

[Mr. MacDonald in the chair]

THE CHAIR: Good morning, everyone. I would like to call this meeting to order, please. I would like at this time to welcome the Hon. Ron Stevens, Minister of Gaming, and his staff, which we will hopefully be introduced to here in a few moments, and certainly the Auditor General's staff that is present this morning. But first I would like to call for approval of the agenda, please. Thank you.

Now, Mr. Stevens, if you could please have your staff introduce themselves, we would be very grateful.

MR. STEVENS: Well, thank you very much for the invitation to be here with the committee this morning. I've obviously been looking forward to this very much over the last few weeks. I know from previous years when I was a member of this committee that you do good work, indeed, so I'm looking forward to the discussion and providing additional information with respect to the Ministry of Gaming for the years 2000-2001.

What I would like to do at this time, Mr. Chairman, is introduce the people from the department and the AGLC who are with me today. Firstly, to my immediate left is Norm Peterson. Norm is the Deputy Minister of Gaming, the chairman of the board, and the chief executive officer of the Alberta Gaming and Liquor Commission, or AGLC. Immediately to my right is Ann Hammond. Ann is the assistant deputy minister. To my right and sitting at the side of the table is Gerry McLennan. Gerry is the director of inspections, AGLC. To my left and on the side is Lana Loughheed, who is the manager of business management, the Department of Gaming. To my far right and on the side is Marilyn Carlyle-Helms, who is the director of communications. Going directly across from Marilyn is Barry Worth. Barry is the acting executive director, finance and administration, AGLC, and certainly not least in anybody's books is my executive assistant, Jeremy Chorney, who I'm sure is known to all of you.

To refresh your understanding about the structure of the ministry, I'd like to outline for you what Gaming comprises. The Department of Gaming is responsible for lottery funding programs including the community lottery board grant program and the community facility enhancement program, business management and policy, and communications. The Alberta Gaming and Liquor Commission licenses and regulates charitable gaming and liquor activities in Alberta and conducts and manages gaming activities including ticket lotteries, video lottery terminals, and slot machines. The Alberta Gaming Research Council is a broad-based advisory group that helps direct the research activities of the Alberta Gaming Research Institute. The Community Lottery Program Secretariat was responsible for implementing and evaluating the community lottery board grant program throughout the province. The secretariat was discontinued as part of the reorganization following the March 12, 2001, provincial election. This ministry is also responsible for the Racing Corporation Act.

The Ministry of Gaming was established on May 19, 1999, and became Canada's first ministry specifically established for gaming and liquor activities. The ministry has strived from its inception to ensure integrity, transparency, disclosure, and public consultation in Alberta's gaming and liquor industries. We've worked hard to find a balance between choice and responsibility among the various stakeholders, partners, charitable organizations, and gaming participants. For today's purposes I'll go over a few highlights, our performance measures, our revenues and expenses, and our response to the recommendations directed at Gaming in the Auditor General's annual report for 2000-2001.

The gaming licensing policy review is where I would like to start

by way of a highlight because it was a major initiative for us in 2000-2001. It began in December of 1999, continued throughout 2000-2001, and was concluded in 2001-2002. Its goal was to provide policy direction to deal with Alberta's growing and maturing gaming industry. During 2000-2001 we consulted with a wide range of stakeholders over the course of the lengthy review, including the gaming industry, municipalities, First Nations, police agencies, and charitable organizations as well as the public. Coincidental with the review a moratorium was put in place, meaning that no new licences or approvals for casinos, new games, or new gaming environments were granted during fiscal 2001. However, the government continued to recognize the commitments made before the moratorium was put in place.

The first outcome of the gaming licensing policy review came in 2000-2001 with the approval of the First Nations gaming policy. The policy is the result of years of discussion and dialogue between the government and Alberta First Nations and will assist in providing direct economic and social benefits for the province's First Nations peoples. First Nations casinos will operate under the same terms and conditions as off-reserve, or traditional, casinos and will adhere closely to the province's unique charitable gaming model.

Another highlight from 2000-2001 was the implementation of the casino voluntary self-exclusion program developed in co-ordination with the Alberta Alcohol and Drug Abuse Commission, or AADAC. The program is available to those individuals who feel it's in their best interests not to participate in casino gaming activities. More than 160 Albertans have voluntarily agreed to be excluded from entering Alberta casinos for a specific time period.

We also accepted and began to implement the majority of the recommendations arising from the 1999 Bingo Review Committee. The recommendations are aimed at benefiting charities, players, and bingo halls throughout the province.

Alberta lottery fund revenue, which is the net revenue from slot machines, lottery tickets, and video lottery terminals, totaled \$988 million dollars in fiscal 2001. In keeping with the recommendation from the 1998 Lotteries and Gaming Summit, provincial gaming revenue now goes into the Alberta lottery fund. It is then allocated to various ministries, specifically 11 ministries in 2000-2001, by the lottery fund appropriation act to fund charitable, not-for-profit, public, and community-based initiatives throughout the province. More than 8,000 projects and activities were supported in 2000-2001 through various foundations and grant programs including the community facility enhancement program; the community lottery boards grant program; the Alberta Foundation for the Arts; the Wild Rose Foundation; the Alberta Sport, Recreation, Parks and Wildlife Foundation; the Alberta Historical Resources Foundation; and the human rights, citizenship and multiculturalism education fund. A complete listing of all initiatives that received lottery funding is available on our web site at [www.gaming.gov.ab.ca](http://www.gaming.gov.ab.ca).

Ministries also used funding from the Alberta lottery fund for broad-based public initiatives including transportation projects, school renewal and construction, seniors' facility upgrades, and health care facility construction and upgrading. Through Gaming the lottery fund also provides support to the province's major exhibitions and fairs and through Agriculture, Food and Rural Development to the other exhibitions and fairs. The Alberta lottery fund also fully funded the Alberta Alcohol and Drug Abuse Commission in 2000-2001.

Religious and charitable groups continued to benefit from gaming proceeds in fiscal 2001. More than \$183 million was generated for these organizations through bingos, casinos, raffles, and pull-tickets. These funds were used by these organizations for charitable or religious purposes. These revenues are in addition to any funding

the organizations may receive through the Alberta lottery fund.

