

Alcohol & Gaming Commission of Ontario

New Hampshire
Gaming Study Commission
February 16, 2010

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Agenda

- Ontario's Gaming Marketplace
- Legal Framework for Gaming
- Operational Framework for casinos
- Regulatory Framework for casinos
- Social Public Policy consideration for gaming

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Ontario's Gaming Marketplace

- Multi-billion dollar business in Ontario
- One of the largest in North America
- Four key sectors:
 - government operated lotteries
 - commercial gaming/casinos
 - charitable gaming
 - horse racing (pari-mutuel wagering)

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Ontario's Gaming Marketplace

- Commercial gaming relatively young industry in Ontario
 - first casino opened 1994
- Horse racing (pari-mutuel wagering) regulated since 1898 – had a monopoly on legalized gaming until 1970 (slots at racetracks 1998)
- Charitable gaming industry one of the largest in North America

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ONTARIO GAMING MARKETPLACE

Casinos with Slots	Racetracks	Lotteries	Charitable Gaming
5 OLG charity casinos 4 resort casinos 1 First Nation casino	17 racetracks (with slots) 69 teletheatres (no slots)	9,983 lottery ticket outlets	74 bingo facilities
Total # slots at casinos – 12,646 Total # gaming tables operated by OLG - 524	Total # slots at racetracks – 10,207	Registrations in 2008/09: <ul style="list-style-type: none"> • 1,875 retail manager • 25 suppliers 	Licences issued in 2008/09: <ul style="list-style-type: none"> • 9,106 bingo • 279 break open ticket/pull tab • 185 raffles

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GOVERNMENT-OPERATED GAMING REVENUES

- Total gross revenues in 08/09:
 - \$6,4 billion
- Total net income to the Ontario government in 08/09:
 - \$1,905 billion

* Total net income also includes “gaming win” directed to the Ontario government by the OLG

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CHARITY-OPERATED GAMING REVENUES

- Total gross wager in 08/09:
 - \$1,273 billion
- Total net charity profit (after prizes/expenses paid) in 08/09:
 - \$167 million

	Gross Wager	Net Profit to Charity
Bingo	\$651,000,000	\$54,000,000
Break open ticket	\$330,000,000	\$41,000,000
Raffles	\$292,000,000	\$72,000,000

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Legal Context for Gaming in Canada

What is the legal context for gaming in Ontario?

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Legal Context for Gaming in Canada

- Gaming is illegal in Canada under Federal legislation (*Criminal Code of Canada*)
- Three principle exemptions to the general prohibition:
 - Provincial government
 - Charitable or religious groups pursuant to a licence issued
 - Fairs & Exhibitions pursuant to a licence by the province
- Horse Racing (pari-mutuel wagering) also licensed and regulated

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Legal Context for Gaming in Canada

- Key point in the Criminal Code – only the provincial government may offer games of chance played on or through a slot machine, computer or video device
- *Criminal Code* (Federal legislation) sets the parameters for legal gaming, provinces are responsible for operating, licensing and regulating legal forms of gaming (pari-mutuel wagering is a shared responsibility between federal and provincial government)

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Legal Context for Gaming in Canada

- Provincial governments are both operators and regulators
- Extent of provincial involvement and approach will vary from province to province
- Four gaming sectors and different business models:
 - Commercial Gaming operated by a government agency (OLG) – with various operating models
 - Government-run lotteries (OLG)
 - Charitable Gaming – operated by charities with certain services provided by private sector and regulated by the provincial government
 - Horse Racing – operated by private sector but regulated by federal and provincial government

