



April 28, 2014

Ms. Bonnie Lysyk, Auditor General of Ontario
Office of the Auditor General of Ontario
20 Dundas Street West, Suite 1530
Toronto, Ontario
M5G 2C2

Dear Ms. Lysyk:

I would like to first extend my thanks to you and your team for your diligent review of Ontario Lottery and Gaming Corporation's Modernization Plan. At all times during the process of the audit both you and your staff were clearly dedicated to providing the Legislature with all the relevant information as well as pertinent analysis.

I want to thank you in particular for your personal reflections and your understanding of this complex business.

The fundamental finding of your Report—that the original modernization plan was ambitious—is accurate. I also agree with your conclusion that the procurement process that OLG has followed is fair, open and transparent. I concur with your statement that the revised municipal hosting fee process was also open and transparent. Most importantly, I am pleased that you noted OLG's significant efforts to promote responsible gambling—and that modernization includes commitments to continue to enhance those initiatives.

I have five key items that I would like to raise in response to your Report's findings: The importance of continuing with modernization in the best interests of Ontario; the rightful evolution of the plan; the engagement of municipalities in modernization; the inclusion of job estimates that are no longer accurate; and the work OLG is doing to help build a sustainable horse racing industry.

Importance of reform

Reforming the lottery and gaming business remains a worthwhile endeavour—one that will provide financial benefit to the Province and the people of Ontario. In fact, the Minister of Finance recently established an independent council to review ways to maximize the value of government assets, while preferably keeping ownership in public hands. That is precisely what OLG's modernization plan entails.

The original plan was launched for reasons that continue to be relevant and valid today. In land-based gaming, over the years, service providers, stakeholders, vendors and Charity gaming providers were financially impacted by competitive pressures and sub-optimal locations too far from population density. The lottery business was facing a decreasing customer base and limited distribution channels. OLG was absent from internet gaming, lagging behind other Canadian jurisdictions, while unregulated internet gaming operators

Philip J. Olsson
Chair

4120 Yonge Street
Suite 500
Toronto, Ontario
M2P 2B8

4120, rue Yonge
Bureau 500
Toronto, Ontario
M2P 2B8

Tel. 416-224-4988
polsson@olg.ca

www.OLG.ca

developed a large Ontario market. At the same time, the government was seeking, as noted in the Drummond Report, stable sources of non-tax revenue.

By 2010, the pressures were clear: government needed new revenue; stakeholders were seeking improvement to the way OLG operated; and customers were looking for more convenience in technology, distribution channels and products. Under Cabinet direction, OLG moved to revitalize Charitable gaming, to develop an iGaming platform, and to conduct a Strategic Business Review of both lottery and gaming.

As a result, OLG designed its plan, modernization, in order to ensure that the corporation could deliver higher and more sustainable revenue to government. It is a plan to transform virtually all aspects of the business model while preserving the legal obligations to conduct and manage gaming. The plan, unprecedented in size and scope, introduces private sector investment and innovation for the improvement of the product for customers.

At nearly \$2 billion annually, OLG provides the Ontario government with its largest source of non-tax revenue. This money goes directly to hospitals and other government priorities.

Without substantial reform, it should be noted, Ontario's lottery and gaming business requires about \$1 billion of public capital investment for maintenance alone. In addition, without action to address the current trends, the \$2 billion annual dividend to government would slowly and steadily erode.

The original plan was based on sound business research and stakeholder consultations. OLG's extensive review helped to develop a sound business model that maximized return to the Province while maintaining public control. We worked with a number of external business consultants who provided us with data from comparable jurisdictions around the world—particularly Illinois and Australia. We received advice and reports from a number of groups including the horseracing industry and gaming operators in other Canadian provinces.

Stakeholder consultations were extensive and included meeting with over 50 groups and individuals across the province. However, as your Report points out, once the decision to end the Slots-At-Racetrack Program (SARP) was made, OLG was not authorized as part of its mandate from government to consult with any stakeholder groups on specific policy decisions that were being contemplated as part of modernization. The policy direction for modernization (and its associated financial outcomes) flowed from the Provincial Budget process, which is completed under strict confidentiality.

Evolution of modernization

The modernization plan is one of the largest agency transformations in Ontario history and it has evolved, as necessary and proper since its first iteration.