We continued to use the Gaming and AGLC web sites as communication tools and introduced many improvements last year, including the on-line availability of information packages and application forms for casino, raffle, bingo, and pull-ticket licences. The Ministry of Gaming remains committed to keeping Albertans informed about the province's gaming and liquor industries and about the distribution of gaming proceeds through the Alberta lottery fund community-based and other initiatives. Visitors to the web site are now able to use two searchable data bases: one containing information on recipients of lottery funding, and one listing AGLC penalties and decisions relating to violations of the Gaming and Liquor Act and regulations.

The final highlight from 2000-2001 was the approval of the Alberta Gaming Research Institute's three-year business plan. The institute was created in response to the recommendations from the Alberta Lotteries and Gaming Summit '98 that more government resources be dedicated to gaming research. As a result, we have allocated an annual \$1.5 million budget from the Alberta lottery fund to the institute for research and related purposes. The institute is a consortium of the universities of Alberta, Calgary and Lethbridge, and it was established to co-ordinate high-quality research into gaming-related topics such as the social and economic aspects of gaming, aboriginal gaming issues, and emerging gaming trends.

Examples of projects funded by the institute include: measuring the extent of problem gambling in Alberta; evaluating a low-cost, easily accessed relapse prevention approach for problem gamblers; and developing, implementing, and evaluating the program to prevent pathological gambling, to be tested at two Alberta high schools. The institute has research facilities at the universities of Alberta, Calgary, and Lethbridge.

#### 8:44

In the performance measures section of the ministry's annual report we report on the 2000-2001 results of each measure within our four core businesses: to administer the Alberta lottery fund and co-ordinate plans with all ministries; to license, regulate, and monitor liquor and gaming activities as well as certain aspects of tobacco sales; to implement and account for lottery-funded programs administered by Gaming; and to develop and communicate provincial gaming and liquor policy. I'm proud to report that the performance measurement targets were met or exceeded in almost all cases, and you can find a more detailed discussion of the actual figures on pages 24 to 36 of your copy of the annual report. I'm pleased with our performance measures results last year, and I anticipate positive results again this year.

I'm now going to move into a brief overview of the Ministry of Gaming's revenues and expenses in fiscal 2001. Revenue from provincial lotteries for 2000-2001 included \$575 million from VLTs, \$552 million from slot machines, and \$161 million from ticket lottery sales. I mentioned earlier that this totaled almost \$988 million of gaming revenue that was transferred to the Alberta lottery fund. Liquor revenue for the same period was \$468 million. Detailed financial information begins on page 39 of the annual report. The increased spending of the ministry reflects gaming revenues in excess of those budgeted that were transferred to Finance through the Alberta lottery fund and used as part of the province's debt repayment.

Continuing with the financial theme, the Auditor General in his report for 2000-2001 expressed concern about the compensation rates paid to VLT and casino facility operators by the AGLC. He recommended that the AGLC determine whether this compensation represents "an appropriate commercial return for services provided."

The AGLC is addressing this matter. A review of the rates has been initiated, and the AGLC expects that it will be completed in spring 2002.

As part of the review the AGLC is examining what constitutes an appropriate commercial return to the operator. This return would take into account factors such as costs for space, service, and a reasonable return on investment. Casino and VLT operators are the partners of both charities and the AGLC in delivering gaming activities to Albertans, and we will ensure that this relationship continues to be fair to all parties.

The Auditor General also recommends that the AGLC "improve its management of electronic racing terminal contracts." Again, the AGLC is addressing this matter and has offered casino operators two options. The AGLC will buy the electronic racing terminal from the operators prior to December 31, 2003, and adjust the compensation to 15 percent upon purchase – the 15 percent compensation, of course, is being reviewed to ensure that it's appropriate – or the AGLC will terminate any agreements still outstanding as of December 31, 2003.

Casino operators have developed business plans and made significant capital investments in facilities based on this revenue stream, and to amend the compensation without allowing time for operators to adjust would not be fair. As I've said before, casino operators are the AGLC's partners in delivering gaming activities that benefit charities. Last year charities earned \$99 million through casino events.

The Auditor General recommended in 1999-2000 that the accountability for grants to race track operators be improved, and we agreed. In fiscal 2001 new agreements were signed with racing entertainment centre operators and the Alberta Racing Corporation. These new agreements include requirements for both the submission of plans to show how funds provided will be used and subsequent accounting and reporting to show how the funds were actually used. We are confident that these new agreements will address the Auditor General's concerns.

As you can see, 2000-2001 was a busy and productive year for the Ministry of Gaming. As a new ministry we faced many challenges and were equal to the task, meeting them with ingenuity and hard work.

That concludes my opening remarks, and I look forward to any discussion and questions you may have. Thank you.

THE CHAIR: Thank you very much, Mr. Stevens.

At this time I would ask Mr. Jim Hug and his staff to, please, if you wouldn't mind, introduce yourselves.

MR. HUG: Sure. Thank you, Mr. Chairman. With me today is Ken Hoffman, who is the Assistant Auditor General responsible for the audit of the Ministry of Gaming. I'd also like to introduce Doug McKenzie, who is sitting at the back of the room, who is the audit principal responsible for the audit of the ministry, and with him is Karen Hunder, audit manager, who's also involved with the audit.

THE CHAIR: If they would like, they're quite welcome to join us.

MR. HUG: Thank you.

THE CHAIR: Now, for your convenience, please – perhaps we'll start with Mrs. Ady – members of the committee could introduce themselves.

[Mrs. Ady, Mr. Broda, Mr. Hutton, Mrs. Jablonski, Mr. MacDonald, Mr. Marz, Mr. Mason, Mr. Masyk, Mr. Ouellette, and Dr. Taft

introduced themselves]

THE CHAIR: And this is, of course, Corinne Dacyshyn, the able clerk.

Now we would like to start questioning this morning, and we will be led off this morning by Mr. Marz, followed by Dr. Taft.

MR. MARZ: Thank you, Mr. Chairman. To the minister. Mr. Minister, one of the by-products of your department is people that end up with problem gambling. How much did your department provide for AADAC for the year 2000-2001 for problem gambling programs? Perhaps you could refer me to the page you're on, because I couldn't find it any place in there.