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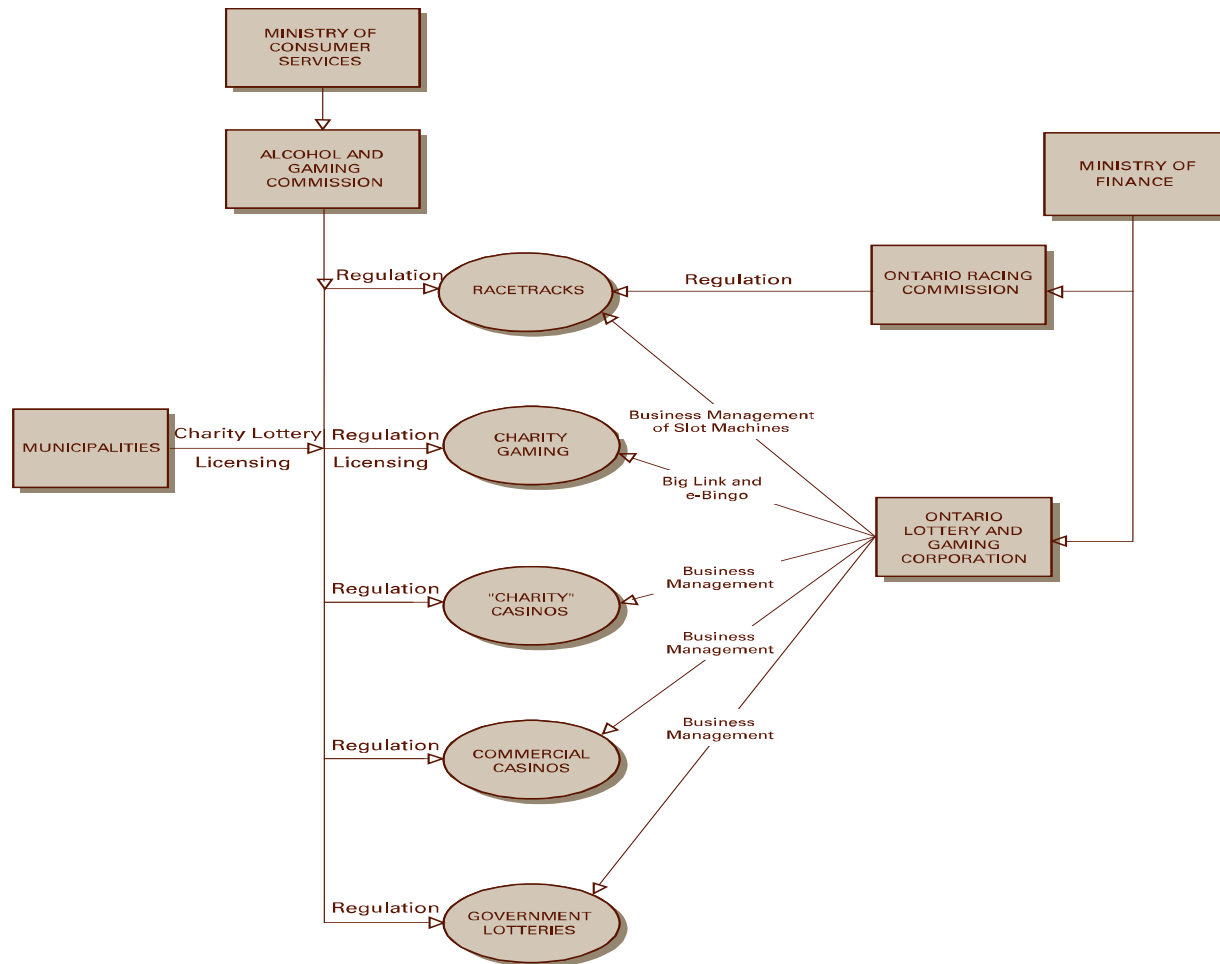
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Ontario Gaming Relationships



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Legal Context for Gaming in Canada

- Pure private sector casino gaming model is not possible in Canada due to Criminal Code restrictions
- Code requires the provinces to “manage and conduct” the gaming devices
- However, level of government involvement in actual operations can/does vary by Province and within Ontario
- Much turns on the meaning or interpretation of “Conduct & Manage”

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Operational Framework - Casino Gaming

How has the Ontario Government organized its casino gaming initiatives to comply with the Criminal Code?

