

VIDEO LOTTERIES

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A. Introduction

Video lottery terminals (VLTs) are electronic gaming devices that are conducted and managed by the Alberta Gaming and Liquor Commission under the province's *Gaming and Liquor Act* (Alberta). VLTs are located in bars and lounges under a video retailer agreement with the Alberta Gaming and Liquor Commission.

Government's share of revenue generated from provincial lotteries—which includes ticket lotteries, VLTs and slot machines—are placed in the Alberta Lottery Fund.

This section discusses the background to VLT gaming in the province. It provides key information related to current VLT policies, the VLT plebiscites held throughout the province, an assessment of the current situation regarding VLT gaming and a landscape of video lottery policies in other provinces for purposes of comparison.

The section concludes with recommendations to address issues identified through the licensing policy review process.

B. Background

Video Lottery Terminals (VLTs) and the VLT Network

A video lottery terminal (VLT) is a free-standing electronic gaming device, with player-activated touch-screen technology, used to play a variety of games of chance.

The terminals operating in the province are purchased and owned by the Alberta Gaming and Liquor Commission (the Commission) on behalf of the Government of Alberta. This conforms with the provisions of the *Criminal Code* (Canada) which provide that only a provincial authority may conduct and manage electronic gaming devices.

VLTs are located only in bars and lounges under agreement between the VLT retailer and the Commission. The agreement authorizes the retailer to provide services regarding VLTs under various terms and conditions that reflect policies of the Commission regarding the conduct, management and operation of VLTs. The retailer receives a commission of 15% of net revenues for providing those services.

The province's network of VLTs is monitored through the Commission's central computerized system as a security/control measure, a key element in the conduct and management of VLTs by the Commission.

Each VLT terminal operates independently of other terminals.

Players may wager from one credit to 10 credits, each worth 25 cents. The maximum bet is \$2.50. The maximum prize for a single game is \$1,000. VLTs accept quarters and loonies and many accept bills. The money put into the machine is expressed as credits during play. Winnings are redeemable through the VLT retailer.

Each free-standing terminal is certified by an independent testing laboratory to pay approximately 92% of amounts wagered, averaged over extensive play. Pay out is calculated as total credits won divided by total credits wagered.

Developments in the VLT Network

Alberta introduced VLTs after a few other provinces and U.S. states introduced VLT programs in their respective jurisdictions. Following are some of the key developments in the evolution of the VLT network in Alberta, beginning with events that occurred beyond the province's borders.

Early Developments

In Canada, an amendment to the *Criminal Code* in 1985 transferred all authority for lotteries to the provinces and paved the way for provinces to introduce electronic gaming machines. It would be about five years before any Canadian jurisdiction would introduce its own electronic gaming machines.

A number of U.S. states introduced VLT programs prior to any Canadian jurisdiction, which allowed Canadian provinces to track the experiences in the U.S. states. Those states were Montana (1986 introduction), South Dakota (1989) and West Virginia (1990). States to follow with VLT programs in 1992 were Oregon, Louisiana and Rhode Island.

The first VLTs in Canada were introduced to the Atlantic provinces as an expansion of their lottery programs. They were adopted by New Brunswick and Newfoundland in December 1990, Nova Scotia in May 1991 and PEI in August 1991.

Some VLTs in the Atlantic provinces were located in convenience stores and gas stations. In some cases they also were in bowling alleys, video outlets, taxi stands, laundromats and ferry boats. The access to VLTs by the public at large was to become an issue in Atlantic Canada in later years. For example, Nova Scotia required in 1993 that VLTs be placed only in age-restricted licensed premises. VLTs have been phased out of convenience stores in New Brunswick and PEI.

Manitoba introduced VLTs in November 1991. There they were installed in age-controlled establishments.

Gaming authorities in Quebec acknowledged the spread of illegal VLTs in the early 1990s. The Quebec gaming authority estimated about 40,000 illegal machines, or “grey machines,” were in the province in 1994, when that province introduced its program. Since the successful launch of Quebec’s VLT program, and numerous seizures of illegal machines in the ensuing years, the gaming authority estimated in 1997 that there were a maximum of 5,000 illegal machines, 35,000 fewer than in 1994.

In its report of 1995, the Lotteries Review Committee noted: “Although VLTs are illegal in both British Columbia and Ontario, estimates are that 10,000 illegal machines are operating in bars, pool halls, restaurants and laundromats in British Columbia and 30,000 to 40,000 illegal machines are operating in Ontario.”

The estimates reported in the committee’s report were later revised. Ontario estimated in 1996 that the number of illegal “grey” machines operating in the province was from 15,000 to 20,000. Since that date nearly 3,000 machines have been seized by provincial authorities. The machines were operated in bars, restaurants, coffee places, cafes, strip clubs and corner stores. There has not been a more recent estimate on the number of illegal VLTs.

A rough estimate of the B.C. Gaming, Audit and Investigation Office is there are currently 3,500 grey machines in B.C.

Alberta Conducts Pilot Tests

Alberta Lotteries introduced VLTs to Alberta on a pilot basis during the summer and fall of 1991. The pilot test began at the Calgary Stampede at its casino for 10 days, and at the Edmonton Klondike Days exhibition at its casino for 10 days. VLTs were later tested in 30 age-controlled licensed beverage rooms throughout Alberta.

Those VLTs were the first such devices authorized for use in Alberta and represented the first generation of such terminals.

The rationale for introducing VLTs to Alberta was threefold:

1. To test a new form of gaming entertainment within the framework of legal gaming in Alberta. The venues chosen for VLTs were licensed premises that prohibited minors.
2. To contribute revenue to the Lottery Fund of the province.
3. To prevent illegal gaming machines from being established in the province. Authorities acknowledged the potential problems and difficulties faced in the province if illegal VLTs were to become rooted here.

Generally the VLT test was assessed as a success. The primary concern among players was VLTs not be accessible to minors and therefore should be placed in an adult-only environment.

Official Launch of the Alberta VLT Program

The VLT Program was officially approved on March 12, 1992 with a plan to install 8,600 terminals in Class A Minors Prohibited* licensed premises (bars and lounges) over three years. The gaming authority began the process of procuring a central monitoring system and VLTs.

VLTs were rolled out across the province in 1992 and the following years.

Table 14-1: Number of Installed VLTs and Locations in Alberta – 1992 to 2001

DATE	NO. TERMINALS	NO. LOCATIONS	COMMENT
March 12, 1992			Official announcement of the VLT program launch.
March 31, 1992	435	84	
August 30, 1992			Central computer system enabled.
March 31, 1993	1,767	376	
March 31, 1994	4,438	864	
March 31, 1995	5,975	1,080	
March 31, 1996	5,586	1,098	On Dec. 8, 1995 government limited the number of VLTs to a maximum of 6,000.
March 31, 1997	5,866	1,221	
March 31, 1998	5,852	1,225	
March 31, 1999	5,943	1,223	
March 31, 2000	5,959	1,238	
March 31, 2001	5,965	1,266	

* Bars and lounges were referred to as Class A Liquor Primary premises prior to July 1, 1996 and as Class A Minors Prohibited premises after that date. The latter terminology is used throughout this report.

Within one year after VLTs were initially rolled out in the province, various community service groups, bingo halls and associations and race tracks expressed interest in operating VLTs to raise funds for their projects. As those premises were not Class A Minors Prohibited premises, the requests could not be accommodated.

In 1993, some groups, such as branches of the Royal Canadian Legion in Edmonton, claimed they were experiencing losses in raffles and pull ticket sales due to VLTs and were looking for "...the opportunity to reap some of the rewards of having a VLT on our own premises..." (Alberta Hansard, October 7, 1993).

Legions and service groups later qualified for VLTs if they operated under Class A Minors Prohibited licences.

Revenues generated from VLTs were beyond expectations in the first few years of their introduction to the province. They produced higher annual levels of revenue than any other gaming activity in the province and starting in 1993-94 exceeded the revenues generated by the well-established ticket lottery program.

General Gaming Issues Emerge

From 1992 to 1994 various gaming issues emerged. They included the following:

- proceeds from charitable gaming such as bingo and pull tickets appeared to be declining while the Lottery Fund was growing substantially - some of those involved with charitable gaming believed players of charitable gaming activities were being drawn away by VLTs;
- problem gambling awareness grew with increased research and public focus - AADAC commissioned its first research report into the prevalence of gambling and problem gambling in the province;
- the public began to question where lottery dollars were going - the Lotteries Review Committee was formed in part to address the allocation of lottery dollars; and
- service clubs conducting charitable games such as pull tickets began to seek a level playing field, in some cases requesting VLTs to raise funds.

The Lotteries Review Committee, comprised of MLAs and chaired by Judy Gordon, MLA - Lacombe Stettler, was formed in December 1994 to consult with Albertans about future directions for lotteries and gaming. In its report, the committee noted it was time to ask questions about how lottery funds should be used, how to improve accountability and the impact of VLTs on communities. The committee's recommendations for VLTs have formed the basis of current VLT policy in the province. The government's response to the VLT-related recommendations are provided in this section under "Current VLT Policies." See also the section "Gaming in General" under "Current Policies."

Province's Community Lottery Board Program Launched

In response to a specific recommendation of the Lotteries Review Committee, the Community Lottery Board Program was officially launched on April 1, 1998. Fifty million dollars from the Lottery Fund, derived exclusively from VLT revenues, was allocated for disbursement through community lottery boards across Alberta.

VLT Plebiscites

In response to a recommendation of the Lotteries Review Committee, the government announced it would honour the outcome of plebiscites in communities whose residents wanted VLTs removed from their communities. Forty such VLT plebiscites were held in communities across Alberta between February 1997 and October 1998. The vast majority of municipalities voted to retain VLTs, although in a number of cases by narrow margins. VLTs have been removed from Rocky Mountain House and Sylvan Lake. Various legal challenges have been initiated by retailers in other communities that voted to remove VLTs. A court injunction and the pending legal challenge have prevented the removal of VLTs from those communities.

Gambling Prevalence Research

In 1994, Alberta Lotteries and Gaming issued the province's first commissioned research report regarding the prevalence of gambling and problem gambling among adult Albertans. The report estimated 84.4% of Alberta's adult population gamble responsibly. Seven percent did not gamble. An estimated 3.2% of adults experienced problems gambling in the past. The prevalence rate of problem and probable pathological gambling in Alberta was estimated at 5.4% of the adult population: 4.0% were deemed to be current problem gamblers and 1.4% current probable pathological gamblers. Similar prevalence rates had been published for New Brunswick and Manitoba.

In June 1998, AADAC issued a second gambling and problem gambling prevalence research report, which replicated the 1994 study (to determine changes or trends over the intervening four years). The report noted the prevalence rate of current problem gamblers decreased to 4.8% from 5.4% between 1994 and 1998. The report indicated 2.8% of the adult population were deemed problem gamblers (i.e., with some problems) and 2.0% probable pathological gamblers.