MR. STEVENS: All right. Well, somebody will look that up in the accounts.

You're quite right. Funding for AADAC, which is under the Ministry of Health and Wellness, is from the Alberta lottery fund, and for the fiscal year 2001 more than \$33 million was provided to AADAC from the lottery fund. The problem gambling initiative portion of the budget was \$3.6 million for that year, which was up from \$3.4 million the year before. My understanding is that AADAC prepares a budget based on their needs and, of course, works it through the usual government process to ultimately establish the amount that is funded by the Alberta lottery fund.

MR. MARZ: A supplemental to that: what is your process for determining the amount that you do fund AADAC?

MR. STEVENS: Well, as I indicated, AADAC would prepare an amount based on their perception of need. My understanding in talking to AADAC as it relates to the problem gambling portion, whether it's the year 2001 or this year itself, that we just heard about yesterday, is that they feel that that is the amount they can use for the purpose of problem gambling per se. But as it is part of the Ministry of Health and Wellness, they submit that information to that ministry, and it goes through the process. Ultimately, when it's confirmed, it is funded by the Alberta lottery fund.

MR. MARZ: Okay. Thank you.

8:54

THE CHAIR: Dr. Taft, followed by Mary Anne Jablonski.

DR. TAFT: It's hard to know where to begin. Booze, gambling: it's all here.

MR. MASON: Just like Chicago in the '20s.

MR. STEVENS: I think perhaps the difference would be that this is authorized. It's the government making money.

DR. TAFT: Well, I'm glad.

I'm on page 40 of the annual report. I notice the line "net income from commercial operations." For lottery operations the actual was \$988 million. That's the combination, I understand, of VLTs, slots, and tickets. Now, the word "net" is interesting. That's the government's take of gambling; is that fair to say? That's not my question; I'm just confirming that.

MR. STEVENS: That would be correct.

DR. TAFT: Okay. That's one slice of the pie. How big is that pie?

How much is spent in this province each year, gross, on VLTs, slots, and tickets?

MR. STEVENS: You're correct that there are different ways of looking at this particular information. The Alberta lottery fund is funded by the net amounts that come out of slot machines, VLTs, and ticket lotteries. If you take a look at the annual report at page 69, you will see how the sales of video lottery terminals, casino gaming and electronic racing terminals, liquor, and ticket lotteries are all accounted for. Then you will note that there's an item for prizes and cost of product. For example, with respect to video lottery terminals and electronic gaming terminals, generally speaking, about 92 percent of the bet is returned to the players in terms of prizes. There of course is a commission that is paid to the operators. VLT operators receive 15 percent, as do casino operators. In addition, with respect to the slot machines which are found in casinos, 15 percent goes to the charities that receive the licences to operate the casinos.

Then with respect to the tickets, you have a network of some 2,000 retailers throughout the province who sell them. There are obviously prizes associated with the ticket lotteries and printing costs and so on and so forth, and the ticket lottery portion is operated through the Western Canada Lottery Corporation, which basically does lottery tickets for the three prairie provinces: Manitoba, Saskatchewan, and Alberta.

DR. TAFT: So if we pull liquor out of there, it looks like gambling is about a \$13.6 billion industry in this province. Has there been any analysis done – and I'm sure there has been – on the economic spin-offs from that and the sort of job creation reality of that?

MR. STEVENS: I believe that there is information with respect to the number of people who have employment in the gaming industry within the province, and somewhere in my memory I have the figure of 11,000.

DR. TAFT: Actually, I'd be interested in that.

MR. STEVENS: If you'd be interested in the information that we have for this particular year, we'll see if we can provide you with a written response on that.

Part of the mandate given to the Alberta Gaming Research Institute is to review things such as the economics with respect to gaming in the province, the cost-benefit analysis if you will. To my knowledge they haven't directed the funds that are available to them into that particular area at this point in time. It's my understanding in discussion with some researchers that while you might be able to find somebody who would take the money today to do some research for you, there's not an accepted construct to use within the scientific group that do this type of thing that they've all agreed upon as being a good one to assess cost-benefit analysis. The comment I've received – and it's a comment from one person but somebody notable in the area – is that that might be something that we have to wait a year or two for so that there's some comfort among researchers that they have a common generally accepted model to work with.

DR. TAFT: If you could provide anything on that, I would appreciate it.

MR. STEVENS: Certainly.

THE CHAIR: And that'll be through Corinne Dacyshyn, please.

MR. STEVENS: All right.

THE CHAIR: Mary Anne Jablonski, followed by Dr. Taft.

MRS. JABLONSKI: Thank you, Mr. Chairman. I'm referring to page 115 of the annual report of the Auditor General. I'm referring to recommendation 15. Maybe you can answer it without the visual. Recommendation 15 was:

We recommend that the Ministry of Gaming establish an appropriate accountability system to determine whether public resources provided to the horse racing industry have been spent for their intended purposes and have achieved their objectives.

The question is: has this accountability system been established?

MR. STEVENS: That was one of the comments I made in my opening remarks. Yes, it has, but perhaps what I'll do is I'll get Norm to provide you with some detail on that.

MR. PETERSON: Well, we're currently working with the Alberta Racing Corporation to make some changes to the way the agreements with the horse racing industry have been structured. There's also some legislation that's going forward this spring, and included in that legislation is the requirement for business plans, performance measures, formalizing those requirements for the Racing Corporation, or Horse Racing Alberta, as it presumably will be known, to provide those to the minister and have the minister approve those. So we are closely working with the horse racing industry. We'll be working with them. They'll be developing business plans, performance measures. We'll be very critically reviewing those performance measures and business plans, and the minister will be reviewing and approving them or not approving them.

MRS. JABLONSKI: On the same page the Auditor General in his report states that the absence of this appropriate accountability system runs the "risk that funds will be spent for other than their intended purpose." The Auditor General also stated that the agreements, as you've just mentioned, in place at that time "do not give the Ministry the ability to recover the misspent funds or otherwise cause them to be redirected to their intended use." From your first answer, these agreements are just being changed now, so really you have no idea if they're effective.

