

Legislative  
Assembly  
of Ontario



Assemblée  
législative  
de l'Ontario

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## **Official Report of Debates (Hansard)**

P-11

## **Journal des débats (Hansard)**

P-11

### **Standing Committee on Public Accounts**

2022 Annual Report,  
Auditor General:

Ontario Lottery and Gaming Corp.

1<sup>st</sup> Session  
43<sup>rd</sup> Parliament

Monday 29 May 2023

### **Comité permanent des comptes publics**

Rapport annuel 2022,  
vérificatrice générale :

Société des loteries et des jeux  
de l'Ontario

1<sup>re</sup> session  
43<sup>e</sup> législature

Lundi 29 mai 2023

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Chair: Tom Rakocevic  
Clerk: Tanzima Khan

Président : Tom Rakocevic  
Greffière : Tanzima Khan

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LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

## STANDING COMMITTEE ON PUBLIC ACCOUNTS

## COMITÉ PERMANENT DES COMPTES PUBLICS

Monday 29 May 2023

Lundi 29 mai 2023

*The committee met at 1345 in room 151, following a closed session.*

### 2022 ANNUAL REPORT, AUDITOR GENERAL MINISTRY OF FINANCE

#### ONTARIO LOTTERY AND GAMING CORP.

Consideration of value-for-money audit: Ontario Lottery and Gaming Corp.: casinos, lotteries and Internet gaming.

**The Chair (Mr. Tom Rakocevic):** I would like to call this meeting of the Standing Committee on Public Accounts to order. We are here to begin consideration of the value-for-money audit, Ontario Lottery and Gaming Corp.: casinos, lotteries and Internet gaming from the 2022 Annual Report of the Office of the Auditor General.

Joining us today are officials from the Ministry of Finance and the Ontario Lottery and Gaming Corp. You will have 20 minutes collectively for an opening presentation to the committee. We will then move into the question-and-answer portion of the meeting, where we will rotate back and forth between the official opposition and government caucuses in 20-minute intervals, with some time for questioning allocated for the independent member.

Before you begin, the Clerk will administer the oath of witness or affirmation. It will all be done at the same time.

**The Clerk of the Committee (Ms. Tanzima Khan):** Good afternoon, everyone. I will read the affirmation and then if you could each individually state your name and then state whether you agree.

Do you solemnly affirm that the evidence you shall give to this committee touching the subject of the present inquiry shall be the truth, the whole truth and nothing but the truth? Please go ahead.

**Mr. Greg Orencsak:** Greg Orencsak, Deputy Minister of Finance: I affirm.

**Mr. Duncan Hannay:** Duncan Hannay, president and CEO of OLG: I affirm.

**Mr. Jim Warren:** Jim Warren, chair of the board of OLG: I also affirm.

**The Chair (Mr. Tom Rakocevic):** Thank you all. Before you begin, I'd ask you to introduce yourselves for Hansard before you begin speaking. Please begin when you're ready.

**Mr. Greg Orencsak:** Good afternoon, Mr. Chair. As I've said, my name is Greg Orencsak; I am the Deputy

Minister of Finance. It's always a privilege to be here. I'm joined here by some of my colleagues from the Ministry of Finance, in particular Erin McGinn, who's the assistant deputy minister of the government business enterprise division. Part of Erin's portfolio includes oversight of our revenue-generating crown agencies that report through the Minister of Finance. I'm also joined here today by colleagues from the Ontario Lottery and Gaming Corp., both the chair and the CEO, and their teams.

Like I said, it's a privilege to be here and address the committee, and I'm looking forward to an engaging discussion in respect of the questions that you have when it comes to the value-for-money audit conducted by the Auditor General, which was released as part of her annual report in 2022. Obviously, a note of gratitude for the Auditor General and her staff for the work that they do. They play a really important role in terms of helping to ensure transparency and accountability. As a public servant, I can say that that's critically important as we deliver value for money to taxpayers and also provide oversight over the government's various agencies and regulators.

The audit assessed whether OLG demonstrates sufficient value for money, transparency and accountability in the evaluation of financial returns, anti-money laundering activities, responsible gaming and OLG governance and oversight. We work close together with the OLG at the Ministry of Finance. We strive to support OLG as one of the largest non-tax revenue generators for Ontario to help maximize returns to the province and key partners and stakeholders in a safe, responsible and efficient manner.

My colleagues from the OLG will speak more as to the ongoing work that's being done by the agency to address the audit findings, but before I pass things over to them, I would like to provide you with some context around the oversight function of the Ministry of Finance and the role that this plays in supporting OLG in meeting the recommendations of the Auditor General.

