

Chapter 2

Section 2.01

Ontario Lottery and Gaming Corporation's Modernization Plan

Follow-Up on April 2014 Special Report

Status of Modernization Plan as of September 2016

The implementation of the Ontario Lottery and Gaming Corporation's (OLG's) 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; launches of new OLG initiatives taking longer than planned; delays in negotiating lease agreements with racetracks; and the government's decision to integrate horse racing into the Modernization Plan.

On September 23, 2016, OLG cancelled the Request for Proposals (RFP) for the lottery network in favour of a revised modernization approach. Under the revised approach, OLG plans to increase its lottery revenues with enhancements to its technology and innovation capabilities through partnerships with the private sector. As of September 30, 2016 (as shown in **Figure 1**), the procurement process for selecting private-sector operators for casinos in seven regions of the province was still in progress, with a planned completion date of August 2018, almost six years later than the original projected timeline.

As of September 30, 2016, OLG's latest projection of net profit to the province (NPP) for the six-year period from April 1, 2012, to March 31, 2018, was an estimated \$11.811 billion, down \$3.525 billion from the 2012 NPP projection of \$15.336 billion.

In 2012, OLG estimated total NPP even without modernization—in other words, without changing anything—for the same six years would be \$10.712 billion, or only about \$1.1 billion less than the 2016 projections that include modernization. That \$1.1 billion difference dropped further, to just \$639 million, after the province incurred unanticipated costs of \$461 million during the same six years to support the horse-racing industry.

As of September 2016, OLG's full modernization benefits have been deferred to the 2021/22 fiscal year. The additional annual NPP attributable to modernization has also been reduced to \$889 million starting in 2021/22, four years behind schedule and only 70% of the originally projected benefits of \$1.3 billion annually starting in 2017/18. The \$889 million in additional annual NPP from modernization includes a projected \$209 million from modernized lottery operations. However, as of September 23, 2016, the initial lottery modernization approach had been cancelled, putting the \$209 million projection in question until a new approach is finalized. As of the

Figure 1: Status of OLG's March 2012 Modernization Plan Activities as of September 2016

Source of data: OLG

| Activity and Original Planned Completion Date | What's Been Done | What's Left to Do as of September 30, 2016 and a Revised Completion Date |
|---|--|--|
| Reconfiguration of the number of gaming facilities and tailoring the types of gaming activities made available at each location (Summer 2012) | <ul style="list-style-type: none"> • Gaming business model developed • 29 gaming zones (areas where a gaming facility is permitted to operate) were established and later reduced to 28 zones (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 | <ul style="list-style-type: none"> • Finalize locations and reconfigure gaming facilities in zones on the basis of municipal approvals received <p>(No revised completion date, but will be after August 2018, the revised completion date for securing private-sector operators)</p> |
| Securing private-sector operators for gaming zones, who will be responsible for all funding, building and operation of all gaming facilities (December 2012) | <ul style="list-style-type: none"> • 25 of 28 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 • Requests for pre-qualification of bidders issued for all 7 bundles and qualified bidders notified for 4 of the 7 bundles • Requests for proposals issued for 4 of the 7 gaming bundles to eligible private-sector operators to take over operations • Niagara bundle added as the 8th bundle covering 2 gaming zones • Contract reached with the successful private-sector operator selected for the East gaming bundle | <ul style="list-style-type: none"> • Prequalified bidders eligible to participate in the request-for-proposal process to be notified for 3 of the original 7 bundles • Issue and evaluate submissions for pre-qualification of bidders for the Niagara bundle • Issue requests for proposals to eligible private-sector operators to take over operations for 4 gaming bundles (Ottawa, West GTA, Central and Niagara) • Award contracts to private-sector operators for the remaining 7 gaming bundles and transition day-to-day operations of existing gaming facilities • Operators to open new and relocated gaming facilities • Determine strategy for Caesars Windsor <p>(August 2018 for the awarding of gaming zones to private-sector operators)</p> |
| Implementation of new, consistent hosting fee model for municipalities with gaming facilities (Late 2014) | <ul style="list-style-type: none"> • New hosting fee rates announced in May 2013 • All 23 host municipalities have signed new hosting fee agreements with OLG | <ul style="list-style-type: none"> • Completed |
| Securing a private-sector operator for lottery network operations (December 2012) | <ul style="list-style-type: none"> • Request for pre-qualification issued • Evaluated submissions for pre-qualification of bidders • Issued requests for proposals to eligible private-sector operators | <ul style="list-style-type: none"> • On Sept 23, 2016, OLG cancelled the current Request for Proposals (RFP) for Lottery in favour of a revised modernization approach <p>(No revised completion date for the new lottery modernization approach)</p> |

| Activity and Original Planned Completion Date | What's Been Done | What's Left to Do as of September 30, 2016 and Revised Completion Date |
|--|--|---|
| Expansion of lottery ticket sales to large multi-lane retail outlets (Late 2015) | <ul style="list-style-type: none"> Letter of Intent signed with one grocery partner | <ul style="list-style-type: none"> Finalize two multi-lane technology solutions with two key grocery partners Finalize contracts with technology solution providers; design, build, implement and deploy two solutions for the two grocery partners <p>(September 2018 for the two grocery partners)</p> |
| Ending Slots At Racetracks Program (March 31, 2013) | <ul style="list-style-type: none"> 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 In January 2015, Minister of Finance instructed OLG to create a new line of business focused on horse-racing integration activities In April 2016, OLG created its new line of business that is focused on horse-racing integration activities. In the February 2016 Budget, Ontario government announced extension of the horse-racing funding program for two additional years beyond March 2019, to March 2021. | <ul style="list-style-type: none"> Continue to explore potential horse-themed lottery products and provide business, marketing and responsible gambling expertise to the horse-racing industry Extend the racetrack funding agreements, which currently expire on March 31, 2019, for two additional years to March 31, 2021 Finalize a long-term commercial funding arrangement for the horse-racing industry <p>(Ongoing with no completion date set)</p> |
| 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) | <ul style="list-style-type: none"> 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 | <ul style="list-style-type: none"> 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 <p>(No revised completion date, but will be after August 2018, the revised completion date for securing private-sector operators)</p> |