9:04

MR. PETERSON: No. I'm talking about where we're going from here today, where we've been. We have detailed agreements in place with each of the racetracks and with the Alberta Racing Corporation specifically stating what those amounts are to be used for and how they're to be used, and we very carefully monitor what they're doing with those funds to ensure that they're using them. For example, the Racing Corporation handles moneys for purse enhancements. We make sure that they go to purse enhancements. The racetracks get money for capital and operating expenses of horse racing. We make sure that they use those moneys for capital and operating costs of horse racing. So we very carefully monitor them. We have full agreements in place with them at this point in time, and we had agreements in place for almost all of 2001.

MR. STEVENS: I think it's fair to say that part of the issue was the method by which they were paid. As a result of the Auditor General's comments, the contracts were restructured so that there was a 15 percent commission with respect to the slot revenue, which is what we're talking about here, from the racing entertainment centres. Then the balance of the funds came into the Alberta lottery

fund and were flowed out in that fashion, for which there is accountability. As Norm indicated in his response, part of what we are doing – Bill 14 and Bill 16 both relate to this particular issue in some respect – is that we are tightening up the rules with respect to accountability for people who receive funds through the Alberta lottery fund to ensure that they go to the purpose that they were intended for. Certainly as it relates to the racing industry, they are going to have far more accountability, as Norm has indicated, through the provision of three-year business plans, performance measures, and so on and so forth.

MRS. JABLONSKI: Thank you, Mr. Minister.

THE CHAIR: Dr. Taft.

MR. MASON: On a point of order, Mr. Chairman.

THE CHAIR: Yes.

MR. MASON: The normal process in this committee has always been that we rotate the questions between the opposition, alternating opposition and government members. This is the second question you've recognized Dr. Taft for, and I have indicated to you on a couple of occasions that I wish to be recognized.

THE CHAIR: Yes, you are quite correct, Mr. Mason. However, there was a speaking list being developed before your arrival. If Dr. Taft would like to defer this question to you, that's fine, but I'm just going off the speaking list that was developed before your arrival.

MR. MASON: Mr. Chairman, it is not customary to have two members on one side ask questions. I was certainly here before the minister finished his presentation and before the questions began, so I'm surprised at your suggestion that Dr. Taft is entitled to two questions before I have one.

THE CHAIR: The early bird gets the worm. It's entirely up to Dr. Taft.

DR. TAFT: Recognizing that the other opposition member, Laurie Blakeman, is ill this morning, I'll open the chance up for you, Brian. Go ahead.

THE CHAIR: Okay. Thank you, Dr. Taft.

MR. MASON: Thank you very much, Dr. Taft.

Mr. Minister, I'm looking at the Alberta Gaming annual report and the audited statements, and I'm looking at note 7 on page 48 of that report. It deals with the racing industry renewal initiative. It talks about an overtaking by several entities, and my recollection is that that was about a \$17 million overpayment. This was pointed out in the Auditor General's report a year ago. Now it says that this has been corrected and that "new agreements with the Racing Entertainment Centres and the Calgary Exhibition and Stampede [have been] established." I'm assuming that on a going forward basis, those arrangements now comply with the law. My question is: what happened to the overpayment to those entities as a result of their taking a bigger cut than they were entitled to?

MR. STEVENS: The question is interesting. It seems to me that the way you've framed the question is not reflective of the words on the page but, rather, your interpretation of events.

MR. MASON: Okay.

MR. STEVENS: The payments that were made were made pursuant to the policy in place at the time. They were appropriate payments, and those payments remained in place as made. The point that the Auditor General was making, as I recall, is that they thought that the method of payment was not in accord with appropriate, I'll say, accounting policy. I'm not an accountant, but the fact is that they made recommendations as to how it would be better, and we took those to heart and restructured the payments to the industry to reflect the comments of the Auditor General.

As I indicated in one of my previous answers, it was restructured. So rather than direct payment of I believe it was one-third/one-third to the industry – for example, Northlands and the Alberta Racing Corporation relative to the A track here in Edmonton – it was restructured so that 15 percent went to the operator, as typical operators receive who have slot machines. That's the same deal with the casinos, for example. The additional – the math always gets in the way here – 18 percent was made pursuant to the payment from the lottery fund. So the 33 percent was still made, but it was the format and the process that altered. With respect to the 33 percent that went to the industry corporation rather than going directly from the AGLC, it went into the Alberta lottery fund and was paid out there.

So what's happened is that the racing initiative has been maintained, and the process and format for payment has been altered to reflect the comments that were made by the Auditor General.

MR. MASON: If I may have a supplemental, Mr. Chairman. The wording in the report indicates that the payments “did not comply with section 26 of the Gaming and Liquor Act; nor with the Appropriation Act [of] 1999.” So it's not just a question of accounting procedures. Did the government ask for the money which was taken or given at variance with the law? Did the government ask for that money back, or did they simply legitimize the payment of that money?

MR. STEVENS: As I indicated to you in my previous answer, the money was paid fully in compliance with the program and policy at the time. It was an appropriate payment, and the payment stayed as made. The comments of the Auditor General relative to this were taken to heart, and the process for payment and the contracts relative to it were modified accordingly.

MR. MASON: That's retroactive.

THE CHAIR: Mr. Masyk, followed by Dr. Taft.

MR. MASYK: Thank you very much, Mr. Chairman. To the minister. Your opening remarks really covered a lot of area already. However, how are you dealing with the Auditor General's recommendation that the AGLC “improve its management of electronic racing terminal contracts”?

MR. STEVENS: The short of that is that we've dealt with the matters raised by the Auditor General by offering to purchase the electronic racing terminals in question from the casino operators prior to December 31, 2003, and adjust the compensation upon purchase – in other words, a 15 percent commission upon the AGLC becoming the owner – or terminating agreements still outstanding as of December 31, 2003.

9:14

MR. MASYK: My first supplemental: how much has been paid to the electronic racing terminal operators? I heard the number 15 mentioned a few times, so maybe it's already been previously answered.