Further details regarding the two reports are in the appendix "Social Responsibility."

Lotteries and Gaming Summit

A second major public consultation occurred through the Lotteries and Gaming Summit '98, which has influenced the province's general approaches to lotteries and gaming activities. The summit, held in Medicine Hat in April 1998, discussed and addressed a number of issues regarding lotteries and gaming in the province. The summit made eight recommendations, none of which dealt directly with any specific gaming activity, rather, they were general in nature, applying to all gaming activities and the use of lottery funds. A further discussion of that public review is provided in the section "Gaming in General" under "Current Policies."

Illegal “Grey” Machines

The Commission regularly conducts investigations into possible contravention of the *Criminal Code* or *Gaming and Liquor Act* (Alberta) within licensed premises. As well, investigations into gaming-related matters are conducted in cooperation with police services in the province.

Working with local police services, the Commission seized 111 machines during investigations into illegal “grey” machines (unlicensed machines) from 1997 to 1999. Numerous individuals and companies were charged with offences ranging from the *Criminal Code* offence of Operating a Common Gaming House to the provincial *Gaming and Liquor Act* offence of being in possession of video lottery terminals not approved by the Commission. All of the grey machines that were being used for gambling were seized from liquor licensed premises.

Commission inspectors work closely with local police services on a regular basis and take a lead role in conducting investigations into the presence of illegal “grey” machines in the province.

Gaming Industry Initiatives

In 1999, various members of the VLT and hospitality industries formed the Alberta Gaming Industry Association to pro-actively address problem gambling, a commitment members of the industries made prior to the October 1998 VLT plebiscites. Anyone involved in any gaming activity, including charitable gaming activities such as bingo and casinos, may join the association.

In August 1999, the Alberta Hotel Association (now the Alberta Hotel and Lodging Association) proposed hotel “games rooms” to the government Standing Policy Committee on Jobs and the Economy.

C. Current VLT Policies

The province's VLT policies have been developed within a legal framework that consists of the federal *Criminal Code*, the province's *Gaming and Liquor Act* and *Gaming and Liquor Regulation* (Alberta). VLT policies must meet the requirements set forth in the legislation and regulation.

The major VLT policies currently in effect are based upon the recommendations of the Lotteries Review Committee. Following is a summary of the committee's recommendations and government's response to them.

Lotteries Review Committee

In December 1994, the Lotteries Review Committee was established to address future directions for lotteries and gaming. The committee comprised MLAs and was chaired by Judy Gordon, MLA - Lacombe Stettler. In its report, the committee noted it was time to ask questions about how lottery funds should be used, how to improve accountability and the impact of VLTs on communities. The Lotteries Review Committee conducted extensive public consultations prior to making its recommendations.

The committee indicated the province was doing a good job in protecting the integrity of gaming. It wrote: "Alberta has an excellent reputation for regulating its gaming industry, including VLTs. We want to maintain a well-regulated system rather than open the doors to illegal gambling."

The committee raised concerns about increased accessibility of VLTs in licensed premises across Alberta and the high levels of revenue generated by video lottery play. It made various recommendations regarding VLTs. The thrust of those recommendations was as follows:

- to cap their number in the province at the (then) existing 6,000 machines;
- to cap the maximum number of VLTs per licensed premise;
- to allocate VLTs based on square footage/seating capacity of the establishment;
- to re-allocate surplus VLTs (those removed to meet the maximum number of VLTs per licensed premises) to meet the backlog of current applications from bars and lounges, also to be re-allocated to charitable casinos to a maximum of 50 terminals (note: this recommendation was made prior to slot machines being available in casinos);
- to disallow more than one licensed premise in a single facility to operate VLTs;
- to return a portion of VLT revenue to communities through local lottery boards;
- to permit communities to decide by municipal plebiscite to prohibit VLTs in their communities;
- to permit service clubs such as Legions which operate bars and lounges to apply for VLTs if they have a Class A liquor licence and meet the basic square footage/seating capacity requirements;
- to implement changes to VLTs to slow down the speed of the games;
- to eliminate the then current incentive/bonus system based on volume of VLT revenues;
- to remove promotional statements regarding lotteries as a "source of many benefits";
- to require facilities to prominently post their licence in their premises and which should specify the number of VLTs the premises may operate; and

- to tighten up existing regulations to make it easier to enforce the requirements that prohibit management and staff from playing VLTs in their own premises when on duty.

In response, the provincial government announced in December 1995 it would adopt the following policies for VLTs in Alberta:

- the number of VLTs in the province would be limited to a maximum of 6,000;
- in a single facility, no more than one premises would be approved for VLTs; where single facilities had more than one such premises at the time of the policy announcement, their number would be reduced to one within five years, by December 31, 2000 (the surplus VLTs removed from facilities would be reallocated to retailers on the VLT wait list);
- the number of VLTs per licensed premises would be limited to a maximum of seven;
- charitable casinos would receive up to 50 VLTs so charitable groups and organizations could receive a share of VLT revenue; and
- the outcome of VLT plebiscites in municipalities that hold them would be honoured.

Beginning in 1995, prior to government adopting the new VLT policies, the gaming authority at the time only allocated VLTs to eligible new retailers when an existing retailer closed business or otherwise had their VLTs removed. This continues to be the current practice.

By October 1995, there were more than 182 bars and lounges on the wait list for VLTs. Currently there are about 74 such premises on the wait list.

The policy to allow only one premises with VLTs in each single facility by December 31, 2000 has been deferred pending the completion of the Licensing Policy Review. There are currently 65 such facilities in the province with more than one premises with VLTs.

Since the policy was announced, slot machines were introduced to charitable casinos and charitable groups that hold casinos events obtain a share of the revenue from the slot machines.

The Lotteries Review Committee also recommended implementing changes to VLTs to slow down the speed of the games. In Commission field tests, slowing down speed of play did not appear to effect player behaviour. Players continued to play for the same amount of time and bet the same amount per play as before. However, since each game took longer to play, fewer games were played than before. The Alberta Alcohol and Drug Abuse Commission believes slowing down the games by several seconds per game may not accomplish the objective of reducing their attractiveness to the problem gambler. Instead, AADAC believes other responsible gaming features, such as forced interruption of play for a period of time, may be more effective.

Video Lottery Retailer Agreement

Terms and conditions for the operation of VLTs are contained in the Video Lottery Retailer Agreement between the VLT retailer and Commission and the Liquor Licensee Handbook. The terms and conditions relate to matters of gaming integrity, ownership of VLTs and the obligations and requirements of the VLT retailer in providing its services and space in their premises for the operation of VLTs.

The Legal Framework for Gaming

Criminal Code (Canada)

The *Criminal Code* sets the legal groundwork for all gaming activities in the country including VLTs.

Specifically, section 207(1)(a) allows a provincial government to conduct and manage a lottery scheme in accordance with any provincially enacted law. The *Gaming and Liquor Act* (Alberta) establishes the Commission as the gaming authority in this province.

Section 207(4)(c) prohibits anyone other than a provincial authority to operating gaming “through a computer, video device or slot machine, within the meaning of subsection 198(3).”

For further explanation of these and other *Criminal Code* requirements please refer to the separate section entitled “Legislative Requirements and Considerations.”

Gaming and Liquor Act (Alberta)

Section 46 of the provincial *Gaming and Liquor Act* requires anyone who supplies VLTs to the province must be registered with the Commission. As well, any VLTs used in the province must be approved in advance by the Commission. No one may operate a VLT unless both the person and the premises in which the VLTs are to be located are approved.

Various sections of the *Gaming and Liquor Act* were amended and passed in April 1999 (Bill 36, the Gaming and Liquor Amendment Act) to address the concern the Commission, based on a court decision, was unauthorized to follow or consider government policy regarding VLT plebiscite votes held in various municipalities across the province. The government indicated it would honour the wishes of communities that wished to remove VLTs, as expressed through VLT plebiscites.

The amended legislation authorizes the Commission’s Board to take and implement direction from the Minister of Gaming. (Recently, the Court of Queen’s Bench of Alberta granted an interim injunction prohibiting the Commission from disabling or removing VLTs pending the hearings of a constitutional challenge of the legislation. The Commission has complied with that order.)

Sections 46.1 and 46.2 of the *Gaming and Liquor Act* address the termination of VLT agreements with retailers and the removal of VLTs from the specific municipalities that voted by plebiscite in favour of their removal. The VLTs in the municipalities identified in section 46.2(1) have not been removed due to the matters before the courts.

Section 103 of the legislation allows an inspector who believes VLTs are being used unlawfully to seize them from a licensed premise and notify the person from whose premises they were removed as to the reasons for the removal and the person’s right of a hearing before the board on the matter.

Distinctions Between a VLT and a Slot Machine¹

¹ The *Criminal Code* (Canada) refers to electronic gaming devices as “slot machines” (sub-section 198(3)). Alberta’s *Gaming and Liquor Act* refers to electronic gaming devices as “video lottery terminals” (section 1 (1) (hh)).

Alberta's provincial policy distinguishes between video lottery terminals (VLTs) and other electronic gaming devices, including slot machines, that are operated in the province.

VLTs are permitted only in a Class A Minors Prohibited premises, within a limit of a maximum of 6,000 terminals in the province. Slot machines are found in casinos, racing entertainment centres and the major summer fairs and exhibitions that are authorized to operate slot machines.

VLT prizes are awarded in the form of credits, which the player redeems by presenting a paper cashout ticket generated by the terminal to the VLT retailer. Slot machines typically pay prizes in the form of coins dispensed in the tray of the machine. Larger slot prizes are paid to the player by cheque.

VLTs offer spinning reel, multi-line, card (black jack and poker) games and keno. Slot machines offer similar video games as well as video progressive games and mechanical spinning reel, multi-line and progressive games.

The division of net revenue (gross revenue less prizes) differs. VLT retailers receive a commission of 15% of VLT net revenue and 85% is placed in the Alberta Lottery Fund. The net revenue from slot machines is divided as follows: casino operators receive a 15% commission for the space and services provided, charities receive a 15% commission for the slot operation during their licensed casino event and 70% is placed in the Alberta Lottery Fund.