The relationship between the OLG and the ministry is outlined in the memorandum of understanding between the chair of the board of directors and the Minister of Finance as the sole shareholder of the OLG. The Ministry of Finance, in turn, works closely with the OLG to meet necessary requirements under the government's agencies and appointments directive and to help the organization in its mandate to generate strong returns to the province safely and responsibly. This balance of agency oversight

and policy direction and support is met through a collaborative and responsive relationship, which allows the OLG to remain a strong, competitive commercial organization with the necessary flexibility to adjust to market changes nimbly while seeking government direction and approval as needed.

**1350**

With this, I once again thank you for the time you are spending reviewing the report. Obviously, I also thank the Auditor General for her work. I will now turn it over to the chair. Mr. Chair, over to you.

**Mr. Jim Warren:** Thank you very much, Deputy Minister, and thank you, Chair, and each of the committee members for asking OLG here today to speak to the recommendations of the Auditor General, the steps we've taken so far to address them and our key actions moving forward.

I'd also like to extend my sincere thanks to the Auditor General and her team for their diligent review of OLG. During the audit process, the Auditor General and her staff demonstrated true professionalism and a willingness to develop an understanding of our complex business. We welcome and appreciate the collaborative approach they brought to their examination.

I truly believe that OLG is a well-run organization with sound management and governance. That said, no matter how well a company is doing overall, there's always room for improvement. We understand the value that independent, third-party reviews like the AG's add to our business and how they strengthen our overall commitment to ongoing accountability and transparency to government, customers, business partners, stakeholders and the public. We know we need to continuously improve our operations so that we can continue to deliver value to the province of Ontario to support the important services that people rely on, and it's vital that we do.

As the deputy minister said in his opening remarks, OLG continues to be one of the largest non-tax revenue generators for Ontario. Since 1975, OLG has provided more than \$59 billion to the people and province of Ontario. This past fiscal year, even as our business continues to rebound from the pandemic, OLG returned its highest profit to the province in our history: \$2.5 billion.

But our support for Ontario goes beyond our financial return to the government alone. Last fiscal year, we provided \$181 million to municipalities and Ontario First Nations that host casinos and charitable gaming centres. We provided \$123 million to Ontario First Nations Limited Partnership, and we supported our lottery retail partners in our 10,000-terminal network by providing a historic \$330 million in commissions to lottery retailers—that's in one single year. We provided \$80 million in charitable contributions to the 2,200 participating charities through our charitable gaming program. These are just a few ways that OLG contributes to Ontario.

We want to ensure our contributions can continue, and that's why our CEO, Duncan, and his management team, many of whom are behind me here today, launched the three-year Game ON strategy in 2021. As OLG's strategic

road map, Game ON is positioning our organization as an entertainment leader by creating value-led partnerships and placing the customer at the centre of everything we do. Game ON is helping OLG to consistently deliver best-in-class products and experiences across more touchpoints and channels, and it also puts responsible gaming and sustainability at the forefront of our business.

It comes at a time when we're facing increased competition for entertainment spend, which has been accelerated by the significant change taking place in Ontario's gaming market, change that is happening at a very rapid rate. Today, customers are more plugged in with more entertainment options than ever before, and the pandemic further fuelled an overall shift in consumer preferences to more digital and self-serve options, not just in lottery and gaming but across the province.

OLG is making sure we keep pace while delivering great entertainment experiences. In land-based casino gaming, we're working with our partners on development plans to support the long-term vibrancy and excitement of the casino experience in Ontario for years to come. Over the past seven years, service providers have invested approximately \$2 billion in private sector capital investment across the province.

We're also continuing to grow and enhance our retail lottery offering and presence by expanding our retail footprint and adding new products. This includes self-serve terminals in retail locations. We plan to begin piloting these terminals later this year and expand to have fully rolled out 1,400 terminals by mid-2024.

We're growing our digital gaming business and improving speed to market across all digital categories. We do all this while we continue to, first and foremost, improve our responsible gaming practices. OLG's online gaming platform has grown to 1.6 million registrants and more than 314,000 active players each month, and, excluding iLottery products, OLG accounts for approximately 20% of the current Ontario online gaming market.

We're excited about what the future holds as we take our business to the next level and provide a responsible gaming environment and entertainment experience that will keep giving back to the people of Ontario for generations to come.

Now I'd like to turn it over to Duncan, who will speak about the steps OLG's senior management is taking to address the Auditor General's recommendations.

**Mr. Duncan Hannay:** Thank you, Jim.

Good afternoon, Chair, and committee members, and thank you for the opportunity to speak with you today. I'd like to echo Jim's thoughts on the Auditor General and her value-for-money audit. We do welcome independent reviews of our business, which contribute to continuous improvement of our operations and overall performance.

OLG is committed to upholding the integrity of Ontario's gaming system in compliance with regulatory standards of fairness across our lines of business, and, frankly, this is just good business. We work closely with the AGCO, of course, and we support its standards-based regulatory model. We believe Ontario and its regulatory model is amongst the very best in the world.