MR. STEVENS: Well, the Auditor General identified, if I recall correctly, \$21 million, which represents payments to all of the electronic racing terminal operators that are in question, and that's 11 in total. It also covered a period of seven years. That is, the \$21 million covered a seven-year period – from 1996, when the terminals were introduced, to December 31, 2003, which is the end date for this under the proposal that we put to them – and includes compensation for costs and services as well as the capital purchase of the terminals. I think it's worth noting that that works out to about \$3 million per year among the 11 operators, or just under \$300,000 per year.

The significance of this particular area is that casino operators had developed business plans and made significant capital investments in their facilities based on the revenue stream under the agreement that was in place at the time that the Auditor General made his comment. So we considered it fair to provide some time to the operators to deal with this issue before terminating the contracts.

MR. MASYK: Thank you very much.

THE CHAIR: Thank you.

Dr. Taft, followed by Mr. Broda.

DR. TAFT: I'd welcome the Auditor General's comments on my questions here. They stem partly from recommendation 10. Just from looking over the numbers here in both documents that I have, the 15 percent that goes to the operators, for example, of VLTs – 15 percent of exactly what?

MR. HOFFMAN: The commission is based on the net, so the original bet less prizes, and there's an amount of – what is it? – about 8 percent of the take. It's 15 percent of that. That's the commission amount.

DR. TAFT: So let me just get that. So it's 15 percent of . . .

MR. HOFFMAN: Eight percent.

DR. TAFT: Eight percent of gross.

MR. HOFFMAN: Yeah.

DR. TAFT: Roughly.

MR. STEVENS: Fifteen percent is not a rough number. That's an exact number.

DR. TAFT: Okay. So it's exactly 15 percent of 8 percent of the gross take.

MR. HOFFMAN: Well, the 8 percent is rough, you know.

MR. PETERSON: Fifteen percent of net revenue.

MR. HOFFMAN: Net revenue, yeah. It shows up in the AGLC financial statements all in one.

DR. TAFT: Okay. So that's a 15 percent return on revenue, it could be characterized.

I'm thinking that there are other ways of calculating the return. What would be the return on capital for a casino operator?

MR. HOFFMAN: I don't know. I can't answer that question. There's more precise information on page 75 in note 10 of the annual report on the commissions that are paid for the various types of gaming, just for your information.

DR. TAFT: Okay. My question is: as an investment by the casino operators. Obviously, you would know, there are various ways of determining a return.

MR. HOFFMAN: We don't have that information.

DR. TAFT: Is that partly what's behind recommendation 10?

MR. HOFFMAN: Yes. As we looked at this situation during the audit, as we say in our piece, there wasn't any current information within the AGLC to support the rationale for 15 percent or whatever those various rates are. That's the suggestion of the recommendation, and that's what they're looking at.

DR. TAFT: My supplemental to the minister I guess would be: what's the capital investment in the province in the VLT and slot machine industry? Do you have any idea what the return on capital is for these operators?

MR. STEVENS: Well, one of the things that we're doing, as I indicated in my opening remarks, is taking the Auditor General's comment to heart. I must say that when I read the Auditor General's comment, I think that the Auditor General is simply saying that in order to establish a reasonable commercial return for the type of service provided by the retailers, we should have some information rather than the current situation, which is not enough information on this issue. So they've said go forth and find out, and we are in the process of doing that as we speak. So we are addressing that, and perhaps Norm would like to supplement.

MR. PETERSON: Absolutely. We are addressing that. We've engaged a working committee of staff and members from the industry on two fronts really, the first front being the VLT operators and the second front being the casino operators, because they're different types of businesses and they require different investments, different sets of operating costs and the like. We are working forward on that, and we will comply with the Auditor General's recommendation to build a justification or to determine what the appropriate rate of return is to these casino operators and to the people that operate the VLTs.

We have over quite a number of years consistently watched what the casino operators earn, and perhaps to a lesser extent we have watched as well what the VLT operators earn, what they've invested in the business and what their returns are in their particular business. It varies from VLT operator to VLT operator. You have different classes, I guess, if you will, of bars and lounges, some much better than others. You certainly have, if you go through this province, a different level of casino facilities. Their return on investment depends very much on how much they've invested, how many customers they can attract to their particular facility. Just a whole myriad of factors affect their return on their investment. Some do very well, some are not doing as well, but we do monitor it. We have watched it over the years, and we do have a handle on it.

DR. TAFT: So you do have some input. You do have some

information.

MR. PETERSON: We have information. We monitor these things.

DR. TAFT: But you're not sharing that.

MR. PETERSON: Well, it's a private-sector business and to justify to the . . .

DR. TAFT: It's the Public Accounts Committee.

MR. PETERSON: Well, it's a private-sector business. These are private-sector numbers that they provide to us: their costs of operating, their costs of investments.

DR. TAFT: Did they provide you their costs?

MR. PETERSON: Yes.

THE CHAIR: Thank you.

Mr. Broda, followed by Mr. Mason.

MR. BRODA: Thank you, Chair. To the minister: how are you dealing with the Auditor General's recommendation that the AGLC determine whether commission rates paid to VLT and casino facility operators are appropriate?

MR. STEVENS: That in part is what we were just discussing in the last series of questions and answers. The short of it is, as Norm has indicated, we have a committee that's looking into that and we will have a response and answer likely sometime later this year.

9:24

MR. BRODA: Okay. Supplemental to that, do you feel that the VLT and slot machine shares of profits are reasonable today, or do you see an increase for communities when they come in to raise funds for their community events, that possibly there may be a change seeing that more dollars are required within communities for charitable organizations, that maybe the percentage might be forthcoming as a change? Is that a fair question at this point in relation to talking about last year's?

MR. STEVENS: Any question from this committee, of course, is most fair because you're all honourable people, so I appreciate the way you asked it.

The purpose of the review is to determine whether or not 15 percent represents a reasonable compensation. The concept of whether 15 percent is the right number or not is the purpose of the review that we're doing at this point in time. Having said that, I can tell you that we believe that 15 percent has worked out as an appropriate number to date in that we have been able to have a casino operator's wish to build and operate casinos, and they have generally over time enhanced the quality of the entertainment aspect. If you take a look around Edmonton, for example, you will find that there are new casinos like Yellowhead. You will see that there is a major renovation to Palace, and others have done renovations also. So the 15 percent has worked from our point of view to enhance the quality of the entertainment experience.