Table 14-2: Distinguishing Features of VLTs and Slot Machines

FEATURES	VLTs	SLOT MACHINES
Location	<ul style="list-style-type: none"> • Bars and lounges (Class A Minors Prohibited) • Number of VLTs in province is limited to a maximum of 6,000 	<ul style="list-style-type: none"> • Licensed casino facilities • Racing entertainment centres, under agreement with the Commission • Major summer fairs and exhibitions authorized by the Commission to have slot machines
Method of Awarding Prize	<ul style="list-style-type: none"> • Paper cashout ticket produced by the VLT for redemption 	<ul style="list-style-type: none"> • Coin dispensed by the hopper into the coin tray of the slot machine. Larger prizes are paid by cheque.
Division of Net Revenues	<ul style="list-style-type: none"> • 15% VLT retailer commission • 85% Alberta Lottery Fund 	<ul style="list-style-type: none"> • 15% to charities or First Nation bands who hold casino events • 15% to casino operator • 70% placed in Alberta Lottery Fund • (net revenue from Racing Entertainment Centre slot machines is divided as follows: racetrack operator 15%, and Alberta Lottery Fund 85%)
Games Offered	Video: <ul style="list-style-type: none"> • Spinning reel • Multi-lines • Card games (blackjack, poker) • Keno 	<ul style="list-style-type: none"> • Video spinning reel • Mechanical spinning reel • Video multi-lines • Mechanical multi-lines • Video card games (blackjack, poker) • Video keno • Progressive games
Minimum/Maximum Wagers	<ul style="list-style-type: none"> • 25 cent credits • Maximum bet \$2.50 	<ul style="list-style-type: none"> • From 5 cents to \$4.50 • Maximum wagers depend on game
Minimum/Maximum Prizes	<ul style="list-style-type: none"> • Average payout 92% • Maximum prize: 4,000 credits or \$1,000 	<ul style="list-style-type: none"> • Average payout 92% • Maximum top prizes: <ul style="list-style-type: none"> • depend upon game • some progressive game prizes have produced top prizes approaching \$725,000

D. VLT Plebiscites in Alberta

The Lotteries Review Committee made the following recommendation in its 1995 report *Future Directions for Lotteries and Gaming*:

Communities should be able to decide by plebiscite to prohibit VLTs in their community. Through the Municipal Government Act, people could petition their local council to hold a plebiscite on the issue. The Government of Alberta would honour the outcome of such a vote. If community members vote not to allow VLTs, they would not share in the revenue from VLTs. However, they would continue to share in all other lottery revenues.

The provincial government adopted the first part of this recommendation, to honour the outcome of municipal plebiscites on VLTs. However, the government indicated it would permit those communities that would vote against VLTs to continue to share in the revenues rather than exclude them, as was recommended. Thus qualified local charitable or non-profit groups in any municipality, regardless of whether a plebiscite vote was held, could continue to apply for and receive lottery funds for eligible charitable or non-profit initiatives.

Rules for Municipal Plebiscites

A municipality does not have jurisdiction over video lottery terminals (VLTs). The jurisdiction over VLTs, as with lotteries and gaming generally, rests entirely with the provincial government.

The Municipal Government Act sets forth the rules for conducting plebiscites by municipalities. A municipality can gather information (seek the views of its electorate) about an issue outside its mandate. In effect, the intent of the process of conducting a municipal plebiscite regarding VLTs would only be to gather information for the Alberta Gaming and Liquor Commission.

This has implications for the manner in which a VLT plebiscite should be held.

The Plebiscite Question

As the matter of VLTs falls outside the municipality's jurisdiction, the question in a municipal plebiscite should be carefully worded to ensure it is clear the plebiscite is only gathering information (the views of the electorate) and reporting this view to another level of government. That is, the question should not give electors the impression the municipality has any jurisdiction in the matter, but is only gathering information.

Two Ways to Initiate a Plebiscite

There are two possible ways to initiate a municipal plebiscite regarding VLTs: (1) by petition of electors or (2) by municipal council resolution to conduct a plebiscite.

Citizen Initiated VLT Plebiscite - Under the Municipal Government Act, electors in a municipality who make up 10% of its population could successfully petition the municipality to hold a plebiscite. The municipality would be obliged to conduct a plebiscite if the question dealt with a matter within its jurisdiction, in which case the municipality would also be obliged to carry out the wishes of electors following the vote.

However, as VLTs fall outside the municipality's jurisdiction, the question in the petition must be worded just as carefully as the plebiscite question. If council receives a valid and appropriately worded petition with the required support, municipal council must then decide whether or not to hold a plebiscite. If council decides against it, council could face other issues regarding the matter of respecting citizens' wishes.

Municipal Council Resolution to Conduct a VLT Plebiscite - A municipal council may initiate a VLT plebiscite through a resolution of council to do so, without a requirement for a prior petition of electors. A council may take this approach, for example, if it views the matter as being important enough to its citizens to warrant a plebiscite. The comments in regard to a *Citizen Initiated VLT Plebiscite* also would pertain to a council initiated VLT plebiscite.

After a VLT plebiscite is held, the municipal returning officer could simply provide the result directly to the provincial government, which would take whatever actions it deems appropriate. There are no further requirements of municipal council in the matter after the plebiscite is held.

VLT Plebiscites Held in Alberta

A number of communities in the province have held plebiscites on whether or not to retain VLTs in their respective communities. Those communities represent more than 75% of the province's total population. Most have voted to retain VLTs, although in some cases the margin of acceptance was narrow.

Following are highlights of the plebiscites starting with the first held in the spring of 1997.

Chronology

- *Town of Rocky Mountain House* - 34 VLTs were removed from six locations on April 7, 1997, following a plebiscite in which voters favoured their removal. The plebiscite was initiated by a petition of residents to town council.
- *Town of Sylvan Lake* - 26 VLTs were removed on October 4, 1997, following a plebiscite in which voters favoured their removal by a narrow majority of ten votes. The plebiscite was initiated by town council without a prior petition from eligible voters.

By the end of 1997 plebiscites were held in three other municipalities, as follows:

- *Town of Barrhead* - Residents voted to keep VLTs.

- *Regional Municipality of Wood Buffalo* - Residents voted to remove VLTs. The Oil Sands Hotel in Wood Buffalo challenged the municipality's authority in court to put the VLT plebiscite question to its citizens, arguing the matter was beyond its legal jurisdiction. The court upheld the municipality's authority to do so and the hotel operator appealed the decision to the province's appeal court, which upheld the lower court decision.
- *Town of Lacombe* - Residents voted to remove VLTs. There was a narrow majority of nine votes in favour of removing VLTs out of a total 1,845 votes cast. VLT retailers challenged the validity of its VLT plebiscite, contending that non-residents voted in it, contrary to plebiscite rules. The court upheld the view of the plaintiff and the vote was deemed invalid. In a second VLT plebiscite, held in conjunction with the general municipal election of October 1998, residents voted to remove the VLTs.

The Commission notified both Wood Buffalo and Lacombe it would not take any action to remove the VLTs pending the outcome of the legal matters regarding the VLT plebiscites in those communities. To date, VLTs remain in both communities due to other, ongoing legal challenges, as described below under "Resulting Legal Challenges."

Plebiscites Held on October 19, 1998

Thirty-six communities across Alberta, including Edmonton and Calgary, held VLT plebiscites in conjunction with the general municipal elections of October 19, 1998. Most of the information in the following table was provided by Municipal Affairs and indicates the unofficial results from each of the municipalities that held VLT plebiscites. In some cases unofficial results were obtained through media reports.

Chart 14-1: Unofficial Results of Municipal VLT Plebiscites held on October 19, 1998				
MUNICIPALITY	TOTAL	REMOVE	KEEP	RESULT
Cities				
City of Calgary	249,280	104,999	144,281	Keep
City of Camrose	4,393	2,002	2,391	Keep
City of Edmonton	162,413	80,964	81,449	Keep
City of Fort Saskatchewan	3,663	1,526	2,137	Keep
City of Leduc	4,540	1,827	2,713	Keep
City of Lethbridge	23,048	11,342	11,706	Keep
City of Medicine Hat	19,895	7,864	12,031	Keep
City of Red Deer	15,342	7,178	8,164	Keep
City of Spruce Grove	4,330	1,963	2,367	Keep
City of St. Albert	16,838	7,046	9,792	Keep
City of Wetaskiwin	3,193	1,377	1,816	Keep
Total Cities	506,935	228,088	278,847	
	100%	45%	55%	
Towns				
Town of Beaumont	1,865	727	1,138	Keep
Town of Black Diamond	586	178	408	Keep
Town of Bruderheim	292	106	186	Keep
Town of Canmore	2,513	1,389	1,124	Remove

MUNICIPALITY	TOTAL	REMOVE	KEEP	RESULT
Town of Cardston	1,305	1,219	86	Remove
Town of Coaldale	2,135	1,280	855	Remove
Town of Coalhurst	298	142	156	Keep
Town of Devon	1,441	548	893	Keep
Town of Didsbury	1,086	461	625	Keep
Town of Drayton Valley	1,694	773	921	Keep
Town of Edson	1,717	672	1,045	Keep
Town of Grande Cache	1,500	584	916	Keep
Town of High Level	543	276	267	Not Submitted
Town of Hinton	3,130	1,373	1,757	Keep
Town of Lacombe	2,279	1,147	1,132	Remove
Town of Olds	2,195	831	1,364	Keep
Town of Picture Butte	651	290	361	Keep
Town of Pincher Creek	1,218	475	743	Keep
Town of Ponoka	1,779	757	1,022	Keep
Town of Stony Plain	2,106	1,092	1,014	Remove
Total Towns	30,333	14,320	16,013	
	100%	47%	53%	
Other				
Village of Breton	177	80	97	Keep
County of Lethbridge No. 26	2,542	1,376	1,166	Remove
Jasper Improvement Dist.	1,121	537	584	Keep
Strathcona County	23,311	9,936	13,375	Keep
M.D. of Opportunity No. 17	934	610	324	Remove
Total Other	28,085	12,539	15,546	
	100%	45%	55%	
GRAND TOTALS	565,353	254,947	310,406	
	100%	45%	55%	

Prior to the plebiscites, groups that opposed VLTs publicly expressed concerns about their social costs, including the harm to problem gamblers and their families and friends. The hospitality industry based its information campaign on two major themes: the benefits derived from VLT revenue and the freedom of individuals to choose whether or not to play VLTs.

In total, 310,345 Albertans (55% of voters) voted not to remove VLTs, while 254,947 (45% of voters) voted to have them removed.

Twenty-eight communities voted to retain VLTs, some of them by narrow margins. In Edmonton, for example, the plebiscite was won by 485 votes, or 0.3% of the total vote. Seven municipalities voted to remove VLTs and one, Cardston, did not have VLTs in the community and thus voted to prevent them from being introduced. The Town of High Level did not forward to the Commission or provincial government the results of its VLT plebiscite, in which voters were asked whether VLTs should be removed from the province (rather than its own community).

Resulting Legal Challenges

Apart from the two municipalities from which VLTs have been removed, they remain in all other municipalities that voted by plebiscite to remove them. Although the Commission was prepared to remove all those other VLTs, and had intended to do so, VLT retailers launched legal challenges against their removal. The retailers argued the Commission did not have legislative authority to implement government policy in the matter.