Since the release of the Auditor General's annual report last November, OLG has focused on completing our response plans to address the items brought forward in the report, as outlined in the status document provided to the committee on May 15. To date, we have completed or made progress on 76% of actions related to the recommendations.

I'll turn my attention to land-based gaming modernization. As Jim mentioned earlier, though OLG's modernization effort, service providers have invested almost \$2 billion in private sector capital across the province. Since 2017, these investments have led to the development and opening of seven new casinos, a planned casino resort development scheduled to launch in the coming weeks and many additional gaming expansions and non-gaming amenities. By fiscal 2027, casino gaming is expected to add \$800 million to our annual net profit to the province, growing it from \$1.6 billion in fiscal 2020 to \$2.4 billion in fiscal 2027. It is also expected to increase funding to host municipalities by \$48 million to \$177 million and increase funding to Ontario First Nations communities by \$36 million to an annual \$124 million over that period. The Auditor General's recommendations related to land-based gaming modernization offer helpful guidance to how we can build on the successes of our program to date.

Our lottery business is a steady profit driver and strategic asset for OLG and the province. Lottery delivered \$4.4 billion in proceeds and approximately \$1.1 billion in net profit to the province in fiscal 2023. I would note that this is the fiscal 2023 unaudited financial results, subject to adjustment, of course. Here again we welcome the Auditor General's recommendations related to attracting new customer segments to lottery play. To implement these recommendations and to help us achieve our lottery product performance target, we are rolling out a new three-year lottery strategy this year. The strategy emphasizes new audience acquisition, cross-promotion and operational excellence, and it will see us invest in technology to enhance the overall customer experience.

We also appreciate the Auditor General's observations related to the frequency of retail lottery wins and deactivating scratch tickets following top-prize wins. For OLG, ensuring prize claim integrity is paramount to its business success, and that is why we have one of the most rigorous prize-claim programs in Canada, with strict controls to identify and investigate claims prior to the payment of any prize. We also have a "no play at work" policy that restricts lottery retailers from purchasing and checking tickets at their place of work. We plan on commissioning a study to examine play habits, frequency and preferences of retailers who play the lottery to understand underlying trends in prize-claim data. By December of this year, we will complete a review of the effectiveness of controls in place specific to retailer participation and prize claims and will strengthen them as required. We are also enhancing communications with retailers to support compliance with the removal of scratch tickets for sale after top prizes have been won. In addition, we will evaluate technical options to manage inventory

centrally, including single-ticket activations, by December 2025.

#### 1400

OLG continues to grow in the digital space as well by adopting agile approaches and delivery methods to provide new value for our customers. This has been a significant source of growth for the business, a driver of OLG's record proceeds and net profit to the province in the year that ended on March 31, 2023. We agree with the Auditor General that it is important to maintain a competitive OLG online gaming offering, particularly in the new, open and evolving online gaming market in the province. As a result, we're updating our iGaming strategy to include more comprehensive information on market share. We will monitor market share quarterly and will adjust our strategy where required.

I would now like to address the topic of money laundering. OLG has a robust anti-money laundering program in place, and we are committed to continuous improvement of this program also. We are continually investing in new technology and analytics to assist us in connecting the dots to identify and ban those who present risk to the integrity of gaming. We will implement the Auditor General's recommendations in this area, and we will strengthen collaboration and information exchange with our service providers, law enforcement, as well as regulators.

In addition, we will require source-of-funds documentation for all cash buy-ins above \$10,000, aligned with new federal requirements, by October 2023, as set out by the Financial Transactions and Reports Analysis Centre of Canada, also known as FINTRAC. We will also implement a centralized, province-wide suspicious transactions reporting system by 2025, and we will update our trespass program by mid-2023.

On the issue of responsible gambling, I would like to make clear that this mandate is a cornerstone of our competitive advantage and the long-term sustainability of our business here in Ontario. We prioritize player health and are focused on continuous improvement of our RG programming. In November 2022, we launched a new three-year Responsible Gambling plan which invests over \$10 million annually in RG across all of our OLG lines of business.

We thank the Auditor General again for her recommendations related to facilitating self-exclusion uptake and integration across all of our business lines, as well as her suggestion to encourage the use of limit-setting tools for players. This past fiscal year, we saw our player health index increase seven points for casino customers and 10 points for charitable gaming customers, which indicates a rebound in healthy play habits from the pandemic period, and it suggests the decline in healthy play habits of our player base during that period was time-limited. Our new, rebranded self-exclusion program, called My PlayBreak, is a key initiative that will continue to support this positive trend and help those players who need it.

We're very proud of the recognition of our RG programming, and it continues to receive acclaim. Earlier this

month, OLG was presented with the most socially responsible operator award at a major international conference for the iGaming industry.