The original plan was ambitious and the procurement process was complex. The timelines were tight and designed to reduce conflict of interest and protect the fairness of the procurements. The approval process from procurement documents to municipal engagement took far longer than OLG anticipated.

Through OLG's Request for Information and Request for Pre-Qualification process, the agency has learned a considerable amount about the feasibility of the original plan, in particular, the necessity for deeper and wider engagement with stakeholders. Through that process, OLG also learned that the model it developed resonated with the market, though it needed to evolve to consider the capacity of the private sector and the latest developments in technology.

The first estimates of the pace at which modernization could be completed were, as noted in your Report, aggressive. But over the last two years, OLG has completed an RFI process, has almost completed an RFPQ process, has successfully procured a service provider for iGaming, has launched the revitalization of charitable gaming, and is launching an RFP process for Gaming and Lottery—all while continuing to deliver consistent annual revenue to government and communities.

Engaging Municipalities

Municipal engagement in land-based gaming is of critical importance to OLG. The process of engaging with municipal governments began in 2012. The first discussions were about improvements to municipal funding agreements and then, in some communities, this led to discussions about the potential for new or moving facilities. Since 2012, 40 communities across Ontario have expressed interest in hosting (or continuing to host) a gaming facility through council resolution and public consultation. The RFPQ for land-based gaming states that if service providers want to offer new games, move locations or build new facilities, they will need to seek municipal approval.

Out-of-date job loss assumptions

I do want to note, particularly for OLG employees, that the job loss estimates stated in your Report are no longer accurate. They are based on a 2011 plan that had not been approved by government. Though OLG has been clear since modernization launch, that it will become a leaner organization, the plan is designed to maintain the industry so that it employs more Ontarians and contributes to local economic development.

Employees at OLG's Sault Ste. Marie office and the Lesmill facility continue to be critical to the success of the lottery and gaming business in Ontario. These jobs are important for OLG—a fact that OLG has made clear to proponents in the RFPQ documents. Critical functions will remain in Sault Ste. Marie in the new OLG. OLG has stated that whatever service provider is selected to manage day-to-day operations of lottery or gaming sites must keep employees in their current geographic locations for a minimum of 12 months.

OLG is working with the City of Sault Ste. Marie on the modernization of the lottery and gaming business, to discuss ways in which OLG's office and staff in Sault Ste. Marie will continue to play a key role. Premier Kathleen Wynne and Sault Ste. Marie MPP David Oraziotti have both said that there are no plans to remove OLG jobs from Sault Ste. Marie.

Horse racing industry success

A year ago, the Premier asked OLG to incorporate horse racing into our plan—and it has done so. Ultimately, this will help support a sustainable horse racing industry in the

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province. For the past ten months, OLG has been working with the horse racing industry to extend leases; to offer market research and marketing support; and is currently developing a horse-themed gaming product. The agency requested that proponents demonstrate willingness to support horse racing integration. On Friday, OLG made a joint announcement with Ontario Horse Racing that tracks with OLG slot facilities, live race dates and five-year funding under the Horse Racing Partnership Plan (HRPP), will have the option for leases with a guaranteed term to 2019.

I do want to clarify, that, while OLG is providing its responsible gambling expertise to the horse racing industry, OLG has no jurisdiction to support or fund responsible gambling controls for horse racing.

Modernization provides additional \$1 billion

OLG remains committed to its original intent of modernization, to provide increased revenue to its shareholder—the Province of Ontario. This continues to be a compelling rationale for reform. The government has communicated that it is firmly in support of the revised plan.

Modernization is a multi-year plan, now in its third year, which, upon completion will deliver approximately \$1 billion annually in additional net new profit to the Province. The revenue, in 2018-19, will include lottery innovation proceeds, gaming modernization benefits, new revenue from internet gaming and other efficiencies.

The transformation of Ontario's lottery and gaming business will help ensure that instead of eroding revenue to government, OLG will be able to provide up to \$3 billion in an annual dividend to the Province of Ontario, once it is fully complete in five year's time.

Thank you again for the attention and leadership you demonstrated on this audit.

Sincerely,



Philip J. Olsson
Chair, OLG Board of Directors

Cc: Kathleen Wynne, Premier of Ontario
Charles Sousa, Minister of Finance
Peter Wallace, Secretary of Cabinet