Madam Justice Doreen Sulyma of the Court of Queen's Bench decided in March 1999 the Commission was unauthorized to follow or consider government policy regarding the 1998 VLT plebiscites, as the *Gaming and Liquor Act* indicated the Commission was independent and the provincial statute provided no authority for the Board to take direction from government.

In response, government introduced Bill 36, the *Gaming and Liquor Amendment Act*, in Spring 1999, which was passed in May 1999. The legislation authorizes the Commission's Board to take and implement policy direction from the Minister of Gaming and gives effect to the municipal plebiscites that seek to have VLTs removed from seven municipalities.

Madam Justice Smith of the Court of Queen's Bench of Alberta granted an interim injunction prohibiting the Commission from disabling or removing VLTs pending the hearings of a constitutional challenge of the newly-introduced legislation by affected hotel owners. The primary argument raised against the amendments is that by permitting local voters to ban VLTs, the provincial legislature has attempted to confer upon local majorities powers over criminal law, which may only be exercised by federal Parliament. The province's response is that the local option is motivated by regulatory concerns that properly consider local preferences and does not infringe upon Parliament's jurisdiction.

The matter is still before the courts.

E. Current Situation Assessment: Facts and Figures

General

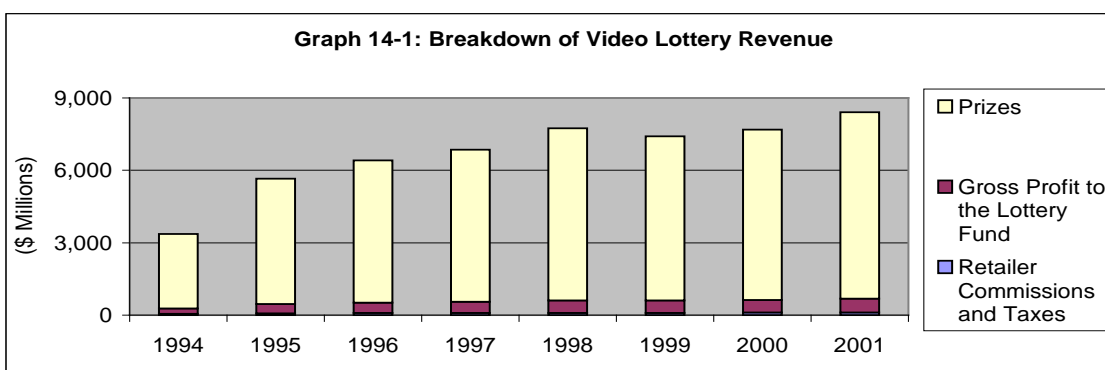
In 2000-01, video lotteries generated gross sales of \$8.4 billion. Prizes amounted to \$7.7 billion, or approximately 92% of gross sales. The Alberta Lottery Fund received \$575 million from video lotteries in 2000-01. Retailer commissions, taxes and payments to the federal government amounted to \$113 million.

Chart 14-2: Gaming Revenue from Video Lotteries

	1994	1995	1996	1997	1998	1999	2000	2001	Totals
	(\$000,000)	(\$000,000)	(\$000,000)	(\$000,000)	(\$000,000)	(\$000,000)	(\$000,000)	(\$000,000)	(\$000,000)
Revenue									
VLTs	3,363	5,663	6,413	6,863	7,738	7,403	7,684	8,405	53,532
Cost of Goods Sold (COGS)									
Prizes	3,094	5,210	5,900	6,314	7,119	6,797	7,057	7,717	49,208
Retailer Commissions & Taxes	47	76	87	94	101	98	102	113	718
Total COGS	3,141	5,286	5,987	6,408	7,220	6,895	7,159	7,830	49,926
Gross Profit	222	377	426	455	518	508	525	575	3,606
Net to Alberta Lottery Fund									
	222	377	426	455	518	508	525	575	3,606

Gaming Revenue from VLTs

VLTs have increased the total gaming market in the province, as reflected in the dramatic increase in overall gaming revenue since VLTs were introduced to the province in 1992.



Despite the success of VLTs in generating revenue they have also raised concerns about how readily accessible they are by citizens throughout the province.

Structure of Alberta's VLT Program

Since December, 1995, the number of VLTs in Alberta has been limited to a maximum of 6,000. Typically, eligible retailers on the VLT wait list may only obtain terminals when another licensee's business closes or its terminals are otherwise removed.

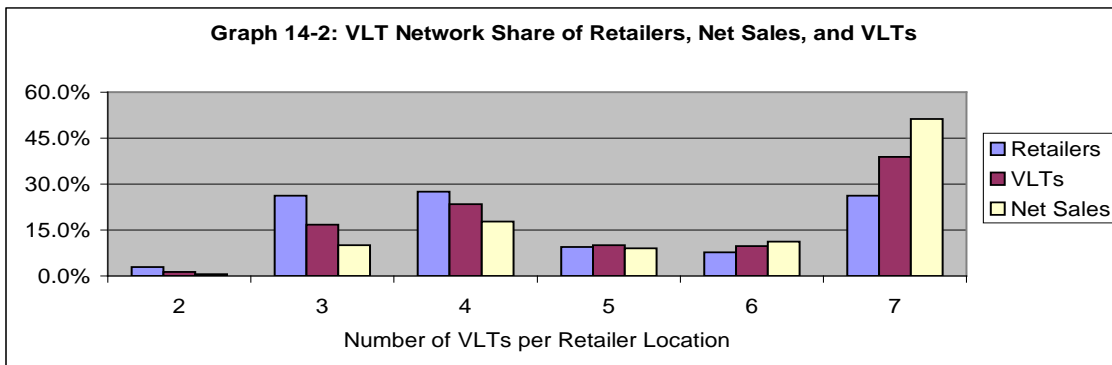
As of March 31, 2001, there were 1,266 premises across Alberta with two to seven VLTs. The following chart shows the distribution of VLTs according to number of VLTs per premises.

Chart 14-3: VLT Distribution in Alberta, as of March 31, 2001

Number of VLTs/Premise	2	3	4	5	6	7	Total
# Retailers	37	332	349	120	97	331	1266
(%TOTAL VLT Network)	2.9%	26.2%	27.6%	9.5%	7.7%	26.1%	100%
# VLTs	74	996	1396	600	582	2317	5965
(%TOTAL VLT Network)	1.2%	16.7%	23.4%	10.1%	9.8%	38.8%	100%
Net Sales (%TOTAL)	0.6%	10.1%	17.8%	9.1%	11.2%	51.2%	100%

Relationship Between Number of VLTs and Revenue Generated

Retailers with seven VLTs in their premises (26.1%) account for more than half of all VLT sales (51.2%) and 38.8% of all VLTs in the network. A retailer with more VLTs per room typically generates more revenue per terminal, up to two times more, than a retailer with fewer VLTs.



The reverse is the case with retailers that have fewer VLTs. Retailers with less than five VLTs in their premises (56.7%) have a larger proportion of total VLTs in the network (40.9%) than the proportion of total net sales (28.5%) generated by those VLTs. Retailers with less than five VLTs appear to have more than their "fair share" of VLTs for the sales that they generate.

Retailers with five VLTs (9.5%) account for the roughly the same proportion of total VLTs in the network (10.1%) and generate a comparable proportion of total net sales (9.1%). On balance, this group of retailers appears to have the most appropriate number of terminals allocated to them for the net sales that they generate.

Bars and Lounges that Operate VLTs

About 72% of all bars and lounges in Alberta operated VLTs as of March 31, 2001, as compared to 66% that operated them in 1995.

The number of VLT retailers in the province has grown at a higher rate than the total number of bars and lounges in the province. On March 31, 1995, there were 1,079 VLT retailers in the province. As of March 31, 2001, there were 1,266 VLT retailers, an increase of 17% in the number of venues. Meanwhile, the growth in the number of bars and lounges over this same period grew by a smaller rate of 7%.

The majority of VLTs are in urban locations (63%) and the others in rural ones (37%). Urban locations include Calgary, Edmonton, Grande Prairie, Lethbridge, Medicine Hat, Red Deer, Sherwood Park and St. Albert. Urban locations account for 66% of net sales.

VLTs in Venues other than Hotels

In the early years of the VLT program, most terminals were installed in hotel bars and lounges whose licensees adopted the terminals as an opportunity to generate revenue and expand services. Based on the success they experienced, more bars and lounges in other locations began applying for and receiving VLTs.

As a result, from 1994 to 2001, the net sales from VLTs in hotel licensed premises grew from \$194.2 million to \$309.1 million, an increase of 59.2%. In the same period, net sales from VLTs in locations other than hotels grew from \$74.8 million to \$375.1 million, an increase of 401.5%.

Forty-five percent of VLTs were in licensed premises located within hotels and 55% in other licensed premises in 2000-01. In 1994-95 the figures were reversed: 54% of VLTs were in hotel licensed premises and 46% in other locations.

VLT Wait List

A number of bars and lounges without VLTs have been placed on the Commission's wait list to obtain VLTs. As VLTs become available, those on the wait list receive them on a first-come first-serve basis. Typically, terminals become available when a licensee's premises with VLTs closes or when the terminals are otherwise removed.

As of March 31, 2001, there were 72 eligible licensees on the wait list, qualifying for 224 VLTs. New VLT retailers are eligible for two to four VLTs at the time of installation, depending on the "critical success factors" of the location: seating capacity, population of the community and hours of operation. The principle being applied is that a licensee would not receive the maximum number of VLTs, which is seven, at the initial installation. The intent is to implement a performance monitoring policy that would allow for add-ons beyond four VLTs, a policy that has never been formally approved or implemented.

The demand for VLTs also continues among groups that currently are ineligible for VLTs, for example, operators of bingo halls and service clubs.

Single Facilities with “Multiple” Licences

As discussed earlier, in December, 1995, the government adopted a policy recommendation of the Lotteries Review Committee to allow only one licensed premises with VLTs in single facilities, such as hotels. The government indicated it would fully implement the policy in five years, by December 31, 2000, to allow for the phasing out of multiple licensed premises with VLTs in single facilities.

The final implementation of the policy has been deferred pending the completion of the Gaming Licensing Policy Review.

The definition of a facility that is being applied to new and existing retailers, to meet the criteria of this policy, is as follows:

... a continuous physical structure with a common roof that has the same civic or commercial business unit address. Exceptions are: 1) recognized enclosed shopping malls 2) strip shopping centres and 3) office buildings. Applicants whose location qualifies as an exception to the definition of a facility must meet the following conditions to be eligible for a VLT agreement:

- (i) no overlap in directors, shareholders or management can exist with other business entities in the facility and
- (ii) businesses within the facility must operate on a competitive basis.