We also appreciate the Auditor General's recommendations related to assessing staff count in relation to our current mandate and responsibilities. OLG is committed to building a performance-focused organization and culture. In fiscal 2023, we measured productivity in the form of net profit per full-time employee, and OLG generated \$1.74 million in net profit for the province per FTE, well above our fiscal 2023 target of \$1.6 million. We expect to grow to \$2.25 million per FTE by fiscal 2027, an increase of approximately 37.5%. In other words, we're becoming increasingly efficient in generating income for the province. We will of course monitor staffing levels as mandates and projects change, and we will adjust accordingly to ensure that the most efficient use of human resources is made possible.

In conclusion, I would say OLG is committed to delivering value for the province of Ontario to support vital services that people rely on. Our brand promise is embodied in our tagline, "Play for Ontario."

Again, I'd like to thank the Auditor General and her team for their attention and diligence and, frankly, their collaboration during their value-for-money audit of OLG. We look forward to working in partnership with the provincial government to execute our action plans and continually improve our operations.

Thank you again to the standing committee for your time. We look forward to addressing your questions. I should note that we're joined today by a number of the OLG team behind us. They are available to assist us as needed in answering any of your questions.

**The Chair (Mr. Tom Rakocevic):** Thank you again for your presentation, your work and for being here today.

We'll be proceeding in the following rotation: We will begin with 20 minutes of questions for the official opposition members, followed by 20 minutes for the government members, three minutes for the independent members. We will be following this rotation for two rounds.

We will be beginning with the official opposition. MPP Fife.

**Ms. Catherine Fife:** Thank you for being here. I have a lot of questions, but I want to start off with the bidding process, because the auditor quite rightly identified some inconsistencies around this process and some serious flaws, which ultimately hurts the revenue stream for the province of Ontario. I noticed that you just put the last bidding process for last week for Windsor. That was the ninth bundle, I believe it was?

**Mr. Duncan Hannay:** Yes.

**Ms. Catherine Fife:** It closed May 25. The bidding process uses revenue generation as, I think, one of the primary indicators for success in getting that bid. Over the last 10 years, since this modernization of the OLG has rolled out, there has been a significant loss to the province. As of March 2022, OLG is reducing bids by \$3.3 billion over 10 years. These private operators win the contract, they promise a certain amount of revenue, they don't meet

those markers and then they come back to OLG and you renegotiate these bids. This has happened now nine times.

I want to get a sense, Mr. Hannay, and the new chair, Mr. Warren, of how you are viewing this process, because this process is failing the initial goals of your mandate at OLG. I do want to say it's also problematic because casino operators are using the money to take as dividends or spend on capital investments. The province is funding the capital projects and development of casino operators.

We can all agree that this was not the original intent of modernization. The province originally wanted out of the casino business because they did not have the capital to fix and grow the business. That was sold to us just over 10 years ago. That is not happening, though, right now in Ontario. We're in the midst of a housing crisis and infrastructure funding crisis, and so the fact that we are subsidizing the capital costs of casinos is highly problematic. I hope that you will agree, so I'd like to give you an opportunity to answer the question.

**Mr. Greg Orencsak:** Maybe I'll start—thank you very much for your question. It's a complex question, so I'll start with the government perspective and hand it over to our colleagues from the OLG.

Modernization has been a process that has unfolded over much of the last decade. The objectives of modernization were to bring in private sector operators, and that has been done through a competitive process. Our colleagues can speak to that process, but from the perspective of the government, the objective was to modernize the gaming business, manage competition between facilities and ensure a sustainable and efficient gaming market in Ontario—

**Ms. Catherine Fife:** And revenue.

**Mr. Greg Orencsak:** And revenue, of course. And trust me, as the Deputy Minister of Finance—

**Ms. Catherine Fife:** I know. You've been here for the whole time, I know.

**Mr. Greg Orencsak:** —revenue generation is really, really important to us, because it's a really important non-tax revenue source that pays for critical public services. That modernization journey has never been undertaken in the province's history. It's been a very complex modernization journey and we're just coming to the end of it. It's the eighth bundle for Windsor. I think there was a request for qualification that was released to the market in April, so that process is still ongoing.

**1410**

I'm going to turn it over to Duncan to address some of your specific concerns, as well.

**Ms. Catherine Fife:** I'm sorry, before I go to you—you've said something very interesting. The Ministry of Finance was aware all of this time over the last 10 years? When we subsidized the casino operators to the tune of \$3.3 billion, you as the deputy minister—the finance minister is aware that these contracts were being renegotiated, and that just happened year after year after year?

**Mr. Greg Orencsak:** The Ministry of Finance oversees the Ontario Lottery and Gaming Corp. We use a number of tools through which we do that under the directives that



apply to the OLG. The most relevant directive is the agencies and appointments directive. So the OLG would submit the business plan to us; if there are changes to that business plan, we would review that with the OLG. There are certain permissions that the OLG is required to seek from the minister as it relates to the number of gaming positions in the province, but that's still kind of oversight—

**Ms. Catherine Fife:** Thank you very much for the clarification.

Please go ahead, Mr. Hannay.