| Activity and Original Planned Completion Date | What's Been Done | What's Left to Do as of September 30, 2016 and Revised Completion Date |
|---|---|---|
| Implementation of Internet gaming (Late 2011) | <ul style="list-style-type: none"> Request for proposals issued 5-year contract signed with a private operator to manage day-to-day Internet gaming operations Internet gaming launched publicly in January 2015 | <ul style="list-style-type: none"> Completed |
| Revitalizing charitable gaming by converting participating existing bingo halls to electronic bingo centres (December 2013) | <ul style="list-style-type: none"> 8-year contract signed with a private vendor to accelerate development and installation of electronic bingo and other products 32 of 42 participating bingo halls have been converted to electronic bingo centres and one has since closed | <ul style="list-style-type: none"> Further conversion of bingo halls to electronic bingo centres has been put on hold pending discussions with the industry (No completion date set) |
| 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) | <ul style="list-style-type: none"> All 24 gaming facilities achieved responsible gambling accreditation from an independent, not-for-profit organization (Responsible Gambling Council) Responsible gambling accreditation achieved for Internet gaming | <ul style="list-style-type: none"> New initiative added to apply OLG's responsible gambling expertise within the horse-racing industry (December 2016 for OLG to provide advice; no implementation date set. Ministry of Finance and horse-racing industry to finalize implementation) |

2015/16 fiscal year, OLG had only achieved around \$300 million (34%) of the \$889 million projected NPP increase. The remaining \$589 million NPP increase was projected to occur over the next six years. As with any long-term financial projections, estimates are based on a number of business assumptions that will likely evolve over time.

Background

OLG Modernization in 2012

In July 2010, the provincial cabinet directed OLG to work with the Ministry of Finance (Ministry) 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); 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 to Cabinet by late 2011.

In February 2012, the Ministry reported back to Cabinet with OLG's Modernization Plan. 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 slot facilities at three racetracks and relocating six slot-at-racetrack facilities and one OLG casino;
- introducing five new gaming facilities in underserved communities;
- terminating all site-holder agreements with racetrack operators; and
- competitively outsourcing the day-to-day operations of OLG gaming facilities to private-sector operators and having them fund new

capital development and buy existing OLG capital gaming assets.

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 socially responsible gambling, the approved changes included:

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

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;

- an additional \$1.3 billion in annual net profits to the province starting April 1, 2017, and expected to be sustainable thereafter;
- about \$3 billion in new private-sector capital investment in Ontario;
- about 2,300 net new gaming-industry jobs; and
- 4,000 net new jobs in the hospitality, entertainment and retail sectors.

2014 Special Report

In April 2013, the Legislative Assembly's Standing Committee on Public Accounts passed a seven-part motion, outlined in **Figure 2**, asking the Auditor General to look at various aspects of the OLG's Modernization Plan, including the cancelling of the Slots At Racetracks Program.

Overall, our April 2014 Special Report noted the following:

- The Modernization Plan had an overly ambitious timeline. The Modernization Plan included a significant number of changes and

Figure 2: Excerpt of the Public Accounts Committee Motion

Source of data: Standing Committee on Public Accounts

Motion

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

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

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

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

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

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)

initiatives that needed to occur within 18 months to achieve net profit projections.

- The Modernization Plan depended on and assumed municipal stakeholder agreement, especially in the case of having a casino in the Greater Toronto Area (GTA). However, more consultation with municipalities was needed to assess the practicalities of getting municipal approval for OLG's plans.
- The Modernization Plan's financial projections were overly optimistic. As of March 2014, OLG had already reduced its six-year estimate of projected revenues by 48% to \$2.4 billion, from \$4.6 billion in the March 2012 estimate.
- Procurement processes that were followed to the time of our report had been fair, open and transparent.
- The Modernization Plan's job and private-sector capital investment projections were overstated. As of March 2014, the Modernization Plan was scheduled to result in significantly fewer jobs and less private-sector capital investment than had been anticipated.
- The cancellation of the Slots At Racetracks Program was considered in the Modernization Plan but was unexpected by the horse-racing industry. We found that 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.
- Some stakeholders had been disproportionately impacted by the cancellation of the Slots At Racetracks Program. Racetracks in three municipalities lost their OLG slot facilities.
- The revised municipal hosting fee was consistent from one municipality to the next, with no secret "one-off" deals (a separate fee was in place with First Nations groups). We found the new municipal hosting fee that had been established was clear and consistent, with no one municipality favoured over another.
- The province and OLG had taken steps prior to modernization to prevent and mitigate problem gambling and they were continuing to do

so, as of our Special Report. OLG's Modernization Plan included commitments to continue to promote responsible gambling initiatives.

In our April 2014 Special Report, we committed to issuing an update once all procurement associated with the Modernization Plan was complete. At the time of the Special Report, OLG was expected to complete all modernization-related procurements by March 2015. As of September 30, 2016, the procurement completion date had been postponed to August 2018, and we plan to issue another update at that time. In the interim, we are providing a two-year status update to the Special Report.