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Operational Framework – Casino Gaming

- All casino gaming (with slots) operated through a government agency – Ontario Lottery & Gaming Corporation (OLG)
- OLG is a corporation without share capital and its Board of Directors is appointed by government

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Operational Framework – Casino Gaming

- OLG's objects are to:
 - develop, undertake, organize, conduct and manage lottery schemes on behalf of the Crown
 - Provide for the operation of gaming premises
 - Ensure gaming premises are operated and managed in accordance with the law
 - Provide for the operation of any business that the Corporation considers to be reasonably related to operating a gaming premises
 - If authorized by government, enter into agreements to develop, undertake, organize, conduct and manage lottery schemes on behalf of, or in conjunction with, the government of one or more provinces
 - Do such things as the government may by order direct

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Operational Framework – Casino Gaming

- Government introduced casinos in 1994 to:
 - act as a catalyst for community economic development and create jobs,
 - promote tourism and hospitality industries, and
 - provide revenues for the province.
- Ontario developed different models for casino development, operation and management
 - Public-Private Sector partnership model
 - Public sector model (government owned and operated)
 - First Nations partnership model

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Operational Framework – Casino Gaming

Public-Private Sector Partnership

- The casino business is 100% government-owned but operated by experienced private sector company
- Private sector company selected through competitive tender
- Goal to maximize economic gains from the casino (direct and indirect) without having to invest substantial capital outlays and managerial expertise
- The government, through the OLG, operates four commercial casinos under this hybrid model (Caesar's Windsor, Rama, Niagara Casino and Fallsview)

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Operational Framework – Casino Gaming

- OLG's role with the four commercial properties similar to that of a Board of Directors and governed by an operating agreement between the OLG and the operator where the OLG:
 1. Approves casino operator's business plan, annual budget and operating policies
 2. Approves any capital expenditures of the casino operator beyond specified amounts;
 3. Approves any contracts entered into by the casino operator where the amount payable under the contract exceeds a certain threshold or continues for longer than a year;
 4. Reviews periodic reports and financial statements for the casino complex; and
 5. Controls the bank accounts of the casino complex.
- All critical elements to demonstrate that the government is “managing and conducting” the games

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Operational Framework – Casino Gaming

- Private sector casino operators, within the parameters of approved operating policies, budgets and business plan, are responsible for the day-to-day operation of the casino.
- For their services, operators receive a management fee, representing a percentage of both gross gaming revenue and net operating margins.
- Government receives a “win tax” (20% of gross gaming revenue after the payment of winnings to players) and the net profits from the casinos

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Operational Framework – Casino Gaming

- OLG must make payments from revenues it receives from the operation of commercial casinos with the following priorities:
 - payment of winnings to players
 - payments that the regulations made under the OLG Act require (20% win tax – paid on weekly basis)
 - payments of the operating expenses of the corporation (which would include the private sector operator's management fee)
 - payments to the AGCO (regulator)
 - payments required to be made under any agreement entered into by the corporation (with consent of government) to Casino Rama (First Nation)
- After these payments, remaining revenues go to government.

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Operational Framework – Casino Gaming

Public Sector Model

- In 1999, gaming was further expanded without private sector involvement
- Included introduction of slots at 17 of 18 racetracks and opening of five “charity casinos”
- Under this model, the government is the operator of the gaming premises
- Employees of the premises are employees of the province (OLG)

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Operational Framework – Casino Gaming

- Payment of Revenues from OLG-owned facilities (charity casinos and racetracks)
- OLG must make payments from its OLG casinos and slot machines facilities according to the following priorities:
 1. Payment of prizes
 2. Payment of the operating expenses of the Corporation
 3. Payments made under agreements approved by the government to support activities and programs for the benefit of the people of Ontario
- After these payments, remaining revenues go to government; with a portion of these revenues to be directed to the promotion and development of physical fitness, sports, recreational and cultural activities, charities, protection of the environment, provision of health care including programs for problem gambling

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Operational Framework – Casino Gaming

First Nation models

- Two key models/partnerships involving First Nations
 1. Rama (commercial casino on reserve)
 2. Gaming agreements with First Nation, private sector and OLG