**Mr. Duncan Hannay:** Great. Thank you, member. Thank you for that question. I'd first of all say that OLG supports the Auditor General's recommendations, which, frankly, provide helpful guidance on how we can build on what I would call the success of modernization. For some context, I think that in the last year modernization has spurred capital investment; it supported job growth in the province and increased net profits of the province, as well. To date, modernization has driven capital investments of \$2 billion across dozens of communities province-wide really at no cost to the public purse.

The private sector capital has resulted in seven new casinos built in Pickering, North Bay, Wasaga, Peterborough, Belleville, Sarnia and Chatham, creating jobs and new revenues in those host communities; and substantial renovations to seven casinos, including Niagara casinos, Great Blue Heron, Mohawk, Flamborough, Hanover and Point Edward. These renovations include new amenities, such as a \$30-million new hotel built at Great Blue Heron Casino and a \$130-million entertainment centre in Niagara Falls. Nearly \$1 billion of major new capital is going into the Woodbine casino development, expected to open later this month, with significant new expansion work to get under way in Ottawa this spring, as well.

**Ms. Catherine Fife:** Thank you very much. You're not answering my question.

OLG has no obligation whatsoever to accept these reductions. I appreciate that this may have been before your time, but based on the Auditor General's report, "Hard Rock Ottawa requested and was granted a 25% reduction in revenue projections." So at some point along the line, somebody at OLG, someone at the Ministry of Finance, needed to understand or to acknowledge that the bidding process was not meeting the original goals and mandate that was originally set out. Negotiating a contract is a contract. We don't get to go back and say, "You know what? I didn't do as well as I thought was. I need to make a certain amount of profit. Can you subsidize it?" That is not the original goal of the privatization agenda.

It is true, all of those casinos were built—and hotels—and the private operators have done very well. But our revenue as a province has gone down on this line. So that's what I'm trying to get to. I'm trying to understand why OLG keeps renegotiating these contracts when you have no legal obligation to do so. Why?

**Mr. Duncan Hannay:** Why don't we talk about the financial benefits to the province? Because revenue has not gone down. In fact—

**Ms. Catherine Fife:** Revenue has gone down.

**Mr. Duncan Hannay:**—\$800 million in growth in net profit to the province from \$1.6 billion in fiscal 2019-20 to \$2.4 billion in 2026-27. There's been increased funding to host municipalities, growing from \$129 million during that period in fiscal 2019-20 to \$177 million by fiscal 2026-27. There will also be increased funding to Ontario First Nations communities, from \$88 million in fiscal 2019-20 to \$124 million by fiscal 2026—

**Ms. Catherine Fife:** Sorry. Just with respect, those are projections, right? Listen, we have questions about how OLG has dealt with First Nations communities, for sure. I mean, you just lost in court on this issue.

Can you please just answer the question because this is an issue of integrity with regard to contracts. OLG negotiates in good faith with a private operator. It could be anyone. It could be Canadian—whatever; what is it called? You negotiate a contract. You reward the contract based on their projections of revenue. For some reason you've ignored the capital expenses, and then they come back to you with their cap in their hand and they say, "We did not meet these objectives. We did not meet these goals. We need you to forgive us"—to the tune now, at the end of this year, it's up to \$5 billion in forgiveness. That's a lot of money to the province of Ontario.

Can somebody please answer this basic question: Why is OLG renegotiating contracts when the operators are not meeting their legal obligations based on those contracts around revenue generation? That's what I need to know. If you don't have the answer, then tell me how you're going to change it, but you just put out another bid that closed on May 25 under the same premise to Caesars Windsor, and to be fair, a fair amount of subsidizing has gone to Caesars Windsor to the tune of almost a billion dollars over the last 10 years.

We talk about operating government as a business. This is not a successful business, because the revenue is not getting to the places it needs to, and then the province is constantly acquiescing to these private operators. I was trying to get the answer of who designed the bidding process. It came under the Liberal government back in 2011, 2012; it hasn't worked. Why is it taking 10 years to correct this broken bidding process?

**Mr. Duncan Hannay:** Maybe what I can do that would be helpful is to address the ninth bundle, the Windsor bundle, and how we are making and effecting changes there. For the ongoing Windsor casino procurement, OLG has a number of steps towards ensuring the responsibility of bids and to reduce the risk of excessively high thresholds. As part of the RFP, OLG will be proposing financial guardrails related to bids that ensures that the threshold proposed makes sense and that we do not have to give threshold relief later.

Specific details of the arrangement at this time constitute commercially sensitive information, so I won't go into those details, but I can provide assurances that there are some particular aspects of the procurement that will help to ensure reasonability of the proposed thresholds and projected revenues.