Update Details

Consultation with Municipalities on Casinos

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. As part of the 2012 Modernization Plan, 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. Over 20% of the \$1.3 billion 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, our 2014 audit found there was no prior communication or formal consultation with municipalities by OLG or any ministry regarding potential new or relocated casinos. Instead, prior communication with municipalities was 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, where OLG presented background on the Modernization Plan, gaming zones in the region and municipalities' role in establishing new gaming facilities. Upon request, OLG also appeared at city councils and public information sessions hosted by municipalities to present detailed information, such as expected economic impacts, and the steps and timelines of the procurement process. Beginning in 2012, OLG has continued to meet annually with all host municipalities and potential new host municipalities.

At the time of our 2014 audit, most large municipalities, including those in the Greater Toronto Area, Ottawa, Hamilton, Kitchener and Waterloo, had rejected OLG's proposals for locating casinos in more populated urban areas. This significantly reduced the achievement of the revenue projections in the Modernization Plan.

In July 2015, Toronto City Council passed a resolution supporting gaming expansion at Woodbine Racetrack, only if OLG and the private-sector operator (yet to be selected) met a number of planning, economic, social, health and labour conditions. The OLG was required to include the city's conditions into the ongoing procurement process for the GTA gaming bundle. The private-sector operator for the GTA gaming bundle is expected to be selected by November 2017, at which time the city manager is to provide a report back to council assessing how the operator has met or has committed to meeting the city's conditions. At that point, city council would decide whether to maintain or reverse its conditional support of expanded gaming at Woodbine.

Based on conditional municipal support, OLG has reached long-term lease agreements with Woodbine Entertainment Group (WEG) for the Woodbine Racetrack site and to allow the selected private-sector operator to develop a pre-determined

number of acres owned by WEG for gaming and non-gaming purposes. With the council's conditional approval for Woodbine expansion, the OLG is expecting significantly stronger bids for the GTA gaming bundle from the major private-sector casino operators. OLG originally expected NPP of \$348 million by 2018 for a new GTA casino. The NPP impact of the Woodbine expansion is expected to be significantly lower.

Tendering Contracting and Planning Processes

OLG continues to follow the three-stage procurement process that its board approved in April 2012:

- **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.

Timelines for Procurement and Launches of Modernization Plan Initiatives

Land-Based Gaming Facilities

In 2012, OLG planned to have private-sector operators for all 29 gaming zones outlined in the Modernization Plan, with one existing or new gaming facility strategically placed per zone to maximize gaming revenue. In 2012, the gaming zones were

grouped into seven larger gaming bundles, with Niagara Falls added as an eighth gaming bundle in April 2016. 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. As of March 2014, OLG had updated the projected completion date to June 2015. As of September 30, 2016, OLG had further extended the land-based gaming site procurement timelines by four years from June 2015 to June 2019. The procurement timeline was extended to June 2019 for the Niagara Falls bundle and August 2018 for the other seven gaming bundles.

As of September 30, 2016, OLG's agreement with a private-sector operator had only been completed for one of the eight gaming bundles. As **Figure 3** shows, RFPs to pre-qualified private-sector operators have been issued for three other gaming bundles—North (November 2015), Southwest (November 2015) and GTA (February 2016). RFPs for the four remaining gaming bundles—West GTA (October 2016), Ottawa (October 2016), Central (March 2017) and Niagara (April 2017)—were to be released over the next several months.

East Gaming Bundle Procurement

In September 2015, OLG selected Ontario Gaming East Limited Partnership (OGELP) as the private-sector operator for the East gaming bundle. In Janu-

ary 2016, OLG and OGELP entered into a 20-year Casino Operating and Services Agreement that provides OGELP with an annual fixed service fee and potential to earn higher fees based on exceeding predetermined revenue thresholds. Based on our review and the reports by OLG's Fairness Monitor, the East gaming bundle procurement process followed the approved procurement criteria.

On January 26, 2016, Belleville City Council approved OGELP's gaming site development plans. Construction of the new Belleville casino began in April 2016 with an expected completion date of December 2016.

Niagara Gaming Bundle Added to Modernization Plan in April 2016

On April 1, 2016, OLG announced that it intends to add the two Niagara Casinos—Fallsview Casino Resort and Casino Niagara—to its modernization procurement process. OLG had previously decided that no new private-sector operators would be pursued for three resort casinos in the Windsor and Niagara Falls areas since the cancellation of long-term agreements with the existing private-sector operators would be costly.

In early 2016, OLG's internal cost-benefit analysis of the Niagara Falls casino agreement showed that terminating it would increase OLG's profits over the 20-year expected term of a new service contract. On March 30, 2016, OLG exercised its

Figure 3: OLG's Gaming Bundles—Actual and Expected Procurement Timelines as of September 30, 2016

Source of data: OLG

| | RFPQ | | RFP | | Contract Agreement |
|-----------|---------------------|---------------------|---------------------|--------------------|---------------------|
| | Release | Close | Release | Close | |
| East | Nov 30, 2012 | Mar 7, 2013 | Apr 25, 2014 | Sep 8, 2015 | Jan 11, 2016 |
| North | Nov 30, 2012 | Mar 14, 2013 | Nov 23, 2015 | Feb 2017 | Aug 2017 |
| Southwest | May 30, 2013 | Aug 8, 2013 | Nov 23, 2015 | Feb 2017 | Aug 2017 |
| GTA | Dec 12, 2013 | Sep 10, 2015 | Feb 11, 2016 | Nov 2017 | Mar 2018 |
| Ottawa | Jun 2, 2016 | Aug 4, 2016 | Oct 2016 | Jun 2017 | Dec 2017 |
| West GTA | Dec 12, 2013 | Mar 13, 2014 | Oct 2016 | Dec 2017 | Apr 2018 |
| Central | Dec 12, 2013 | Mar 13, 2014 | Mar 2017 | Apr 2018 | Aug 2018 |
| Niagara | Oct 2016 | Jan 2017 | Apr 2017 | Aug 2018 | Jun 2019 |