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Regulatory Framework

- Mandate
- Regulatory Model
- Structure/Organization of the Regulator

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AGCO Mandate

- To ensure that gaming premises and games of chance are conducted and managed with honesty, integrity and in the public interest by persons who will not damage the reputation or adversely affect the credibility of the industry.
- Three objectives of the AGCO mandate rooted in:
 - Crime prevention – significant provincial police presence within AGCO responsible for background checks, investigations and 24/7 presence at commercial casinos; security and surveillance controls, etc.
 - Consumer Protection – ensure rules of play are fair; gaming equipment not susceptible to cheating and slot machines meet technical standards,
 - Social Responsibility – regulations/requirements on age restrictions; people with gambling problems, advertising and marketing restrictions, controls on issuance of credit, alcohol and gaming laws, etc

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AGCO Mandate

Not included in the AGCO's mandate:

1. Illegal gaming
1. Pari-mutuel wagering
3. Responsible Gambling*

* Though some elements of the AGCO's mandate invariably relate to responsible gambling practices, the Ontario government strategy on responsible and problem gambling rests with Health government departments and agencies.

Regulatory Model

- Original model closely tied to NJ and NV
- Very strong, integrated police presence with the regulator
- Core to the regulatory scheme is a comprehensive registration system for casino operators, their employees, gaming-related suppliers and non-gaming related suppliers
- Rigorous standards and controls governing casino accounting, handling of money/money equivalents, security, surveillance
- Operators propose their own internal controls measured against minimum requirements and approvals of the AGCO
- Use of terms and conditions and policy directives in certain areas in addition to regulations which are less flexible
- Government owned/operated casinos makes a difference - AGCO is arguably more concerned about broader social issues than regulatory bodies in jurisdictions where gaming is owned and operated by the private sector
- The gaming regulator is also the alcohol regulator – greater sensitivity to issues related to alcohol in gaming premises

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Structure/Organization of the Regulator

- AGCO established by legislation in 1998 reporting to a government department (Ministry) other than the Ministry OLG reports to (bifurcated model to avoid conflicts)
- Responsibilities include ensuring compliance with two key pieces of legislation:

Gaming Control Act (regulating commercial gaming, charitable gaming and government run lotteries)

Liquor Licence Act (regulating sale and service of alcohol in bars/restaurants, manufacturers, wineries, etc)