First of all, this is an established gaming market. We have real-life knowledge gathered over decades as to how this casino market and the area performs and operates. Additionally, we are confident that the risk of threshold relief is lower than other bundles given that no material new developments will be proposed as part of the bid. So, threshold relief, which is really what you're getting at, has been provided in the past due to circumstances such as difficulty obtaining requisite municipal approvals. This meant that plan development was not achieved, preventing the service provider from reaching expected revenue thresholds. This will not be the case in Windsor.

Finally, the 20-year term makes Windsor an attractive bundle. It allows the operator to invest in improvements in the operation of the casino and to market the offerings accordingly and provides them with enough time to ensure that they will benefit from the enhancements.

**Ms. Catherine Fife:** Okay. So, you're under oath here. You're telling me and you're telling this committee that the threshold relief in the Windsor contract will not be further compromised if they do not come back and meet their revenue projections. Is that true?

**Mr. Duncan Hannay:** These are complex long-term agreements. There are always going to be minor changes along the way based on things like market conditions. COVID is a perfect example of a very disruptive event that happened through modernization, and amendments had to be made to accommodate that. So the expectation on Windsor is that this will be a secure long-term agreement with a new service provider, and we do expect it perform to expectations.

1420

**Ms. Catherine Fife:** I just want to say, you've talked about some conditions where forgiveness around the threshold would have to be made, but in 2019-20, the net profit to the province from OLG casinos was \$54 million less than it had been pre-privatization. So what I'm trying to say is that privatization does not seem to be working in the best interests of the people of this province. It is working for certain private operators; I can say that.

I'm going to cede my time to MPP Gélinas.

**The Chair (Mr. Tom Rakocevic):** You have five and a half minutes.

**Mme France Gélinas:** I would like to talk about your responsible gaming mandate to proactively address problem gambling. I'm from northern Ontario, where everybody either plays, has played or wants to play hockey.

We all watched the Stanley Cup—until the Oilers, then not so much. But still, every commercial during the Stanley Cup playoffs was from one of the new iGaming companies. I have kids and grandkids; they all know more about iGaming than I do, and I was wondering if you're as worried about this as I am. How could it be that I learned more about iGaming watching the Stanley Cup than I ever cared to know about iGaming?

**Mr. Greg Orensak:** Maybe I'll start, MPP Gélinas, and I certainly invite my colleagues from the OLG to add to that.

iGaming is regulated by the Alcohol and Gaming Commission of Ontario. They set the standards that all gaming operators need to comply with. These include responsible gaming requirements that include how the product is designed, how players can self-exclude themselves from participating if they choose to do so and advertising as well.

As you may know, the AGCO is currently looking at those advertising standards in respect of the goal of minimizing potential harms to youth and children in particular, especially as it relates to who can advertise and what can appear in advertisements. That consultation process is ongoing. We do expect the AGCO to have more to say about that in the future.

I don't know if, Duncan, you want to add anything to that?

**Mr. Duncan Hannay:** Thank you, Deputy, and thank you for the question, member. I'd first like to point out that all of OLG's advertising, including our online offerings, our iGaming offerings, is produced in alignment with the AGCO standards on marketing—

**Mme France Gélinas:** But do you think that the standards are where they should be?

**Mr. Duncan Hannay:** I think that the AGCO is wise to be reviewing those standards—

**Mme France Gélinas:** What would you like to see in the revision? If you were to give advice to AGCO, what would you like?

**Mr. Duncan Hannay:** Well, I think the AGCO is going to look at feedback from a whole host of stakeholders. They will have purview to issues—

**Mme France Gélinas:** What is your feedback to them?

**Mr. Duncan Hannay:** Our feedback to them is in line with your feeling from a consumer perspective, that the amount and the nature of the advertising can sometimes be seen as offensive. The use of celebrity endorsements, for example, from sports athletes or celebrities as the case may be, I know is one of the areas the AGCO is looking at as they review the standard—

**Mme France Gélinas:** That was already a standard of AGCO, that they could not use professional athletes, yet they all did, including you.

**Mr. Duncan Hannay:** That is not how the standard is written today, but it is being reviewed in that context. I know that is one of the areas that AGCO is looking at, and I can assure you that all OLG advertising, including all of our online offerings, is in compliance with AGCO standards on marketing.

**Mme France Gélinas:** So what would you like to see that would make sure that you continue to be successful while the other private iGaming maybe is not as much? What would make you a winner?

**Mr. Duncan Hannay:** Well, I think, to answer your question, we want to abide by the regulatory standards, and we want to continue to have a world-class Responsible Gambling platform here in Ontario. We're very proud of our record in that regard. We're very proud of the PlaySmart program and what it stands for, and we want to uphold the very highest standards of responsible gambling in the province—

**M<sup>me</sup> France Gélinas:** What would that look like? What difference would it make? What is the Stanley Cup going to look like next year?