Note: Event dates that have occurred as of September 2016 have been bolded.

option to not extend the term of the agreement for the two Niagara Falls casinos, which ends June 10, 2019. Under the current agreement, a non-renewal fee of about \$170 million must be paid to the previous private-sector operator, Falls Management Company. The RFP for the Niagara gaming bundle is scheduled for release in March 2017. The non-renewal fee is not recoverable from Falls Management Company under any circumstance. The decision on whether to include the Windsor resort casino in modernization will be made at a later date.

Electronic Bingo Centres

In March 2012, OLG planned to transform bingo halls to electronic bingo centres that would allow patrons to play bingo, break-open tickets, raffles, lottery games and other new games electronically and on paper. Under the agreements OLG signed with participating bingo halls, the hall operator was to be responsible for the cost of site operations, including staffing, building improvements, furnishings and utilities, and had to operate in accordance with OLG policies and procedures. OLG would provide oversight of gaming products and operations. Net revenues were to be shared as follows: 25% to OLG, which planned to operate on a break-even basis; 25% to the charities holding the licence for the bingo hall; 3% to the host municipality that issued the licence; and 47% to the operator of the electronic bingo centre.

Bingo halls and charities with licences issued by municipalities could choose whether or not to participate. As of March 2014, 42 halls had expressed interest in converting to electronic bingo centres. However, OLG only had approved funding for converting 37 specific halls, of which 32 committed to the conversion. As of October 2015, OLG had converted the 32 bingo halls to electronic bingo centres but only 31 remained active, as one was closed in August 2015. OLG put additional conversions on hold in late 2015 as it lost \$37 million in the 2014/15 fiscal year in its operation of electronic

bingo centres, primarily due to lower revenues and higher than expected customer payouts. As of September 2016, OLG and other stakeholders were in discussions that could potentially reduce OLG's financial losses. The conversion of additional charitable gaming centres has been put on hold pending the outcome of discussions with the industry.

Internet Gaming

OLG's Internet gaming site, PlayOLG, was launched on January 8, 2015. PlayOLG allows Ontario players to buy lottery tickets and play popular casino games, such as slots, blackjack and roulette, online. In the 2015/16 fiscal year, OLG's Internet gaming business generated \$15 million in profits. OLG also plans to launch a mobile casino app by March 2017. As of September 2016, the AGCO was testing the mobile casino games for certification. OLG said it expected the AGCO certification and Ministry of Finance approval for the mobile casino app would be obtained in early 2017.

Lottery Network

In March 2012, OLG planned to procure a private-sector service provider for its lottery network in December 2012, with private operations beginning in July 2013. The lottery business model, where private-sector service providers operate the lottery network while government retains control over how the lottery is conducted, added complexity to the transaction and led to delays. This model has not been implemented elsewhere in North America. In September 2014, an RFP for the lottery network was issued to the pre-qualified private-sector operators who had previous lottery operating experience in other countries.

In responding to the RFP, the pre-qualified private-sector operators indicated to OLG that they would not be able to commit to a level of business growth as required under the RFP. On September 23, 2016, OLG cancelled the RFP process for the lottery network in favour of a revised modernization

approach. The new lottery modernization approach is expected to retain OLG as the lottery operator with private-sector partnerships providing technological innovations that enhance provincial revenues. As of September 30, 2016, OLG believed that, despite cancellation of the RFP process, there is untapped revenue potential in the market and the new lottery modernization approach will provide increased revenues to the province.

Use of Fairness Monitor and Fairness Adviser

As part of the February 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. In July 2013, OLG issued a Request for Services for a fairness monitor to oversee the modernization procurement process. A three-year contract was established in December 2013, with a maximum payment of \$1 million in fees over three years. The contract for OLG's current fairness monitor expires on December 5, 2016. As of September 30, 2016, OLG was finalizing a new contract with the current fairness monitor for a two-and-a-half year term, with no option to renew.

In addition, at the request of the Chair of the OLG board of directors, OLG also engaged a fairness adviser in May 2012. The adviser, reporting directly to OLG's board, was to oversee the implementation of the Modernization Plan to ensure fairness and transparency, and address any conflict-of-interest issues. On October 10, 2014, OLG's fairness adviser submitted a letter advising that, based on the information he reviewed:

- no conflicts of interest of any consequence had arisen that would affect modernization; and
- OLG's procedures for identifying conflicts of interests served the purpose for which they were intended.

Hosting Fees for Gaming Facilities

The Municipality Contribution Agreement (MCA) OLG has signed with each of its 23 host municipalities remains clear, consistent and transparent. On January 25, 2016, Belleville became the latest host municipality to agree to the MCA. All host municipalities receive compensation based on the same formula:

- 5.25% on the first \$65 million of slot revenue;
- 3.0% on the next \$135 million of slot revenue;
- 2.5% on the next \$300 million of slot revenue;
- 0.5% on slot revenue above \$500 million; and
- 4.0% on table game revenue.