In the five year period, the number of single facilities with two or more bars and lounges with VLTs has decreased by 36%, to 65 from 101. The corresponding number of VLTs decreased by 40%, to 907 from 1,515 VLTs over the same period. Of the 65 multiple licence facilities as of March 31, 2001, 29 were in the greater Edmonton or Calgary areas, 12 were in other major rural cities and 24 were in smaller centres.

Hotels currently account for more than 86% of the multiple licence facilities.

The following chart shows the distribution of VLTs in single facilities according to number of licensed premises (or rooms) per facility with VLTs.

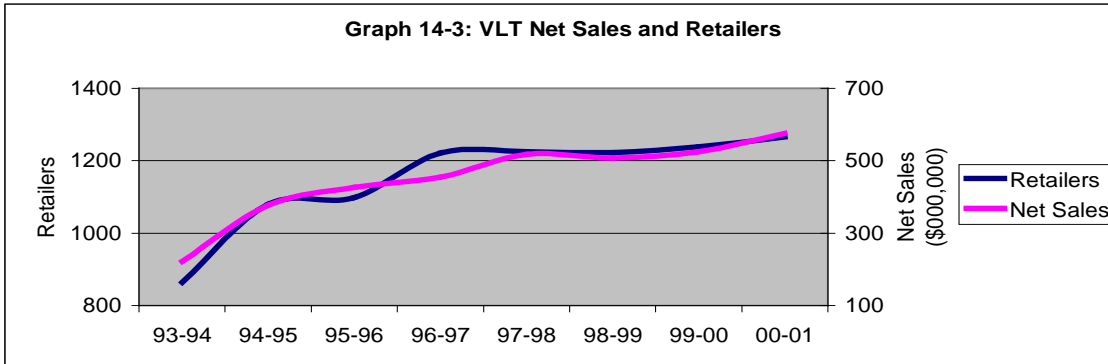
Chart 14-4: Distribution of VLTs in Multiple Licensed Facilities as of March 31, 2001

# Rooms/Facility	2	3	4	Total
# Facilities	50	12	3	65
# Agreements	100	36	12	148
# VLTs	596	238	73	907
Avg. # VLTs/Room	5.96	6.61	6.08	6.13
% TOTAL VLTs	66%	26%	8%	100%

In 2000-2001, multiple licence facilities accounted for 15.2% of terminals and 18.4% of total sales.

Revenue Figures

The graph that follows shows the growth in VLT net sales from 1994 to 2000. The revenue levels peaked in 1998, declined the following year and increased marginally in 2000. The number of VLT retailers increased from 1994 to 1997 and has been relatively stable since then.



Market Potential in Alberta

Player Demand

The market potential in Alberta for VLT play in the future is uncertain. It may be expected, as the provincial population increases and disposable income remains high, VLT play will increase.

In its current three-year business plan, Alberta Gaming estimates net income from VLTs will be \$563 million (forecast) in 2003-04 compared to \$547 million (budget) in 2001-02, a projected increase of 2.9% over the three-year period.

Demand for VLTs by Licensees and Others

Despite the uncertainty about the future market potential there clearly exists a demand by bars and lounges to provide VLT gaming to customers.

For example, as stated previously, there are 72 eligible licensees on the wait list for VLTs who would qualify for 224 terminals.

VLTs are viewed by potential retailers, such as those on the wait list, as an entertainment option for customers as well as a source of revenue. Since 72% of bars and lounges have VLTs, those that do not have them may view the playing field is not level for them.

Interest in operating VLTs has also been expressed by service clubs, bingo halls and other non-Class A Minors Prohibited locations, such as Legions.

F. Landscape of Other Provinces

General Comments

Based on general observations, there appears to be three common themes regarding VLTs across Canadian jurisdictions. They are that VLTs:

- (a) Generate significant levels of revenue - It has been the success of video lottery play to generate revenue that has raised issues about this form of gaming.
- (b) Are readily accessible by players in provinces with VLT programs (all are wide networks with VLTs in locations that prohibit minors) - An issue is the accessibility of residents to VLTs. All other provinces with VLT programs have more VLT locations per capita than Alberta and all except Quebec have more VLTs per capita.
- (c) Based in large part on their accessibility, are felt to pose greater risks for problem gambling than other gaming activities - The concerns raised in this regard are reflected in the following responses taken by provinces:
 - Atlantic provinces that permitted VLTs in premises open to the general public, including minors, have since restricted their accessibility;
 - jurisdictions such as Alberta and Manitoba have allowed communities to express their wishes about removing VLTs through municipal plebiscites;
 - Nova Scotia has halted expansion of VLTs and will be introducing new responsible gaming features on their VLTs over the next two to three years;
 - B.C. and Ontario, which at one time were prepared to introduce VLT programs, have decided against it; and
 - New Brunswick held a binding province-wide referendum on VLTs on May 14, 2001 (a slim majority of 52.9% voted to retain VLTs).

In addition, some stakeholders feel the introduction of VLTs have been responsible, at least in part, for the decline in attendance of other traditional gaming activities such as bingo and horse race wagering. It appears that jurisdictions other than Alberta have experienced similar declines, even in locations without VLTs, for example, British Columbia. Many jurisdictions throughout North America are experiencing declines in the overall racing handles and purses.

Table 14-3: Landscape of Video Lotteries in Other Provinces – at March 31, 2000

JURISDICTION	NUMBER OF VLTS / SITES	DIVISION OF REVENUE	COMMENTS
British Columbia	VLTS are prohibited.	N/A	N/A
<p>Alberta</p> <p><u>Conducted & Managed by:</u> Alberta Gaming and Liquor Commission.</p> <p><u>Regulated by:</u> Same.</p>	<p><u>5,959 VLTS</u></p> <p><u>1,238 sites</u></p> <p>Maximum 7 VLTS per site agreement; new locations maximum 4 VLTS.</p> <p>Age restricted, liquor licensed premises (Class A Minors Prohibited).</p>	<p>85% Alberta Lottery Fund 15% Siteholder</p>	<p><u>Minimum age:</u> 18</p> <p><u>Provincial maximum limit:</u> 6,000 VLTS</p> <p><u>1999-2000 Revenue</u> \$525.4 million</p>
<p>Saskatchewan</p> <p><u>Conducted & Managed by:</u> Saskatchewan Liquor and Gaming Authority.</p> <p><u>Regulated & by:</u> Same.</p>	<p><u>3,706 VLTS</u> 3,570 at retail sites 136 exhibition casinos</p> <p><u>643 Locations</u> 641 retail sites 2 exhibition casinos</p> <p>12 VLT maximum per retail site.</p> <p>Age restricted, liquor licensed sites.</p>	<p><u>VLT Retailer</u> 85% SK Gen. Revenue 15% siteholder</p> <p><u>Exhibition Casinos</u> 85% SK Gen. Revenue 15% Exhibition Association</p>	<p><u>Minimum age:</u> 19</p> <p>VLTS must not be visible to minors.</p> <p><u>Provincial cap:</u> 3,600 VLTS</p> <p>Approximate total of 24 VLTS are installed at 2 racetracks for racing season only.</p> <p><u>1999-2000 Net Revenue</u> \$214 million.</p>
<p>Manitoba</p> <p><u>Conducted & Managed by:</u> Manitoba Lottery Corporation.</p> <p><u>Regulated by:</u> Manitoba Gaming Control Commission.</p> <p>First Nations may establish a First Nations Gaming Commission to regulate charitable activity on reserves. MGCC Native Gaming Department negotiates these agreements, in addition to First Nations VLT siteholder agreements.</p>	<p><u>5,261 VLTS</u> 4,482 Off-reserve 639 First Nations reserves 140* Racetrack</p> <p><u>566 Locations</u> 543 Off-reserve 22 First Nations 1 Racetrack</p> <p>Maximum 10 VLTS per license; 3 license maximum per location.</p> <p>Liquor-licensed sites.</p>	<p><u>Off-reserve sites</u> 20% Siteholder 80% MLC</p> <p><u>First Nations reserve sites</u> 90% First Nations 10% MLC</p> <p><u>Racetrack</u> 75% Jockey Club 25% MLC</p>	<p><u>Minimum age:</u> 18</p> <p><u>Provincial cap:</u> 4,482 in off-reserve sites.</p> <p>Electronic pari-mutuel combination games.</p> <p>Sites include Legions.</p> <p>VLTS must not be visible to minors.</p> <p><u>1999-2000 Net Revenue</u> \$ 137.4 million.</p>
Ontario	VLTS prohibited.	N/A	N/A

JURISDICTION	NUMBER OF VLTS / SITES	DIVISION OF REVENUE	COMMENTS
<p>Quebec</p> <p><u>Conducted & Managed by:</u> Loto-Quebec.</p> <p><u>Regulated by:</u> RACJ (R'egie de alcoos, des courses et des jeux).</p>	<p><u>4,141 Locations</u> 4,137 retail sites 4 racetracks</p> <p><u>15,221 VLTS</u> 14,791 retail 430 racetracks</p> <p>No specified VLT maximum per site.</p> <p>Liquor-licensed sites.</p>	<p>26% Siteholder* 74% Loto-Quebec</p> <p>*Based on statement of \$278.5 total commission to retailers from \$928.4 million revenue.</p>	<p><u>Minimum age:</u> 18</p> <p>Plans to commence terminal replacement this fiscal.</p> <p><u>Provincial cap:</u> none specified.</p> <p><u>1999-2000 Revenue</u> \$928.4 million</p>
<p>Nova Scotia</p> <p><u>Conducted & Managed by:</u> Nova Scotia Gaming Corporation.</p> <p><u>Operated by:</u> Atlantic Lottery Corporation</p> <p><u>Regulated by:</u> Nova Scotia Alcohol and Gaming Authority</p>	<p><u>569 Locations</u> 539 ALC 30 First Nations</p> <p><u>Premises:</u> age restricted, liquor licensed.</p> <p><u>3,633 VLTS</u> 3,234 ALC 648 First Nations</p> <p>Maximum 5 VLTS per licensed site.</p> <p>Liquor-licensed sites.</p>	<p>25% siteholder 75% government</p> <p><u>First Nations</u> Pay NSAGA \$56 per week per terminal and retain the proceeds.</p>	<p><u>Minimum age:</u> 19</p> <p><u>Provincial cap:</u> 3,234 (excludes First Nations)</p> <p>March 1999 – a new agreement reduced retailer commission from 30%.</p> <p><u>1999-2000 Net Sales</u> \$138.2.0 million</p> <p>First Nations sites administered by the Office of Aboriginal Affairs</p>
<p>New Brunswick</p> <p><u>Conducted & Managed by:</u> Atlantic Lottery Corporation on behalf of Government of NB (a shareholder in the ALC).</p> <p><u>Regulated by:</u> Lotteries Commission of NB</p>	<p><u>777 Sites</u> 771 off reserve 6 First Nations</p> <p><u>2,843 VLTS</u></p> <p>Maximum 5 VLTS per licensed site.</p> <p>Liquor-licensed sites.</p>	<p><u>ALC Sites</u> 24% VLT Owner 22% Siteholder 54% Government</p> <p><u>First Nations</u> Not available.</p>	<p><u>Minimum age:</u> 19</p> <p><u>Provincial cap:</u> Unconfirmed</p> <p>New Brunswick Coin Machine Operators own VLTS; agreement in place until 2002.</p> <p><u>1999-2000 Net Sales</u> \$108.8 million</p>
<p>Newfoundland & Lab</p> <p><u>Conducted & Managed by:</u> Atlantic Lottery Corporation on behalf of Government of NFLD (a shareholder in the ALC).</p> <p><u>Regulated by:</u> Unconfirmed.</p>	<p><u>541 Sites</u></p> <p><u>2,250 VLTS</u></p> <p>Maximum 5 VLTS per licensed site.</p> <p>Liquor-licensed sites.</p>	<p><u>Under \$400k</u> 24.75% Siteholder 75.25% Government</p> <p><u>Over \$400k</u> 19.8% Siteholder 80.2% Government</p>	<p><u>Minimum age:</u> 19</p> <p><u>Provincial cap:</u> Unconfirmed</p> <p><u>1999-2000 Net Sales</u> \$92.3 million</p>