**Mr. Duncan Hannay:** I think that is very much the regulator's responsibility.

**M<sup>me</sup> France Gélinas:** But what would you like?

**Mr. Duncan Hannay:** I want to support and abide by the regulatory standard that is put in place by the regulator after they conduct their review.

**M<sup>me</sup> France Gélinas:** And you have no idea as to what would work well and not work and what would work specifically so that you succeed in this market?

**Mr. Duncan Hannay:** Listen, we are facing 47 new legal operators in the marketplace in the iGaming space. I think it would be appropriate to have a better balance of advertising. I know that's how the regulator is looking at this issue and reviewing input from stakeholders across the province within the operator community, with outside interests, with public health organizations and from OLG. I wouldn't stand here and say I've got that level of purview into the issue, but I'm very confident that AGCO will make the right decision here.

**M<sup>me</sup> France Gélinas:** Do you figure 47 iGaming providers is the right number, too much, not enough?

**The Chair (Mr. Tom Rakocevic):** We're at time. Quick answer?

**Mr. Duncan Hannay:** OLG does not conduct and manage iGaming in the province, so I don't have a view on that.

**The Chair (Mr. Tom Rakocevic):** We're now going to move on to the government members. We have 20 minutes, beginning with MPP Crawford.

**Mr. Stephen Crawford:** Thank you to everyone for being here today. This is critically important to the province, obviously. It does provide a lot of dividend income to the province. As you mentioned, it's one of the largest non-tax revenue sources for the province. We take that seriously. It's a business we want to grow, but we want to grow responsibly, obviously.

At the end of the day, the province is reported to, I guess, by OLG. I wondered perhaps if the deputy minister could discuss how that relationship works. How would you characterize it? To what extent do you get involved in their day-to-day business? Or are there times when you need to be involved in the day-to-day business? And how do you ensure accountability from the province's perspective?

**Mr. Greg Orensak:** Sure. I'm happy to speak to that, MPP Crawford. We have a close working relationship with OLG. OLG is a really important asset. I think MPP Fife spoke to the importance of revenue generation. They look at that, though, from a year-to-year perspective. It's always important for us to know exactly what we can count on from OLG in terms of the net profit to the province when we're putting together the province's annual budget. We're also looking at it from a long-term perspective. I think modernization itself was a long-term initiative, and I think that's both important as we look at the performance of OLG, but also the future projections

that we're expecting modernization to realize. So we've got to look in both directions, both backwards and forwards.

From the perspective of the mechanics of the oversight and accountability, we have an agencies and appointments directive that is set by the treasury board of cabinet that sets out some of the key governance and oversight requirements that are then established through a memorandum of understanding between the chair as the most senior representative of the agency and the Minister of Finance who is accountable for the agency and who is accountable to the Legislature for the agency as well. That MOU also lays out some of the requirements and expectations for senior officials, including the CEO and myself and other officials in the ministry and the agency itself. It's a really important accountability tool and, as the business may shift, as issues may arise, as there are learnings in respect to agency oversight, for example, that MOU may also get amended from time to time.

We invest in that relationship in terms of our day-to-day workings. The CEO and I would have regular touchpoints to touch base on some of the issues that are outlined in the MOU, as well as on how the business is going, what are some of the upcoming issues that may require the attention of the government, for example, and there's a similar cadence of meetings between the chair and the minister as well.

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The minister makes recommendations for board appointments, and those are Lieutenant Governor in Council appointments. Obviously, the chair works closely with the nominating committee and the board in terms of making sure that the minister always has candidates for consideration based on the skills matrix for the board itself. Then we would also work together and collaborate in terms of significant policy changes that may have an impact on the agency.

I think the legalization of iGaming was one of those things. Digital gaming is also a really important business line for the OLG. When iGaming was set up, when private operators were invited in, we just made sure that there was appropriate policy coordination as that government initiative was implemented and to support the goals that the government had with the establishment of a competitive iGaming marketplace, which included making sure that Ontarians who gambled online did so under a legal framework that did enable the province and the regulator to set some standards where none existed before and also to share in the benefits of iGaming as it relates to revenues to, again, pay for public services.

**Mr. Stephen Crawford:** Okay. And perhaps OLG—could you give a brief comment on that as well in terms of your characterization of how you work with government and what that relationship is like? I think it's important that the OLG be on the same page as the government, the ministry, so what are your thoughts on that?

**Mr. Duncan Hannay:** I would characterize it in very much the same way that the deputy has brought forward to the committee: It's a relationship that's collaborative. It is

frequent in nature in terms of our interactions. It ensures that our strategy is consistently aligned with government policy and ensures a regular cadence of touchpoints with the ministry and ministry staff. Greg and I, in particular, have a regular and ongoing cadence of discussion so that we're always abreast of government's objectives, policy and any concerns that may arise in our business or in our business practice. But, overall, I would characterize it as a collaborative, ongoing relationship. I know our chair of the board also has regular touchpoints, as well, with the minister.