First Nations communities have separate agreements that have not changed under the Modernization Plan. In September 2016, OLG negotiated a new host agreement with Mississaugas of Scugog Island First Nation that is consistent with the standard MCA in place with other host municipalities.

Modernization Plan Revenue Projections and Assessments of Economic Impact

Projection: \$4.624 Billion in Cumulative Net Profit to Province over Six Years

In March 2012, OLG publicly reported that the Modernization Plan would result in an additional \$4.624 billion in net profit to the province (NPP) over a six-year period of transformation between April 1, 2012, and March 31, 2018. As **Figure 4** shows, this \$4.624 billion was over and above the approximate \$10.712 billion in NPP OLG forecast it would have generated anyway, without its Modernization Plan. OLG anticipated that, beginning in the 2017/18 fiscal year, it would continuously generate about \$3 billion a year in profits (in the year ending March 31, 2018, this would consist of the \$1.7 billion a year already being generated outside of modernization and \$1.3 billion attributable to modernization).

As **Figure 4** shows, the additional NPP from modernization over the six-year period might be

Figure 4: 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 and Update to the Projections as of September 2016 (\$ million)

Source of data: OLG

| | March 2012 Projections of Additional Net Profit to the Province | | | | | | September 2016 | | Change in NPP Projections |
|---|---|--------------|--------------|--------------|--------------|--------------|----------------|---------------------|---------------------------|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Total | Revised Projections | |
| NPP Forecasted Without Modernization Plan Initiatives | 1,776 | 1,853 | 1,869 | 1,738 | 1,738 | 1,738 | 10,712 | 10,304 | (408) |
| 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 | 1,097 | (1,618) |
| Lottery operations | – | 45 | 83 | 129 | 182 | 192 | 631 | 0 | (631) |
| Existing business plans, including Internet gaming and charitable gaming | – | 165 | 237 | 247 | 247 | 247 | 1,143 | 257 | (886) |
| Internal efficiencies and cost savings (net of transition costs) | 1 | (206) | 59 | 82 | 106 | 93 | 135 | 153 | 18 |
| Total Additional NPP from Modernization Plan Initiatives | 1 | 351 | 810 | 1,005 | 1,194 | 1,263 | 4,624 | 1,507 | (3,117) |
| Total Expected NPP | 1,777 | 2,204 | 2,679 | 2,743 | 2,932 | 3,001 | 15,336 | 11,811* | (3,525) |

* Over the six-year period, the NPP is only expected to increase by \$1.1 billion (to \$11.811 billion) from the \$10.712 billion NPP forecasted without Modernization in March 2012.

overstated, as the total NPP for the period is only \$1.1 billion more than the NPP forecast for the period without modernization in March 2012. The difference is due to OLG's reduced projections to the base NPP without modernization of \$408 million. As of September 2016, OLG's full modernization benefits have been deferred to the 2021/22 fiscal year.

In addition, when accounting for \$461 million of unanticipated transition and support funding to the horse-racing industry after cancellation of the Slots At Racetracks Program, the additional NPP to the province is only \$639 million (14% of the original target \$4.6 billion NPP) for the six-year period ending March 31, 2018.

Update to the NPP Projection—September 2016

As of March 2014, OLG had reduced those initial projections of NPP over the six year period (April 1, 2012 to March 31, 2018) to \$2.4 billion. As of September 2016, projections for that period had been reduced to \$1.5 billion in NPP (see **Figure 5**), over 65% lower than the original projection of \$4.6 billion. The key factors in further reductions of \$895 million over the last two years are:

- Delays in the procurement process of the gaming bundles and the lottery network by more than three years.
- Actual Internet gaming results for revenues and NPP that were much lower than originally anticipated and reduction of future projected annual NPP to \$25 million from \$100 million. OLG's 2012 financial projections for Internet gaming were overly optimistic and underestimated the influence of the grey market (illegal online gaming) on Ontario players.
- Based on the procurement results and contract negotiations for the East gaming bundle, NPP projections for other gaming bundles have been adjusted accordingly.

Figure 5: OLG Revisions to Projected Additional Net Profit to the Province (NPP) From Modernization Plan Initiatives (\$ million) Over the Six-Year Period Ending March 31, 2018

Source of data: OLG

| | |
|--|--------------|
| March 2012 Projected Additional NPP from Modernization Plan Initiatives Over Six Years | 4,624 |
| As of March 2013 update | |
| <i>Less:</i> | |
| <ul style="list-style-type: none"> • 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 | |
| <i>Less:</i> | |
| <ul style="list-style-type: none"> • 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 | |
| <i>Plus:</i> | |
| <ul style="list-style-type: none"> • \$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 | |
| <i>Less:</i> | |
| <ul style="list-style-type: none"> • 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 | |
| <i>Less:</i> | |
| <ul style="list-style-type: none"> • 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—February 2014 | 2,402 |
| As of September 2016 update | |
| <i>Less:</i> | |
| <ul style="list-style-type: none"> • impact of further delays in procuring a private-sector operator for gaming bundles and lottery network • decreased profits from Internet gaming • adjusted forecasts based on East gaming bundle procurement experience | (895) |
| Revised Projected Additional NPP from Modernization Plan Initiatives—September 2016 | 1,507 |
| Difference—March 2012–September 2016 | 3,117 |

Long-Term Annual Modernization-Related Net Profit to the Province

As of September 2016, OLG now anticipates the full benefits of modernization to be realized in 2021/22, four years behind the March 2012 projection of the 2017/18 fiscal year. As outlined in **Figure 6**, OLG's new projection for full realization of modernization benefits is \$889 million in additional NPP annually starting in 2021/22, a reduction of 30% from the \$1.263 billion projection

of March 2012. The annual modernization benefit of \$889 million does not account for the \$100 million of annual funding the province is providing to the horse-racing industry as a result of the Slots At Racetrack Program cancellation.