On the issue of charities – and charities also receive 15 percent, as you rightly noted – I think it's worth highlighting that in about 1993 my memory is that the charitable return from casinos in the province, which obviously over time has a slot component, went from \$17 million to about \$99 million in the year in question, that is 2000-2001. So it increased fivefold in that time period, that being an eight-year time period. So charities in this province have done

very well indeed by the 15 percent with the slot machines, which were introduced for the first time, if memory serves, in or around '95-96. That's when that came into being.

THE CHAIR: Thank you.

Mr. Mason, followed by Mr. Hutton.

MR. MASON: Thank you, Mr. Chairman. Mr. Minister, I'm looking at your annual report and again dealing with the agreements with the racing entertainment centres and the racing industry renewal initiative. I guess my question is a fairly general one. It talks about the money that is to provide assistance with "live horse racing operations and capital development, and with purse enhancements." I'd like to know from a philosophical point of view why the Alberta government provides financial assistance to the racing industry when generally they have taken the position that they need to withdraw from support of private businesses altogether. How does this particular industry rank as a priority against the other core businesses that government should be involved in?

MR. STEVENS: I think that if you take a look at the history of gaming in Alberta, you can go back in 80 years and find that pari-mutuel betting was part of the environment here. In fact, arguably it would be the first authorized gaming in the province. It has a long, very noble history in this province. So it's tied into not only the authorized gaming but also the agricultural industry and all that that entails.

In 1996 the racing industry renewal initiative was established as a result of the industry approaching government and saying that they were having difficulty sustaining themselves. The trends with respect to participation in pari-mutuel betting were declining, and there was a sense that part of that was due to the introduction of electronic gaming in the province. So they said, as I understand it, at that time that they wanted some assistance because breeders were leaving the province. The number of races, the number of horses in the races, the purses, all of those types of things were in peril, and the industry was in peril. So as part of gaming, generally speaking, it was determined that the racing entertainment centres and the introduction of slot machines into racing entertainment centres, which are part of horse racing – they're inexorably connected to horse racing – would be installed and that a portion of the revenue from that would go into continuing to maintain and enhance racing. So it was a combination. It's part of the gaming environment, but it's also part of the agricultural environment in that it involves horses and breeding of horses and feed and all of that type of thing.

MR. MASON: Okay. As a supplemental, on page 19 of the annual report it talks about the creation of the racing industry renewal initiative in 1996, as you have stated, to help out a declining and some might say obsolete industry, but it was not until March 30, 2001, that the horse racing industry began working to develop recommendations on its long-term viability. So why would we go for five years of subsidizing this industry because it's in decline and can't continue on the basis that it had before before we actually ask them to come up with a plan for their own long-term viability?

MR. STEVENS: I think that there was a plan in 1996, but the plan in 1996, as I understand it, may not have engendered the kind of all-inclusive approach to looking at the horse racing industry that the 2001 initiative that you refer to did. In 2001 the horse racing industry approached the Premier and said: we thank you very much for the racing industry renewal initiative; it has worked some good for us. We can take a look at Whoop-Up Downs in Lethbridge, where one of the two racing entertainment centres is, and see that

there has been a positive experience there, but it hasn't accomplished all that we want. The Premier said: well, fine; if you feel that way, get everybody within the industry together and come forward as a unified voice.

The racing industry, as I understand it, has traditionally been one that has had factions. There are the racetrack operators and then the thoroughbred owners and breeders, and then there are probably some other groups that escape my mind right now. In any event, they did come together as a unified group and did introduce the report to the minister of agriculture and rural development that provided a number of recommendations, some of which involved government, most of which did not. So I think really they were revisiting in 2001 their efforts to make the most of the racing industry renewal initiative that was started in '96 because it had not fulfilled all of their goals.

THE CHAIR: Thank you.

Mr. Hutton, followed by Dr. Taft.

9:34

MR. HUTTON: Thank you very much, Mr. Chairman. I'm going to preface my questions with a few comments with regards to this ministry. A year ago today I was but an MLA elect, and I bring some bias towards the Gaming ministry from my previous life.

I would like to just bring to the attention of this group and the ministry that I was the executive director of the Glenrose Foundation for a number of years. During that time, we built a playground with lottery funds assistance for children that had FAS, were autistic, or needed wheelchair accessibility. During my time at the Glenrose we also built an assistive device centre with lottery dollars, now called the I Can Centre, which will assist adults and children with muscular dystrophy, ALS, cerebral palsy, Parkinson's; and quadriplegics. Before I left the Glenrose, we also raised a large amount of money through the lottery board, which is also gaming dollars as well, for the new Syncrude gait and balance lab, which will open May 1, that will assist in research and applied science for people with Parkinson's, cerebral palsy – and it'll be the first of its kind in North America – funded by lottery dollars. So my bias towards this ministry is one of doing very good things within the community, and now that I am elected, I feel strongly that this ministry can continue to do good things with sin dollars, as some people may call them.

But my question, now that I've got that out of my system, is: was there any public consultation done on gaming in Alberta during the fiscal year April 1, 2000, to March 31, 2001?

MR. STEVENS: Well, first of all, I'd like to thank you for your comments. There's no doubt in my mind that we're very fortunate to have set up a charitable model in this province, because what it does is it provides money to charities that are simply not available in any other jurisdiction. You can go anywhere in the country and to my knowledge charities do not have access to dollars as they do in Alberta for the volunteer work that they do, and it certainly enhances the volunteer work that we have here.

The principal consultation that was done in 2000-2001 relates to the licensing policy review, which, of course, was announced in October of last year. The consultation of the public in that particular review specifically related to, I believe it was, some 1,400 Albertans who were interviewed for 45 minutes each relative to gaming. That's quite incredible when you think that someone is prepared to spend 45 minutes with an interviewer discussing one topic of this nature. So it was something that Albertans were keen to do. As I said, there were 1,400. It was a large number, as it was a substantial

consultation.