JURISDICTION	NUMBER OF VLTs / SITES	DIVISION OF REVENUE	COMMENTS
Prince Edward Island <u>Conducted & Managed by:</u> Atlantic Lottery Corporation on behalf of Government of PEI (a shareholder in the ALC). <u>Regulated by:</u> Unconfirmed.	<u>95 Sites</u> <u>423 VLTs</u> Maximum 5 VLTs per licensed site. Liquor-licensed sites.	20% Siteholder 20% VLT Owner 60% Government	<u>Minimum age:</u> 19 <u>Provincial cap:</u> Unconfirmed <u>1999-2000 Net Sales</u> \$13.2 million VLTs owned by members of PEI Coin Machine Operators Association.
Yukon	No VLTs.	N/A	N/A
Northwest Territories	No VLTs.	N/A	N/A
Nunavut	No VLTs.	N/A	N/A

How Alberta Ranks Among Canadian Provinces

Number of VLTs Per Capita and Net Revenues

Alberta has fewer VLTs per capita (including those 18 years of age or older) than all provinces with VLT programs except for Quebec, as shown in the following table.

Chart 14-5: Comparison of Provincial VLT Distribution Densities at March 31, 2000

Province ¹	18+ ² Population ³	VLTs	Sites	VLTs/1000 Adults	Rank	Sites/1000 Adults	Rank
New Brunswick	586,005	2,843	777	4.85	5	1.33	1
Newfoundland	419,031	2,250	541	5.37	2	1.29	2
Prince Edward Island	103,853	423	95	4.07	6	0.91	3
Saskatchewan	754,016	3,706	643	4.92	4	0.85	4
Nova Scotia	727,126	3,633	569	5.00	3	0.78	5
Quebec	5,727,157	15,221	4141	2.66	8	0.72	6
Manitoba	853,121	5,261	566	6.17	1	0.66	7
Alberta	2,200,347	5,959	1238	2.71	7	0.56	8
British Columbia	3,118,909	-	-	0.00	9	0.00	9
Northwest Territories	28,321	-	-	0.00	9	0.00	9
Nunavut	15,320	-	-	0.00	9	0.00	9
Ontario	8,789,409	-	-	0.00	9	0.00	9
Yukon	22,432	-	-	0.00	9	0.00	9

¹B.C., Ontario, Yukon Territory, Nunavut and Northwest Territories do not have VLT programs.

²VLT play is restricted to those of legal age, which is 18 years in Alberta, Manitoba and Quebec, and 19 years in the other provinces. The table uses the 18 and over population for comparisons. Were the legal ages used for all provinces, the variances in the per capita figures would differ only marginally.

³Statistics Canada, Intercensal Population Estimates, July 1, 1999

According to 1997 figures, Alberta generates a higher rate of return per VLT than any other Canadian (and possibly North American) jurisdiction that has a VLT program. This higher rate of return very well could be the result of Alberta having the second lowest number of VLTs per capita among provinces with VLT programs as well as the lowest number of venues per capita, as shown in the two tables which follow. That is, the province's cost of operation is comparatively lower

while the amount of play per terminal, and thus the resulting net revenue, is higher. There are other factors to be considered, such as demographics and relative levels of disposable income and consumer expenditures.

VLT Venues Per Capita

Alberta has the lowest number of VLT venues on a per capita basis (those 18 years of age or older) when compared to other Canadian jurisdictions with VLT programs.

Chart 14-6: Comparison of Provincial VLT Distribution Densities at March 31, 2000

Province ¹	18+ ² Population ³	VLTs	Net Revenue	Weekly Net Revenue/ VLT	Rank	Net Revenue/ Adult	Rank
Saskatchewan	754,016	3,706	\$ 214.0	\$ 1,110	3	\$ 284	1
Alberta	2,200,347	5,959	\$ 525.4	\$ 1,696	1	\$ 239	2
Newfoundland	419,031	2,250	\$ 92.3	\$ 789	4	\$ 220	3
Nova Scotia	727,126	3,633	\$ 138.2	\$ 732	6	\$ 190	4
New Brunswick	586,005	2,843	\$ 108.8	\$ 736	5	\$ 186	5
Quebec	5,727,157	15,221	\$ 928.4	\$ 1,173	2	\$ 162	6
Manitoba	853,121	5,261	\$ 137.4	\$ 502	8	\$ 161	7
Prince Edward Island	103,853	423	\$ 13.2	\$ 600	7	\$ 127	8
British Columbia	3,118,909	-	\$ -	\$ -	9	\$ -	9
Northwest Territories	28,321	-	\$ -	\$ -	9	\$ -	9
Nunavut	15,320	-	\$ -	\$ -	9	\$ -	9
Ontario	8,789,409	-	\$ -	\$ -	9	\$ -	9
Yukon	22,432	-	\$ -	\$ -	9	\$ -	9

¹B.C., Ontario, Yukon Territory, Nunavut and Northwest Territories do not have VLT programs.

²VLT play is restricted to those of legal age, which is 18 years in Alberta, Manitoba and Quebec, and 19 years in the other provinces. The table uses the 18 and over population for comparisons. Were the legal ages used for all provinces, the variances in the per capita figures would differ only marginally.

³Statistics Canada, Intercensal Population Estimates, July 1, 1999

Payout Percentages

Pay out from VLTs is calculated as total winnings divided by total wagers and is expressed as a percentage.

Payout percentages across Canadian jurisdictions range from 90% to 95%.

The VLTs in a few provinces are regulated to pay out at minimum levels below 90% (for example, New Brunswick regulations stipulate a payout range from 80% to 90%, PEI from 80% to 93%, Nova Scotia a minimum of 80% and Newfoundland from 80% to 96%). Nevertheless, the pay out for most VLT games in those provinces fall within the 90% to 95% range.

In Alberta, the average payout percentage from the video lottery network play is 92%.

As a side note, operators of illegal “grey” machines seized in Alberta in 1998 could alter at will the percentage payout. Those machines provided main game payout percentages ranging from 54% to 78%.

G. Summary of Findings – Public Views and Stakeholder Consultations

The Gaming Licensing Policy Review process included obtaining the views and perspectives of the Alberta public, both players and non-players, and stakeholders. This summary of findings is a snapshot of those views and perspectives with an emphasis on VLT gaming.

The review process also included a review of gaming-related literature gathered from jurisdictions around the world. A few key sources are described here.

The findings are divided as follows:

- *Public* - The views and attitudes of adult Albertans about gaming activities in the province.
- *Stakeholders* - The views and perspectives of stakeholders. Stakeholders are either directly involved in the gaming industry, or indirectly involved through the services they provide or through some related experience or interest. Most stakeholders have knowledge of at least some of the gaming licensing policies currently in effect. Others will be fully aware of those licensing policies, in particular as they may apply to the gaming activity with which they are directly involved.
- *Landscape*- The perspectives in a number of other jurisdictions, in particular other Canadian provinces.

Public

Prior to the Gaming Licensing Policy Review

The views of adult Albertans regarding gaming in general and VLTs were expressed in three key events prior to the Gaming Licensing Policy Review.

In 1995, the Lotteries Review Committee consulted with Albertans about future directions for lotteries and gaming. In its report, issued in August 1995, the committee noted it was time to ask questions about how lottery funds should be used, how to improve accountability and the impact of VLTs on communities. The committee's recommendations for VLTs have formed the basis of current VLT policy in the province.

The second event was the Lotteries and Gaming Summit in April 1998. Although VLTs were discussed at sessions held during the summit, the recommendations that followed were general ones that applied to all gaming activities. One of them was the principles for gaming need to be updated, upgraded, accepted and adhered to as firm government policy. Others related to research, funding of problem gambling prevention and treatment, the use of proceeds from gaming activities and keeping Albertans better informed of the benefits and costs of gaming activity in the province.

The third event revolved around the municipal elections held throughout Alberta in October 1998. Municipalities comprising about 75% of the province's population included a plebiscite on VLTs during the municipal elections. In those plebiscites, most residents voted to retain VLTs, though in

some cases by narrow margins. In those communities that voted to remove them, VLT retailers have prevented their removal by launching legal challenges.

During the Review

In May 2000, during the licensing policy review, the views and perspectives of adult Albertans were sought through public opinion research.

The research shows most Albertans view VLT gaming as one of the harder forms of gambling. They believe it has the greatest potential to create the most harm for players. At the same time more than half of Albertans believe it is up to each individual to control his or her own gambling.

Many Albertans feel VLTs are too accessible in bars and lounges throughout the province. While about half of adult Albertans would like to see VLT availability remain the same, only slightly fewer want them to be less available. The views of Albertans were more evenly split for the accessibility of VLTs than for any other gaming activity, in which views were more definitive in one way or the other.

Many Albertans expressed the view the most desirable location for VLTs are in dedicated gaming facilities, such as local casinos, a resort casino, or location dedicated to VLTs. A high percentage also felt a gaming room in a hotel would be a desirable location.

Most Albertans who play VLTs (about 14% of those surveyed did so in the previous 12 months) prefer to play them in bars and lounges, although many also would play them in locations dedicated to VLTs or gaming. The preference on whether to play in such locations or bars or lounges appears to make little difference to players of VLTs.

