling out electronic bingo to all interested bingo halls in Ontario. Over 8 years, OLG is to deliver $475 million to charities.</td><td>The Modernization Plan includes launching multi-lane sales of lottery tickets at major retail outlets.
The Modernization Plan includes increasing operational efficiencies by shifting operations of lottery network to private-sector operators as well as selling existing capital assets to private-sector operators.</td></tr>
<tr><td colspan="2"></td><td colspan="2">The Modernization Plan includes reconfiguring the number and location of gaming facilities from 27 to 29 across the province and implementing a new and consistent fee model for all host municipalities.
The Modernization Plan includes increasing operational efficiencies by shifting operations of gaming facilities to private-sector operators as well as plans for $3 billion in capital investment by private-sector operators.</td><td colspan="3"></td></tr>
<tr><td rowspan="2">Apr. 2012</td><td></td><td colspan="2">OLG asks the AGCO to investigate executive employee compensation concerns at Woodbine Entertainment Group.
OLG closes slot facilities at three racetracks: Windsor Raceway, Hiawatha Horse Park and Fort Erie Racetrack.</td><td colspan="4"></td></tr>
<tr><td colspan="2"></td><td colspan="2">OLG's Board of Directors and Ministry of Finance approve processes for procuring private-sector operators for gaming sites. OLG identifies 29 gaming zones where sites can be located as part of this process.
The contract with a fairness monitor signed December 2011 is extended for another year to attest to openness, fairness and transparency of procurement processes for private-sector operators for gaming zones.</td><td colspan="3"></td></tr>
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		Gambling Component					
Date	**Overall**	**Horse Racing**	**Slots**	**Casinos**	**Internet Gaming**	**Bingo**	**Lottery**
May 2012	OLG engages fairness adviser to oversee implementation of its Modernization Plan.		OLG issues open Request For Information to get private-sector feedback on a new gaming business model (closes July 2012). This results in OLG grouping 25 of the 29 gaming zones into 7 larger bundles for which private-sector operators can bid to operate gaming facilities.			OLG signs an 8-year agreement with a private-sector vendor to accelerate development and installation of electronic bingo and other products.	
June 2012		The Horse Racing Transition Panel is appointed to make recommendations on how the Government of Ontario could help the horse-racing industry adjust to the end of the Slots At Racetracks Program. The government announces $50 million in transition funding to be provided over three years.					OLG issues open Request For Information for regulated private-sector participation in lotteries and development of a new lottery business model.
			A new regulation comes into effect that removes the mandatory requirement that a municipality must hold a public referendum to host a possible gaming site.				
Aug. 2012						The first new electronic bingo centre opens.	
Sept.–Nov. 2012			Four municipal councils (North Bay, Kenora, Belleville and Kingston) pass resolutions in favour of casinos in their cities.				
Oct. 2012		The Horse Racing Transition Panel reports that Slots At Racetracks Program funding was far more than the amount needed to stabilize the industry and that the industry itself had not been required to improve consumer experience. Recommendations include fewer race days, different allocation of purse monies, changes to the ORC, new racing-specific gaming products and transition funding of about $180 million over three years, instead of $50 million as announced in June 2012.		Ottawa Municipal Council passes resolution in favour of new casino			

Date	Overall	Gambling Component					
		Horse Racing	Slots	Casinos	Internet Gaming	Bingo	Lottery
Nov. 2012			OLG issues its first Request for Pre-qualification (closing March 2013) for casino gaming, where private-sector operators indicate their interest in providing gaming services over three bundles of gaming zones (Ontario North, Ontario East and Ottawa Area) and present their skills and abilities.				
Dec. 2012							OLG issues a Request for Pre-qualification for lotteries (closing April 2013), where private-sector operators indicate their interest in running the day-to-day operations of the lottery network and developing product and marketing strategies.
Feb. 2013			Hamilton votes that its preference is for a casino to remain at Flamboro Downs, but, if this is not viable, then Hamilton will explore other locations.				
Mar. 2013		Funding for the Slots At Racetracks Program ends.					
Apr. 2013	The Standing Committee on Public Accounts requests that the Auditor General conduct a review of OLG's modernization initiatives and cancellation of Slots At Racetracks Program.	OLG starts paying only rent for the space occupied by its slot facilities at racetracks.	OLG sets a new standard formula for sharing of slots revenues from slots at racetracks and OLG casinos with host municipalities. OLG now pays rent only to racetracks—a total of $113 million to 14 racetracks. Sarnia and Fort Erie stop receiving municipal hosting fees with the closing of slots at racetracks in their municipalities.		OLG signs a 5-year agreement with a private-sector operator to operate Internet gaming, expected to launch by the end of 2013.		

		Gambling Component					
Date	**Overall**	**Horse Racing**	**Slots**	**Casinos**	**Internet Gaming**	**Bingo**	**Lottery**
May 2013	The Premier terminates the appointment of OLG's Chair, and the Board of Directors resigns.		Wasaga Beach, Peterborough, Collingwood, Woolwich and Vaughan pass resolutions in favour of casinos in their cities. Toronto, Markham, Kitchener and Waterloo reject proposals for new or relocated casinos. OLG issues its next Request for Pre-qualification (closing August 2013) for Southwest bundle of gaming zones. The Minister of Finance announces a revised standard formula retroactive to April 1, 2013, for the sharing with host municipalities of slots and live-table game revenues from slots at racetracks, OLG casinos and resort casinos. Most municipalities get more than previously, but two get less.				
Aug. 2013			Ottawa rejects proposal for new casino in favour of keeping gaming facility at Rideau–Carleton Raceway, reversing its October 2012 decision.				
Nov. 2013	New OLG Chair and Board are appointed.						
Oct. 2013		The Horse Racing Industry Transition Panel presents its final report to the Government of Ontario. The government unveils a 5-year plan to commence April 1, 2014, for the horse-racing sector, which replaces the $180-million recommendation of the transition panel and includes the following: • up to $400 million in funding over five years to sustain a wide range of racing opportunities supported by strong business plans;* • integrating horse racing with OLG's Modernization Plan, which includes researching potential horse racing–themed lottery products and leveraging the OLG's expertise in business, marketing and responsible gambling within the horse-racing industry; and* • restructuring the ORC into two divisions—one that will continue its existing regulatory functions and one to distribute funding and work with OLG.*		Vaughan municipal council passes resolution rejecting a casino, reversing its May 2013 decision.			

		Gambling Component					
Date	Overall	Horse Racing	Slots	Casinos	Internet Gaming	Bingo	Lottery
Dec. 2013	OLG awards a new 3-year contract to fairness monitor to continue to oversee strategic procurements.		OLG issues open Requests for Pre-qualification (closing March 2014) for three remaining bundles of gaming zones (Greater Toronto Area, Central and West Greater Toronto Area). OLG issues open Request for Information on the private sector developing an entertainment facility in Niagara Falls.				
Feb. 1, 2014		Government establishes the Horse Racing Partnership Funding Program, which details how up to $400 million in funding will be distributed over 5 years (between February 20, 2014 and March 31, 2019).					
Mar. 31, 2014		Government increases Horse Racing Partnership Funding Program to up to $500 million over same 5-year period as announced on Feb. 1, 2014.					

* Wording taken verbatim from government announcement.