OLG recognizes that with modernization not yet fully implemented and with procurement complete for only one of the eight gaming bundles, there is still risk associated with the current projections. On September 23, 2016, OLG

Figure 6: Comparison of Projected Annual Long-Term Modernization-Related Net Profit to the Province (NPP), March 2012 Versus September 2016 (\$ million)

Source of data: OLG

| Modernization Initiatives | Final Modernization Related NPP to Be Realized in 2017/18 (as of March 2012) | Final Modernization Related NPP to Be Realized in 2021/22 (as of Sept 2016) | Increase (Decrease) in Expected NPP |
|---|--|---|-------------------------------------|
| Casino and slot operations and cancelling the Slots At Racetracks Program | 731 | 508 | (223) |
| Lottery operations* | 192 | 209 | 17 |
| Internet gaming | 100 | 25 | (75) |
| Existing business, internal efficiencies and cost savings (net of transition costs) | 240 | 147 | (93) |
| Total | 1,263 | 889 | (374) |

* Lottery operations projected NPP of \$209 million based on the previous lottery procurement model that has been cancelled. OLG still believes that \$209 million in additional NPP is achievable but has not finalized the new lottery modernization approach that will help achieve the additional NPP.

cancelled the lottery network procurement model for privatization in favour of a new modernization approach based on partnerships between OLG and the private sector. As of September 30, 2016, OLG still believed that \$209 million in additional NPP was achievable, but it had not finalized the new lottery modernization approach that would help achieve the additional NPP.

The Internet gaming projections of \$25 million NPP annually might be overstated. As of September 30, 2016, Internet gaming revenues seemed to have stabilized and are projected to increase in 2016/17 to \$53 million (\$15 million NPP) from \$49 million (\$15 million NPP) in 2015/16. OLG expected the revenues to grow to \$70 million by the 2019/20 fiscal year (32% projected growth over three years) through new games, natural growth and a mobile casino app. We question the optimism of these growth projections given the stabilized Internet gaming product.

Modernization Plan Projection: \$475 Million to Charities from Electronic Bingo Initiatives over Eight Years

Our 2014 Special Report explained that, based on market trends, OLG would have trouble generating

\$475 million in profits to Ontario charities over the eight years from April 1, 2012, to March 31, 2020. OLG acknowledged that that initial projection from electronic bingo initiatives was overstated because:

- Bingo hall conversions took longer than expected, and NPP projections were based on lower customer payouts, which did not materialize.
- Break-open-ticket dispensers did not generate the projected \$200 in revenues per unit per day from day one. It took more than three years for the break-open-ticket dispensers to produce \$190 in revenues per unit per day.
- Original revenue projection was based on 2009 revenue data from bingo halls using paper. Since paper hall revenues have continued to decline, the revenue projection was likely overstated.

As of February 2016, Ontario charities have received an additional \$71 million from charitable gaming centres, while OLG has sustained significantly higher financial losses over the same period. OLG now projects that charities will receive an additional \$119 million over the next four years, for a total of about \$190 million over eight years, 60% less than the \$475 million projected in March 2012.

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. In April 2014, based on the resolutions passed by various municipal councils and OLG's decision to not sell the three resort casinos in Windsor and Niagara Falls, the original private-sector capital investment projections were reduced from \$3 billion to \$938 million. Of this \$938 million, a projected 71% was to be collected by the Ontario government as proceeds from the sale of OLG's existing assets.

As of September 2016, OLG estimates modernization will generate around \$1.5 billion in private-sector capital investments in the gaming industry, an increase of \$562 million (or 60%) from the April 2014 projections. Most of this increase was attributed to the planned gaming and non-gaming expansion at Woodbine Racetrack. The estimated \$1.5 billion investments include \$1 billion (up from \$272 million in April 2014) in new capital investments and \$500 million (\$666 million in April 2014) for the purchase of existing assets.

Included in the capital projection is \$100 million in new capital investments expected from the East gaming bundle operator. The projection does not include the recently announced modernization of the Niagara Falls casinos.

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

In March 2012, OLG publicly projected that when the lottery network and gaming facilities were privately operated, net new full-time-equivalent lottery and gaming jobs would increase by 2,300 over 2011 levels. However, OLG 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, OLG had not updated its job projections, despite the fact that the March 2012 projections were outdated due to changes to the Modernization Plan, especially the cancellation of a GTA casino.

As of September 30, 2016, OLG estimated that when modernization was fully complete by the 2021/22 fiscal year, there would be approximately 1,700 additional jobs in the gaming industry. As shown in **Figure 7**, the job gain projection is primarily based on the potential expansion of gaming at Woodbine and new sites in the East gaming bundle.

In March 2012, OLG estimated that the Modernization Plan would also result in 4,000 new jobs at hotels, restaurants and entertainment centres, and in retail stores in communities hosting new gaming sites. As of September 30, 2016, OLG had retracted those claims and said that the creation of service sector jobs would depend on private operators' plans for non-gaming amenities in each gaming bundle. OLG projects the largest cluster of service jobs would be in Toronto should gaming be expanded at Woodbine.