Based on the survey, the average VLT players spent about 45 consecutive minutes during a single play and spent about \$37. Such players would spend about \$109 per month in VLT gaming.

More than 80% of those who play VLTs indicated the introduction of VLTs has had no effect on their spending in other gaming activities, such as casino games, bingo, break opens or pull tickets, horse racing or ticket lotteries. A smaller percentage, anywhere from 8.5% to 11%, indicated a decrease in the amount they spend in those other gaming activities with the introduction of VLTs.

As with most stakeholders, the feeling among more than half of Albertans is there is a lack of information about what happens with the proceeds or revenue from gaming activities.

Among those with no recollection about ever hearing where the money goes, about half believe that most gaming proceeds go to government. When asked where the proceeds should go, the more popular responses of Albertans were, in order, to charities, health care, education and schools, community organizations and sports and recreation. About 4% said the proceeds should go toward addressing gambling addictions.

One of the more popular sources of information about gaming and VLTs is newspapers.

Stakeholders

Many of the stakeholders have some knowledge or experience with gaming licensing policies. A number of stakeholders—such as municipalities, police services, service agencies and advocacy groups—had not been consulted regularly in the past about gaming licensing policies and appreciated the opportunity to comment.

As expected, the views about VLTs and licensing policies vary based on the stakeholder's specific interests or perspectives.

Industry Stakeholders

Many industry stakeholders hold the integrity of all gaming activities to be important to the industry and believe the Commission is doing well in regulating gaming activities including VLTs. Some stakeholders expressed the view maintaining gaming integrity is an ongoing challenge given the size of the gaming industry and its growth over the past years.

A common issue among many stakeholders, those directly involved with VLTs as well as others in the gaming industry, is relatively little information is provided about the use of proceeds from gaming activities. Some stakeholders are concerned many communities view VLTs as a drain on the local economy despite the fact benefits are being derived from VLT revenue in communities across the province for charitable, non-profit and public initiatives. A number believe the subject of VLT gaming is being shaped by negative stories in the news media.

They believe more needs to be done in this regard, in particular in informing Albertans about the Alberta Lottery Fund. All of the government's share of gaming revenue, including VLT revenue and revenue from ticket lotteries and slot machines, is placed in the lottery fund.

A view expressed among some industry stakeholders is better information on the social costs and benefits would help bring clearer perspective to the impacts of gaming. A relatively small number of gaming stakeholders were aware the Alberta Gaming Research Institute was established to conduct research into gaming. The institute, a consortia of three major universities in the province, was formed in agreement with the Government of Alberta to conduct research into the social and economic costs and benefits of gaming, among other topics.

Most stakeholders expressed the view VLTs should be less accessible in the province due to perceptions of their potential harmful effects. This view is shared by the Alberta Hotel and Lodging Association, which represents a number of member hotels who are VLT retailers. For that purpose, it had earlier proposed "hotel games rooms" that would offer slot machines in dedicated gaming venues in hotels. A number of stakeholders responded positively to having VLTs in fewer locations, in response to their concerns and those of the public about the accessibility of VLTs.

Stakeholder organizations whose members include VLT retailers are concerned any major changes to VLT policies or a restructuring of the VLT network across the province could have serious financial implications for retailers who now rely upon VLT revenue in operating their bars or lounges.

Other industry stakeholders said more consistency is needed in VLT gaming policies. They cited as questionable the "multiple room policy" and the policy which reduced the maximum number of VLTs per retailer location from seven to four for new retailers. Another issue is the perceived inequity in the VLT distribution policies and the inability of the Commission to address issues that

arise. For example, a location with only three VLTs may experience heavier customer demand to play VLTs than one with seven VLTs.

A member of one industry organization said delays in arriving at a final decision on the multiple room policy affects the expansion plans of hotels.

Some stakeholders involved in other more traditional gaming activities, specifically bingo and horse racing, believe VLT gaming has caused a decline in spending and attendance regarding their respective activities. Stakeholders in those industries perceive that the Commission needs to pay more attention to their respective gaming activities and in how to help them respond to declining attendance.

Municipalities and Police Services

A representative of a municipal association believes VLTs are important to many rural communities due to the value of VLTs from the revenue they bring to rural hotels.

Municipalities believe more can be done to better inform Albertans about how gaming revenues are used, where the money goes and how addictions are being addressed. This view was expressed by numerous other stakeholders.

One municipal representative said VLTs are too accessible and it should take some effort for a person to play VLTs. It was also felt it is a person's own choice as to whether they wish to participate in gaming activities.

Another municipal representative said VLTs belong in casinos rather than bars and lounges. The representative believes there are heavy social costs associated generally with gaming and concentrating VLTs in fewer locations could address some of the issues.

Police services, both RCMP and local police services, expressed a common view that information is needed on the social and economic costs and benefits of gaming, something that appears to be lacking. Such information would help determine the level of priority needed to address issues.

A common view among police services is addressing gambling crimes has not been a priority for them. They would welcome additional financial resources to focus on gambling, particularly since the gaming industry has grown substantially over the years and enforcement issues could become more significant in the future. They believe the Commission has done a good job in regulating the industry.

Service Agencies and Advocacy Foundation

A public policy advocacy group expressed the view the Commission could do a better job in balancing special and public interests and facing issues in that regard with respect to its role in regulating gaming activities while also generating revenue from them.

A compulsive gambling organization believes VLTs should be in casinos rather than in the more accessible locations such as bars and lounges. The organization feels more needs to be done to explain potential problems with gambling and that it can be harmful to people. It also expressed the view that it is too easy for players to obtain money from a cash machine next to VLTs. The government, it believes, should promote responsibility and that includes taking care of those who are "victimized" by gambling.

A problem gambling service agency said a general issue which requires addressing is the availability of gaming. That is, increasing access to more different locations to gamble is more harmful than concentrating gaming activities in fewer venues. The agency believes that more money should be spent educating and informing people about where they can go for help. The agency is concerned about any policy developments which may entice younger people to gamble.

Landscape

International reports are useful in comparing developments and policies between jurisdictions. The caution is the experiences and developments elsewhere do not always readily apply to those in the province or Canada.

Some jurisdictions, such as those within Australia, have conducted extensive reviews of their gaming industries. For example, in addressing the social impacts of gambling as it applies to its own national situation, a key finding in one Australian report is:

On balance, venue caps can play a role in moderating the accessibility drivers of problem gambling from gaming machines - and are preferable to global caps for this purpose. But more targeted mechanism for harm minimisation would involve less collateral disadvantage to recreational gamblers and would be more effective in reducing social costs. (*Inquiry into Australia's Gambling Industries*, Final Report, released 16 December 1999)

A study was conducted on the impact of gambling in the United States by a commission appointed by the federal government. The study took two years and concluded in June 1999. The final report contained numerous recommendations related specifically to the American situation. One of them related to what is referred to as convenience gambling, as follows:

The Commission received testimony that convenience gambling, such as electronic devices in neighborhood outlets, provides fewer economic benefits and creates potentially greater social costs by making gambling more available and accessible. Therefore, the Commission recommends that states should not authorize any further convenience gambling operations and should cease and roll back existing operations. (*National Gambling Impact Study Commission Report*, June 1999).

H. Primary Issues and Recommendations

Assessing Proposed VLT Policy Recommendations

The process for arriving at recommended VLT licensing policies was comprehensive, involving a number of steps.

The first step was to arrive at an initial assessment of current VLT licensing policies within the gaming licensing policy framework. Are VLT licensing policies clear, comprehensive and up to date?

The next step was to obtain the perspectives of stakeholders about VLT licensing policies and gaming in Alberta generally. Information was also gathered about VLT activities occurring in other jurisdictions to compare developments and experiences.

That step was followed by a careful review of stakeholder perspectives, findings from other jurisdictions and assessing options to address issues related to VLT gaming in Alberta over the next five years.

As policy strategies took shape, the following question was asked: How well does a proposed policy strategy measure up to the key elements of the province's licensing policy framework? For example, the questions asked included:

- Does a proposed VLT licensing policy strategy meet the requirements of the *Criminal Code* (Canada), the *Gaming and Liquor Act* (Alberta) and *Gaming and Liquor Regulation* (Alberta)?
- Is it consistent with government's broad policies for gaming and for VLT gaming?
- Does it fit within the objectives and goals of the Ministry's three-year business plan?

Only policy strategies that met the key elements of the policy framework would be considered further. Recommendations were developed accordingly.

Primary Issues and Recommendations

The Gaming Licensing Policy Review, in consultation with stakeholders, identified a number of primary issues regarding VLT policy. These issues have been categorized in the topics that follow and addressed through the respective recommendations.

A. PUBLIC INTEREST, SOCIAL RESPONSIBILITY

Albertans expect the government to manage and control gaming activities in a socially responsible manner.

POLICY POSITION:

1. Manage VLT gaming activities in a socially responsible manner.

The Commission works closely with the Alberta Alcohol and Drug Abuse Commission (AADAC) in its problem gambling initiatives. For example, the Commission has cooperated with AADAC in developing problem gambling awareness training for staff at VLT retailer locations. By policy, the Commission requires VLT retailers post or make available information about problem gambling programs to their customers. That includes a toll-free number people may call to access the services of AADAC.

A few general recommendations have been made in the area of social responsibility that apply to VLT gaming. They include incorporating responsible gaming features in new or replaced VLTs, controlling access to automatic teller machines and compulsory problem gambling awareness training for staff of retailers that operate electronic gaming devices such as VLTs. See the recommendations under “Public Interest, Social Responsibility” in the section “Gaming in General.”

VLT RECOMMENDATION - 1

- **Prior to making a decision on whether or not to enter into a video lottery retailer agreement with a prospective retailer, the Commission will consider any demonstrated local government and/or public objections to an agreement with the retailer.**

Comment - Currently, a prospective retailer on the VLT wait list must post a sign prominently in the premises, visible to patrons, indicating an application has been made for VLTs. This is required three months before the prospective retailers is expected to obtain them. By policy the Commission should consider any objections raised by residents in the community and/or local government officials before making a final decision on entering into a VLT agreement with the prospective retailer. This is consistent with the view of Albertans who wish to have input on gaming matters.

B. ELIGIBILITY

The number of VLTs operating in the province is limited to a maximum of 6,000, a limit that has been in effect since December 1995. Under the current policy the demand for VLTs by bars and lounges will continue to exceed their supply. For that purpose, a wait list has been created.

VLTs are re-allocated to a licensee on a VLT wait list only when an existing VLT retailer closes business and the terminals in the premises become available for re-allocation. VLTs have proven to meet a consumer demand for entertainment options and contributed to the revenue of retailers (who receive a commission of 15% of the net revenue). Other establishments without a Class A Minors Prohibited licence have requested VLTs, for example, branches of Legions, services clubs, and bingo halls. Should current eligibility criteria be revised and, if so, on what basis?