MR. HUTTON: Thank you, Minister. You had the consultation. Now how are you using or utilizing the information and feedback from the public with regards to this consultation?

MR. STEVENS: Well, the Alberta Gaming and Liquor Commission was leading the licensing policy review, and not only did they consult with the public, but they consulted with stakeholders within the industry and others and ultimately produced a report of some 600-odd pages with recommendations that were published in hard copy but more importantly were put on the AGLC web site for review by anybody who would be interested in the background information on the consultation and the recommendations. So for those who are interested in knowing the underpinnings of the current gaming policy, it's based on the good work of the AGLC employees, and it's available on the AGLC web site.

MR. HUTTON: Thank you, Minister, and thank you to all the ministry for the work you're doing.

MR. STEVENS: Thank you.

MR. HUTTON: Thank you, Mr. Chair.

THE CHAIR: Dr. Taft, followed by Mr. Ouellette.

DR. TAFT: Thank you. I'm on page 100 of the Auditor General's report 2000-2001, just so we're all on the same page.

MR. STEVENS: That doesn't happen often.

DR. TAFT: No, it doesn't.

The top paragraph there refers to the "profit per terminal before expenses . . . \$100,000/year per slot machine," so everybody knows where I am there. Because it's the Auditor General's report, maybe you folks can respond as much as anyone else. So that's gross take per terminal roughly. Per slot machine it would be \$100,000. Is that your use of the word?

MR. HOFFMAN: That's what we wrote, yeah.

DR. TAFT: That's what you wrote. Do you believe that?

MR. HOFFMAN: Of course we believe it, yes. We wouldn't have written it if we didn't believe it.

DR. TAFT: All right. Good.

MR. STEVENS: You had to answer it that way; didn't you? He caught you.

DR. TAFT: So my question is then, first of all, what's the cost? This is "profit per terminal before expenses," so what would an average profit per slot machine be after expenses?

MR. HOFFMAN: Again this relates to the reason for the recommendation. If you go back to the previous recommendation that talked about the need to gather more information to support the amount of commission being paid – I don't have that information at hand. They get cost information within the AGLC, how much they would spend, but I don't have that at hand.

MR. STEVENS: Obviously it depends, because location and usage have something to do with the returns on any given machine, but if you want a rule of thumb, for example, you can take a look at the net for VLTs in the year in question. We have a cap of 6,000 on VLTs. You can divide 6,000 into that number, and it will give you an average. Some machines perform better; some machines perform less. There truly is an incredible range depending on location.

With respect to slot machines, once again it's a matter of determining how many were out there and dividing it into that number. It's going to depend on the type of machine, it's going to depend on the casino in which it's located, and it's going to depend on where it's located in that casino. So things like whether it's a dollar machine or a nickel machine . . .

DR. TAFT: Sure. Of course. I didn't bring a calculator with me. So you don't have that average figure?

MR. STEVENS: No. I don't carry it around in my head.

DR. TAFT: I thought maybe your staff would.

Okay. Then my supplemental is . . .

MR. STEVENS: I've got to say, Mr. Chair, that you're allowing him to browbeat me with multiple questions here.

THE CHAIR: Yes, and I was just about ready to intervene.

DR. TAFT: Just one brief supplemental then.

THE CHAIR: Okay.

DR. TAFT: Again to both parties here: what sort of audit provisions do you have when you receive this information from your casino operator or machine operator partners? Is that audited by somebody in the government?

MR. HOFFMAN: I think the ministry is in the best position to answer that one.

9:44

MR. STEVENS: Pass the buck, eh? But we'll take that one on, because that truly is our responsibility. I'll let Norm supplement. He can provide, I'm sure, some good detail.

We do audit the electronic equipment. First of all, all machines are plugged into the system and are monitored by the system that can determine whether they are up or down. So we have the information that's available sort of from an on-line real-time point of view. Apart from that, we have inspectors and forensic auditors that are available to review the operations. We have obligations by the retailers to make payment and accounting on a real regular basis. You know, in general it's scrutinized, from my perspective, at a high level.

Norm, perhaps you would like to just supplement that in some fashion.

MR. PETERSON: Well, under the law we conduct and manage all electronic gaming in the province: VLTs, slot machines. As the minister pointed out, we're plugged in. Our telecommunications network is plugged into each and every machine in this particular province, and we receive information on a real-time basis on those machines. So we know when they're up, when they're down, when one of our field technicians is going in to do servicing on the machine, et cetera, et cetera, when there's any sort of problem.



We receive constant data from these machines, and not only do we use it from an audit perspective, making sure that we get every dollar that we are entitled to from these machines, from the operators, whether it be a bar or a lounge or a casino operator; we use it for a business purpose as well. As you can appreciate, some of these machines, as the minister pointed out, perform better depending on their location, what the retailer has done, what the casino operator has done, what sorts of games are in place, and it just sort of goes on and on. So we monitor the profitability basically on a per game basis. We use that from a business perspective to say: should we be moving the machine somewhere else? Should we be replacing the game? Should we be doing some sort of conversion on that machine? Has the game run its course? Does it need to be refreshed? We look at that very closely, and we have staff that look at it. As well, the casino operator looks at that, because it's also in their very best interest.

DR. TAFT: Okay. Thanks. I'll stop browbeating you.

MR. STEVENS: Thank you.

THE CHAIR: Thank you.

Mr. Ouellette.

MR. OUELLETTE: I'll just start with a few comments. A number of questions ago somebody came up with the comment that gaming was government making money. I'd like to say that I think gaming is good government giving people what they want, and without it minor sports, charities, community associations wouldn't be able to do a lot of the things that they're doing.

Your comment about paybacks at 92 percent. Are you sure that you're not getting Alberta mixed up with Las Vegas, when you drive down the strip and see: our slots pay up to 98 percent return? I have a real hard time believing that we're paying back 92 percent.

MR. STEVENS: I thought you were a government MLA.

MR. OUELLETTE: I'm saying that you're doing a great thing.

MR. STEVENS: Remember; I'm a hon. member too, you know.