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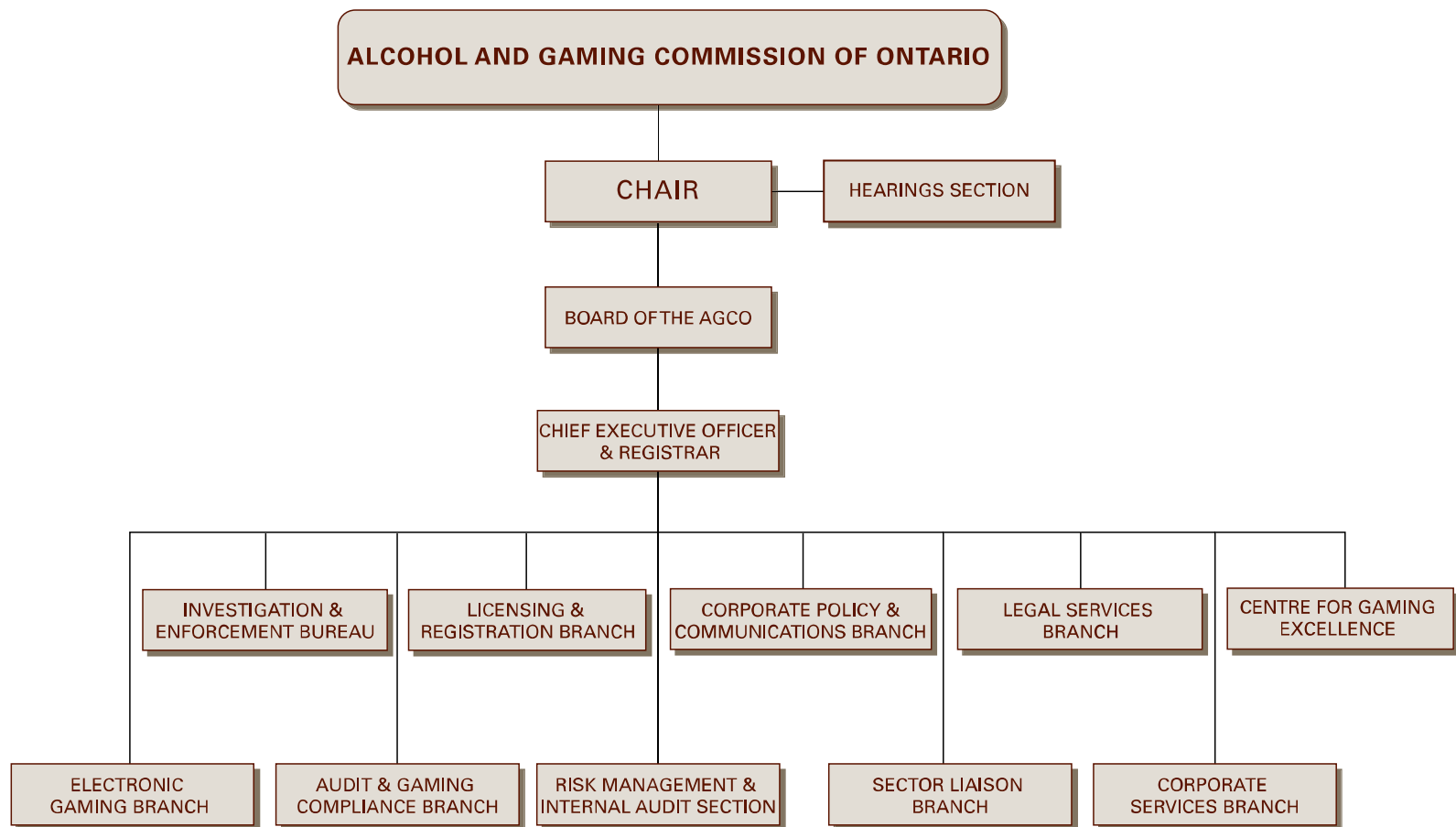
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AGCO Organizational Structure



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Structure/Organization of the Regulator

- AGCO has approx 550 staff (150 are police)
- AGCO is governed by a Board of Directors appointed by government which has among its responsibilities:
 - hiring the CEO and Registrar (statutory decision-maker)
 - making decisions on matters referred to by the Registrar
 - directing OLG to exclude individuals from gaming premises
 - hold hearings on proposals made by the Registrar re suspension, revocation of licences or registrations

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Structure/Organization of the Regulator

Registrar of Alcohol & Gaming (also CEO)

- Extensive powers and can appoint one or more deputy registrars
- Powers include:
 1. Make inquiries and conduct investigations into the character and financial history and competence of an applicant, officer, director, OLG Board member or OLG employee
 2. Approve applications for registrations (employees and suppliers)
 3. Impose terms and condition which are not contested
 4. Requiring information from any person who is subject of an inquiry or investigation
 5. Approving, refusing or varying internal controls, security plans, surveillance and floor plans for casinos
 6. Approve/refuse gaming equipment and gaming management systems
 7. Freeze money or assets
 8. Issue orders of compliance
 9. Impose monetary penalties

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Social Responsibility Considerations

- Will vary by jurisdictions but pure private sector model may give rise to increased regulatory involvement/oversight over marketing/profitability of casinos (to strike the appropriate balance between business-driven objectives and social responsibilities)
- Arguably, this kind of oversight is built-in when casinos are government run

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Concluding Remarks

- Ontario government is currently reviewing its role in the gaming business – no direction established yet
- AGCO also in process of re-thinking its approach to regulating casinos (move to a more risk/standards-based approach to regulation as opposed to more prescriptive model)
- In designing a plan for a new gaming market (regardless of ownership structure), it is very important to have clear understanding of roles, responsibilities and accountabilities for decision-making, planning, operations, regulation and social considerations.

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