Figure 7: Breakdown of Job Gains and Losses by Key Modernization Initiatives as of September 30, 2016

Source of data: OLG

| Source or Location | Net Job Gains/(Losses) by March 2021/22 |
|--|---|
| Closing three slot facilities at racetracks ¹ | (505) |
| Niagara casinos' efficiencies ¹ | (250) |
| Windsor casino efficiencies ¹ | (287) |
| East gaming bundle (new sites) | 343 |
| GTA gaming bundle (includes Woodbine expansion) | 2,285 |
| Lottery operations ² | 150 |
| Total | 1,736 |

1. Job losses have already occurred.

2. On September 23, 2016, OLG revised its lottery modernization approach but the job estimates for lottery operations have not yet been updated.

Mental Health and Addiction Matters

The Ontario government commits 2% of annual slot revenue from OLG casinos and racetracks to preventing problem gambling and help for people with gambling problems. In the 2015/16 fiscal year, the government spent \$52 million on problem gambling prevention and mitigation initiatives. Of that, OLG spent about \$16 million on its own responsible gambling initiatives and the remaining \$36 million went to the Ministry of Health and Long-Term Care for research into and prevention and treatment of problem gambling.

As of September 2016, OLG was standardizing its responsible gambling (RG) program across four lines of business (lottery, slots and casinos, Internet gaming and charitable gaming) to deliver a comprehensive program that meets the new AGCO standards, as well as third-party accreditation programs.

Responsible Gambling Check Accreditation

The Responsible Gambling Council (RGC) is an Ontario-based, independent, not-for-profit organization established more than 30 years ago that is dedicated to preventing problem gambling. RGC offers an accreditation program, RG (Responsible Gambling) Check, which awards points to gambling facilities for meeting standards in a number of areas, including corporate policies, self-exclusion options for patrons, advertising and promotion; patron access to money and credit; venue and gaming features; informed customer decision-making; assistance to patrons who may have gambling problems; and employee training. As of March 31, 2014, all 19 OLG gaming sites were accredited by RG Check.

As of September 2016, all OLG gaming sites are in the RG Check re-accreditation process, which is required every three years. The process takes around five months per site and is expected to be completed by March 2017.

In February 2016, OLG's online gaming site, PlayOLG, also received RG Check accreditation.

Internet Gaming—PlayOLG

To ensure OLG considered the impact on communities of mental health and/or addiction matters, and that OLG met its regulatory and third-party RG standards, OLG conducted a review and consultation process from January 2011 to October 2014. Three key RG stakeholders provided input to RG policy development: Centre for Addiction and Mental Health (CAMH), Ontario Problem Gambling Research Centre (now Gambling Research Exchange Ontario) and the Responsible Gambling Council.

To meet regulatory and third-party RG standards, the gaming site, PlayOLG, was launched with tools integrated into the playing experience to help enable patrons to make safe decisions regarding their gambling behaviour. In November 2014, before launching PlayOLG, OLG trained the staff at the site's support centre to identify red-flag behaviours and respond to players. As of September 2016, support centre staff had identified 16 red-flag behaviours in 2015 and that number had increased to 26 in the first eight months of 2016.

As of September 2016, CAMH was studying the impact of the legalization of online gambling in Ontario. It expected to release the results in winter 2017.

Prevention of Problem Gambling

In the April 2014 Special Report, we noted that OLG did not meet several key requirements consistently at its gaming facilities, but it met enough to be accredited for RG Check. For example, OLG's gaming facilities did not meet the requirement that ATMs be placed outside the gaming floor to encourage a break in play by patrons who use them. As well, OLG's new slot machines had not been screened from a responsible-gambling perspective by an external expert.

In August 2013, OLG engaged Strategic Science, an independent consulting group with expertise in gambling research, to review all academic, health

and industry literature addressing questions of gambling behaviour and ATMs. In May 2014, the review found that removing ATMs from the gaming floor was not a long-term solution, since gamblers tended to adapt to the relocation of cash sources. The report also noted that withdrawal limits and RG messaging on ATMs were stronger prevention measures. As of September 2016, OLG had only accepted the ATM messaging suggestion and did not plan to implement withdrawal limits on ATMs or remove them from the gaming floor.

In February 2016, a pilot project of new RG messages displayed on ATMs was introduced at OLG Slots at Woodbine Racetrack. Based on the results of the pilot, ATM messaging was to be rolled out at all OLG sites in fall 2016/winter 2017.

Reinstatement of Self-Excluded Individuals

In the April 2014 Special Report, we noted that RG Check accreditors had found no evidence that OLG offered counselling to patrons who had previously self-excluded themselves from play at casinos and who requested reinstatement. To improve the reinstatement process, OLG collaborated with CAMH to develop a tutorial for self-excluders who wish to return to gambling. The tutorial also links patrons to additional resources. It was implemented for online gambling in July 2015 and at gaming sites at the end of March 2016. The tutorial is mandatory for anyone to be eligible for reinstatement. The effectiveness of the Self-Exclusion Reinstatement Tutorial is being evaluated by OLG; the evaluation is to be completed by March 2017.

Responsible Gaming at Electronic Bingo Halls

By December 2015, OLG and the RGC had installed self-serve Responsible Gaming Resource Centres (RGRCs) at all 31 electronic bingo halls. RGRCs are on-site, stand-alone facilities that offer RG information through multiple formats, such as brochures, videos, posters, digital signage and interactive

kiosks. RGC staff conduct special education events and regular sites visits three times a year. By September 2015, employees at all 31 electronic bingo halls had been trained by CAMH on how to respond to players showing red-flag behavioural signs.