Well, we didn't say they were loose. Okay? The fact is that about 92 percent is how the chips in the machines are set. I'll let Norm supplement this, because it gets a little technical for me, but I basically understand that whether you're talking about VLTs or slot machines, the computer chip that operates them is sent to an independent lab for verification for each and every machine, for each and every chip in that machine that operates it. They're manufactured, and then they're sent for independent verification before they're ultimately put into the machine for operation of the machine, and that verification definitely includes the cash payback that goes along with it.

Now, let's be clear about one thing: you can play machines differently and have different results. There's absolutely no doubt about that. When I say 92 percent, what I'm talking about is at the end of the day, statistically, what I understand to be the payback on the machine.

Norm, would you like to . . .

MR. PETERSON: Well, I think the minister is absolutely correct. Statistically it is a 92 percent payback certified by an independent laboratory. Actually, the laboratory we use is in Chicago. It's based on millions of spins. I mean, if you play for two or three hours in a night, your results will slightly differ, but over the life of the

millions of spins you get 92 percent.

One of Dr. Taft's earlier comments was about us monitoring the games. That's also part of what our staff do, monitor, to make sure that the prize payouts fall within that specified range, because if they don't, there may be something wrong with the machine. We may have to dispatch field technicians, et cetera, to take a look at the machine, take a look and see if anything untoward has been happening to that particular machine. We do monitor that, certified by an independent laboratory, based on millions of spins: 92 percent.

MR. OUELLETTE: I'm sure that I get the ones that are at fault and only paying back 40 percent.

MR. PETERSON: All those are in Sylvan Lake, yeah.

MR. OUELLETTE: I know of all the good things that we get from gaming, but do you have measures in place to ensure that the lottery fund dollars are being spent appropriately?

MR. STEVENS: Oh, absolutely. It's important that the dollars that are used are for appropriate purposes. Albertans expect that of us. So if you're talking about the granting foundations – and I'll talk about CFEP – we have specific rules with respect to eligibility and the use of proceeds. The Criminal Code of Canada drives it in large measure because it talks about what charitable is, and there is case law that talks about it. So you have rules that have been established and a process that has been established that people who make application, one, have to be eligible and, two, the proposed use of proceeds that they put forward has to be an eligible use of proceeds. Beyond that, they must account for the proceeds after they have in fact been spent with backup documentation, and that backup documentation must establish that they have used it for the purpose that they stated initially. If the purpose changes somewhere in the process, they can receive direction that they can change the purpose to another approved purpose, but at the end of the day there is a very comprehensive follow-up to ensure that things are done appropriately.

MR. OUELLETTE: Thank you, hon. minister, and keep up the good work.

MR. STEVENS: We will.

THE CHAIR: Thank you.

Dr. Taft has again graciously deferred his question. Mrs. Ady is on the list. Considering that it's very close to 10 o'clock, could you please proceed with your question?

MRS. ADY: Thank you, hon. member. My question surrounds the annual report for 2000-2001, page 21. I apologize; I missed some of your opening remarks, so if I'm repeating a question that you've covered, I'd like to apologize out the front end here. It's regarding the First Nations gaming policy. I know that that's been a work under progress in even the last year, but in the second paragraph at the top of the page you say:

The province's proceeds from the on-reserve casinos will be deposited in the Alberta Lottery Fund and used for traditional lottery programs and a new First Nations Development Fund.

I'm wondering: have we got the parameters set up around that fund? Is there any money in it? Would it go equally to all reserves across the province when and if there are funds in that?

9:54

MR. STEVENS: The policy for First Nations gaming was

announced, I believe, on January 19, 2001, and it gave the broad detail of the policy. Part of that indicated that the First Nations would receive the same kind of percentages: 15 percent for operation, 15 percent for the charity, albeit a First Nations charity as opposed to a series of, say, 180 traditional charities, and the 70 percent from the slot revenue that was left over would go to the Alberta lottery fund. Of that 70 percent, 30 would remain with the Alberta lottery fund to be used in the traditional fashion, and 40 would go into this First Nations development fund.

The First Nations among themselves determined that the appropriate way to allocate that 40 percent was: 10 percent to all First Nations – and there are 46 First Nations in the province – and 30 percent would go back to the host First Nation. That would be the First Nation on which the casino was located. The purpose of the fund was generally stated at that time to be for the improvement of the economic, social, cultural environment on the reserves and not to be used for the purpose of operating or building the casino. In other words, it wasn't intended that that money go back into the casino operation as such. It was generally to make life on the reserve better and not – and there was a specific prohibition – to be used for the business of the casino.

My hon. colleague the Minister of Community Development is responsible for the fund in question, and there is ongoing negotiation as we speak dealing with the terms of an agreement to put it in place. Obviously, we do not have any First Nations casinos at this point in time, so there are no funds. That will still be some time to come, so there is time for the government to address that issue in detail yet.

MRS. ADY: Can you just tell me, as a quick supplemental: how many applications have you received to date from First Nations for a casino licence? I know that's kind of in place now. Have you received any?

MR. STEVENS: Well, I can tell you that in the year 2000-2001 we received absolutely none. The moratorium was in place. I believe our comments are as much as possible to be contained to the year in question, hon. member.

MRS. ADY: Okay. Thank you.

THE CHAIR: Thank you very much.

In light of the hour I would like to thank the hon. minister, Mr. Stevens, and his staff for coming this morning. [some applause]

MR. HUTTON: Are we allowed to do that here or not?

THE CHAIR: I guess so.

Also, I would like on behalf of the committee to express our gratitude again to Mr. Jim Hug and the staff at the Auditor General's office. We appreciate your time.

I would like to remind all members that our next meeting is after the Easter break, on Wednesday, April 10, at 8:30 sharp in this room. Please, if people could be on time, the chair would be very grateful. The Hon. Gary Mar, the Minister of Health and Wellness, will be here. At this time I would remind all members that the agenda for the next meeting will include an item to briefly discuss whether we want to stay in this facility or move back to the Assembly.

MR. OUELLETTE: Today?

THE CHAIR: No. On Wednesday, April 10, Mr. Ouellette.

At this time I would call, please, for a motion to adjourn.

MR. HUTTON: I so move.

THE CHAIR: Thank you. Have a safe and happy Easter.

[The committee adjourned at 9:59 a.m.]