POLICY POSITION:

- 1. A key requirement for VLT gaming is that the facility in which it is offered must be restricted to those of legal age.**

Albertans have indicated gaming activities should be restricted to players who are 18 years of age or older. More than half of Albertans have indicated the accessibility or availability of VLT gaming should remain the same and less than half indicated it should be reduced.

VLT RECOMMENDATION - 2

- Only qualified licensed bars and lounges (Class A Minors Prohibited licensees) that are in operation may apply for VLTs.**

Comment - This recommendation is consistent with the current policy for VLT eligibility, however, it requires the bar or lounge that applies for VLTs must be operating at the time of application. That is, the business must be open for business before the Commission will consider accepting an application for VLTs. This recommended policy is to prevent and discourage the past practice among some VLT applicants who have obtained a Class A Minors Prohibited licence but do not open their bar or lounge until they are about to obtain VLTs (that is, when near the top of wait list for VLTs). In such cases, the Commission has no track record by which to base a decision whether to install VLTs in the location.

C. AVAILABILITY, ACCESSIBILITY, NETWORK ACTIVITIES

A concern of many Albertans and stakeholders is VLTs are too accessible. Any further accessibility would be of great concern. VLT retailers have expressed their concern about any major changes being made to VLT policies or a complete restructuring of the VLT network within the province. They believe this could bring serious harm or jeopardy to their businesses which, in some cases, have come to rely upon VLTs.

POLICY POSITION:

- 1. Develop reasonable and practical policies to reduce the accessibility of VLTs.**

The recommendations that follow are aimed at striking a balance between the social concerns related to accessibility and the financial or economic value of VLTs to the province's retail businesses and the Alberta Lottery Fund. The recommendations are expected to reduce the number of locations offering VLTs by approximately 10 to 15 percent over three years. The program would be assessed on a regular basis during that time to ensure the objectives of the recommended policies are being met.

VLT RECOMMENDATION - 3

- **Move toward a greater concentration of VLTs in fewer locations.**

Comment - This involves re-allocating VLTs from a broad, existing base of VLT locations to fewer locations with more VLTs per location. This would also allow the Commission to more effectively control and manage the accessibility of VLT gaming in the province. Problem gambling initiatives may be more effectively focused in fewer locations than in the current number of locations.

The strategies to arrive at a greater concentration of VLTs in fewer locations are discussed in the recommendations that follow.

VLT RECOMMENDATION - 4

- **Allow for dedicated VLT gaming venues. Such venues would have from 15 to 25 VLTs and operate under enhanced facility standards.**

Comment - The recommended venues would serve as VLT gaming entertainment centres provided by eligible retailers within the hospitality/tourism industry for their visitors or customers. Each venue would be required to meet facility standards that are consistent with the public interest in safe and clean, modern environments for gaming activities (currently VLT retailer locations are subject to few facility standards other than basic security requirements).

The enhanced facility standards for dedicated VLT gaming venues would apply to the size, configuration and security features of the facility. They would include separate entrances and exits, appropriate exterior and interior signage, video surveillance cameras and other security features. As the dedicated VLT entertainment centres are intended to supplement hospitality/tourism services, the appropriate complementary services should be available immediately adjacent to the dedicated VLT gaming venue. Such services should include, for example, accommodation, other entertainment activities and full dining service.

By adopting such facility standards, the recommended venues would be clearly distinguished from other dedicated gaming facilities (such as casinos that offer a range of distinct gaming activities) and existing bars and lounges with VLTs.

VLT RECOMMENDATION - 5

- **Generally impose more stringent controls on the number and size of dedicated VLT gaming venues in the province.**

Comment - The venues that may be authorized by the Commission for dedicated VLT gaming would have to meet stringent facility standards. Their number will initially be limited to a maximum of 65, the same number of single facilities in the province that currently have more than one bar or lounge with VLTs. Not all of those facilities may meet the requirements for a dedicated VLT gaming venue. Existing VLT retailers are eligible to apply provided they meet the enhanced facility standards.

Each dedicated VLT gaming venue would be eligible for 15 to 25 VLTs and be subject to performance monitoring. Initially 1,000 VLTs would be made available for distribution to these dedicated VLT gaming venues within the existing maximum limit

of 6,000 VLTs. Once the total maximum number of VLTs or venues is achieved, any other eligible retailers who wish to operate a dedicated VLT gaming venue will be placed on a waitlist for such venues.

VLT RECOMMENDATION - 6

- **Single facilities that currently have more than one licensed premises with VLTs will be required to comply with the current policy before December 31, 2002 (that is, to have only one licensed premise with VLTs in a single facility). Their option is to meet the enhanced facility standards for the recommended dedicated VLT gaming venues under the same time limitation.**

Comment - The current policy limits a single facility to one licence with no more than seven VLTs. This policy was in response to a recommendation of the Lotteries Review Committee. The intent of the policy was twofold: to reduce the possibility of a single facility, such as a hotel, from creating many separate areas so each one could apply for and receive more VLTs; and to free up VLTs so they could be allocated to bars and lounges on the VLT wait list. The net result of the policy, over time, was to spread the VLTs across more bars and lounges throughout the province and thus increase accessibility. The policy was to be fully implemented by December 31, 2000, but deferred pending the outcome of the Gaming Licensing Policy Review.

There are 65 single facilities with 148 VLT retailer agreements and 907 VLTs in Alberta as of December 2000. Combined with the other recommendations in this report, this recommendation addresses the concerns of accessibility while allowing facilities with multiple VLT agreements the option of developing dedicated VLT gaming venues with higher facility standards.

As with all other prospective VLT retailers on the VLT wait list, the Commission would consider any community and/or local government objections before deciding to authorize a dedicated VLT gaming venue.

POLICY POSITION:

2. **Maintain the number of VLTs operating in the province to the current maximum limit of 6,000 and develop fair, objective and transparent policies and procedures for the allocation of terminals.**

It is expected as the population and disposable income continues to grow, there will continue to be increased demand for leisure or entertainment activities such as gaming, including VLT gaming. The recommendations under Policy Position 1., above, will further limit the number of locations with VLTs in the future. Therefore it will be *critical* the policies to allocate the limited base number of VLTs be fair, objective and transparent.

VLT RECOMMENDATION – 7

- **Given the recommended changes for VLTs in the province, ensure the allocation of VLTs continues to be fair, objective and transparent.**

Comment - It is recommended all new VLT retailers authorized by the Commission initially receive three VLTs, instead of the current initial installation of from two to

four VLTs. Subject to performance monitoring, as described in the following recommendation, the location may at some time become eligible for five, seven or 10 terminals. Combined with performance monitoring, this will help to optimize the distribution of terminals and reduce accessibility.

Under current policy, the maximum number of VLTs for new retailers is four. The previous maximum was seven VLTs per retailer. Retailers that operated seven VLTs in 1996 were grandfathered with that number. Prior to 1996, the maximum number per retailer was 10. At that time the plan was to have 8,000 VLTs in the province, which has since been reduced to a maximum limit of 6,000 VLTs. The policy changes made in 1996 resulted from the government adopting recommendations of the Lottery Review Committee.

Allowing for five, seven or 10 VLTs allow for a more efficient management of the VLT network in the province than if single VLTs were to be added or removed. These numbers also lend themselves to the recommendation to reduce accessibility of VLTs by moving toward a greater concentration of VLTs in fewer locations.

VLT RECOMMENDATION - 8

- **Optimize the distribution of VLTs through performance monitoring.**

Comment - About 75% of bars and lounges in the province have VLTs. There is a strong demand for VLTs from many bars and lounges that do not have them and for more VLTs from existing VLT retailers. An effective, objective, transparent and fair way to allocate VLTs, and limit and reduce their accessibility, is through performance monitoring. Performance monitoring allows the Commission, on an ongoing basis, to review the demand or sales in each location. Based on specific criteria, VLTs would be re-allocated from locations with lesser demand or poorer sales to those experiencing greater demand or higher sales. Combined with the previous recommendations on dedicated VLT gaming venues and establishing a level playing field for initial allocations, it is estimated the net result will be approximately 10% to 15% fewer VLT locations over three years. Allowance would be made for the lone VLT retailers in rural communities to be exempted from potentially having their VLTs removed due to performance monitoring.

VLT RECOMMENDATION - 9

- **Allow a business that purchases an existing licensed premise with a certain number of VLTs to keep those VLTs in the premise.**

Comment - Under current policy whenever an operator of a facility with VLT changes, all but four VLTs are removed from the facility. Two VLTs is the current minimum allocation of VLTs for new retailers. This policy applies regardless how many VLTs were being operated immediately before the change of operator occurred, or what the level of demand may have been. The policy's aim was to re-allocate VLTs to the wait list. However, over time this has resulted in increased accessibility to VLTs by expanding the number of locations receiving VLTs. To continue this policy would be inconsistent with the other recommendations in this report, including those aimed to reduce VLT accessibility through performance monitoring. Therefore this recommendation is being made.

VLT RECOMMENDATION - 10

- **A relocation of an existing VLT retailer will result in the termination of the video lottery agreement except under specific, reasonable circumstances.**

Comment - Specific circumstances include fire or other unexpected or uncontrollable event (*force majeure*).

VLT RECOMMENDATION - 11

- **Develop a set of clearly defined and specific penalties that may be assessed against retailers for violating terms or conditions of the VLT retailer agreement.**

Comment - This would give the Commission a way to address violations through measures other than termination of the VLT retailer agreement. Otherwise, the only recourse for VLT retailers is the legal one, through the courts.

D. FINANCIAL CONTROL, SECURITY

POLICY POSITION:

- 1. Protect public revenues (Alberta Lottery Fund proceeds) generated by video lotteries.**

Video lottery terminals and the associated equipment are assets of the Commission. They are managed on behalf of the province to generate proceeds for the Alberta Lottery Fund.

VLT RECOMMENDATION - 12

- **Maintain strict financial controls for the collection of revenue.**

Comment - The policy processes and procedures must ensure the collection of revenue from VLTs continues to be subject to strict financial controls, to minimize the risk of loss. Accordingly, the processes and procedures should be reviewed regularly for this purpose and enhanced wherever appropriate.

VLT RECOMMENDATION - 13

- **Through the business planning process, the Commission will develop clear policies for the systematic upgrading or replacement of terminals and central computer system equipment.**

Comment - VLT retailers regularly approach the Commission to introduce new VLT games or technology. The industry average standard for the average life of a VLT is five to seven years. Criteria should be established or clarified through the annual business planning process for replacing or upgrading old technologies with new ones, including a requirement for responsible gaming features in VLTs as recommended in the section "Gaming in General" under "Public Interest, Social Responsibility."