Responsible Gambling in the Horse-Racing Sector

The March 2012 Modernization Plan cancelled the Slots At Racetracks Program, ending OLG's relationship with the horse-racing industry. On October 11, 2013, the Ontario government released a five-year plan for a sustainable horse-racing industry that proposed that OLG integrate horse racing in its Modernization Plan, including applying its responsible gaming (RG) expertise to the industry.

In his January 2015 mandate letter, the Minister of Finance instructed OLG to "[assist] the industry with implementing a responsible gambling strategy" for the horse-racing industry. OLG began consulting with the industry and it worked with an external consultant. A needs assessment report in March 2016 identified current practices and feasible opportunities to enhance RG at race tracks. Industry comments on the needs assessment report were solicited in May 2016 and July 2016. As of September 2016, OLG was expected to finalize its advice based on these consultations by December 31, 2016.

Cancellation of the Slots At Racetracks Program and Impact on Horse-Racing Industry

In the April 2014 Special Report, we concluded that the province and OLG were fully aware that the decision to cancel the Slots At Racetracks Program, which provided \$345 million in annual funding to racetrack operators and horse people, would have a significant negative impact on the horse-racing industry and force it to be downsized to levels sustained solely by the betting revenues it generates. The cancellation of the Slots At Racetracks Program, which provided 20% of slot revenues at

racetracks to the horse-racing industry, led to a significant reduction in races and job losses to the industry.

After the Slots At Racetracks 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. In October 2013, the Ontario government released a five-year plan for the horse-racing industry. Under this plan, up to \$400 million would be provided to the industry over five years, and horse racing would be integrated with the Modernization Plan. Integration with the Modernization Plan included OLG conducting research into potential horse-themed lottery products and bringing OLG's business, marketing and responsible-gaming 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, would be provided to the industry over five years ending March 31, 2019. In February 2016, as part of the 2016 Budget, the horse-racing funding was extended by two years to March 31, 2021.

In his January 2015 mandate letter, the Minister of Finance instructed OLG to “create a new line of business within the organization that is focused on horse racing integration activities.” The line of business was to be responsible for taking over administration of government funding to racetracks under the Horse Racing Partnership Funding Program (HRPFP) and oversight of provincial tax relief for the industry under the pari-mutuel (horse-race wagering) tax reduction. In the 2015/16 fiscal year, the HRPFP and the pari-mutuel tax reduction provided around \$160 million in funding to the horse-racing industry.

In September 2015, a senior vice-president was hired to lead OLG's new horse-racing division—Ontario Racing. The division is focused on three key areas:

- creating a new line of business to guide horse-racing integration activities, including contract management, marketing and shared services support;

- creating the tools and processes to execute the administration of funding for the horse-racing industry; and
- creating effective stakeholder relationships to support the needs of the horse-racing industry through extensive meetings with racetracks and other key industry stakeholders from October 2015 to March 2016.

In April 2016, OLG assumed responsibility for administering the HRPFP funding to the horse-racing industry and oversight of provincial tax relief for the industry under the pari-mutuel tax reduction.

As part of the January 2015 letter, the Minister of Finance also requested that OLG maintain slot machines and other gaming operations at most racetracks. As of September 2016, OLG had executed leases for all 14 gaming sites located at racetracks.

Performance Measures

As of September 2016, OLG has taken the following steps toward developing horse-racing performance metrics:

- established an Ontario horse-racing industry working group called Performance Management Excellence Group with representation from the Ontario Ministry of Agriculture, Food and Rural Affairs, Ontario Racing, the Ministry of Finance and the Alcohol and Gaming Commission of Ontario;
- developed an Ontario horse-racing industry integrated performance management system; and
- selected a list of key performance indicators to gauge the health of the Ontario horse-racing industry and measure its sustainability.

The list of key performance indicators was to be discussed with the racetracks by the end of October 2016. OLG was in the process of collecting data for the selected indicators and planned to have a draft performance report card in place by June 2017.

Horse-Themed OLG Products

OLG began working with the horse-racing industry on new products in September 2014. OLG decided to move forward with two product ideas that did not generate incremental revenue, but provided benefits to the industry in the form of increased awareness. The first product was an online horse-themed slot game through PlayOLG, called “Fire Horse.” The second product was a new \$5 instant scratch ticket themed around the Canadian Triple Crown. Neither of these products had direct financial impact on the horse-racing industry.

Ontario Racing Marketing Campaign

Starting in 2016/17, as part of the integration strategy, OLG plans to spend \$10 million annually on horse racing, including around \$5.6 million on marketing and research for the horse-racing industry. OLG hired an advertising agency to work on the horse-racing sector. To date, a new logo and brand for the new industry association, Ontario Racing, has been created and a full paid media campaign (television, cinema, digital, social media and print) was in effect from May 2016 to September 2016.

The same advertising agency was also engaged by OLG to develop a co-branding strategy with

Ontario Racing. This campaign launched in June and runs through March 2017. The new OLG.ca website will serve as the main digital medium and will feature key messaging on horse racing, as well as a series of mini-documentaries highlighting various horse people and their contributions to the sport.

Long-Term Funding Model for the Horse-Racing Industry

As part of the February 2016 provincial budget, the government announced a two-year extension to the transfer payment program from March 2019 to March 2021. Beyond this time, OLG is expected to establish a future, longer-term funding arrangement with the industry.

In October 2016, Ontario Racing presented a draft 17-year funding plan to industry stakeholders. The funding, totalling up to \$1.6 billion, is projected to begin after the current \$700 million funding ends in March 2021, to give the industry \$93.4 million annually. Ontario Racing is planning to consult with industry stakeholders on the draft plan, with the goal of having a draft agreement by March 2017 to be submitted for government approval.