**Mr. Stephen Crawford:** I know in the Auditor General's report she questioned whether modernization really had maximized the profit to OLG, ultimately to the people of Ontario, and private sector capital investments. I wonder if you could touch on that, the past, the present and the future, because there are obviously different situations and scenarios, and we obviously are aware of COVID. But I'd be curious—your thoughts on that.

**Mr. Duncan Hannay:** Yes, COVID certainly had a major impact, but I do appreciate the question, and if we could maybe focus a little bit on the past and up to date and then we can talk a little bit about what our forecast plans are.

As I mentioned earlier, to date, we've seen private sector capital investment of about \$2 billion across dozens of communities in Ontario. This is at no cost to the public purse, and this capital has resulted, as I mentioned earlier, in seven new casinos being built across the province, substantial renovations to seven other casinos, including a \$30-million hotel complex at Great Blue Heron and a \$130-million entertainment centre at Niagara Falls. And we have nearly \$1 billion going into a new development at Woodbine, expected to open in the coming weeks, if not days, with significant new expansion work planned to get under way as well in the Ottawa region.

Now, if we look at that capital investment and that impact and we forecast forward a little bit, and if we go back to the pre-COVID levels, \$800 million in growth in annual net profit to the province is forecast from \$1.6 billion, which is what we produced in fiscal 2019-20, to \$2.4 billion by fiscal 2020-26. We've got increased funding to host municipalities during that period as well, as I mentioned earlier, so that will grow from \$129 million to \$177 million. Similarly, Ontario First Nations will see significant benefit, adding \$124 million by fiscal 2026-27.

In the context of looking forward, if we include the contract amendments that were mentioned and we look at a forecast that stretches over the first 10 years of the modernization program, from the point that it was brought about, we are forecasting to exceed \$30 billion over that first 10 years of modernization. If you look at the contracted threshold minimums, that will exceed those contracted minimums, contracted with service providers, by \$6 billion over that period.

That's significant. That's quite meaningful. Having had the opportunity now to build and review the plan, those levels are highly achievable within our land-based gaming business.

**Mr. Stephen Crawford:** You did touch on the municipal contributions. Could you explain how that works? I know host municipalities where casinos are located, for example, get some payments, but could you just give the committee some insight as to how that money is distributed? I'd appreciate that.

**Mr. Greg Orencsak:** Yes, maybe I'll start, and Duncan, we might want to tag-team on this one.

Revenue-sharing with partners and stakeholders is an important part of gaming policy in the province. As it relates to municipalities, those municipalities that host casinos in their communities benefit from revenue-sharing. There are municipal contribution agreements in place with those municipalities and those payments to municipalities are calculated as a share of revenue generated by casinos located in host communities and are paid quarterly. Those funds are then used by municipalities to support core municipal services. I believe there are 29 communities in Ontario that are benefiting from that. This is a key source of funding for them and has, thankfully, bounced back and made a strong return following some of the decreases in 2020-21, when casinos in those host municipalities had to close or restrict their operations as a result of the pandemic.

Duncan, let me turn it over to you to just add your perspective as well.

**Mr. Duncan Hannay:** Thank you, Deputy. I would point out that those host municipalities would include Rama First Nation, as well as the Mississaugas of Scugog Island First Nation, who host the Great Blue Heron Casino. As you note, MCA payments, as we call them, are based on a formula; that is, a graduated scale, percentage-based, across slot machine revenue, in addition to a percentage share of table game revenue for those sites that offer table games. And retail sportsbook revenues for those sites a host municipality would also receive a share of those revenues. That formula is the same across all of our municipalities that host casinos across the province.

Since the first casino opened in Windsor in 1994, OLG has provided nearly \$2 billion to host communities during that period—

**Mr. Stephen Crawford:** So just for clarification, it's just host communities that receive funding, or do all municipalities in Ontario?

**Mr. Duncan Hannay:** Host communities.

In fiscal 2022-23, which we just completed at the end of March, these agreements enabled OLG to give \$170 million to communities that host casinos. This money is, as the deputy noted, directly invested into those communities. In Brantford, if I can cite that example, last year, the city received \$5 million to host the Elements Casino, a large portion of which was used for arena upgrades and contributions to the Brant Community Foundation.

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**Mr. Stephen Crawford:** How much time do I have, Chair?

**The Chair (Mr. Tom Rakocevic):** You have six minutes.

**Mr. Stephen Crawford:** In terms of your projections—obviously the people of Ontario care for the future

of the province, and your projections are a net benefit as you maximize profit to the province of Ontario. In your projections, I'm just wondering what are the potential risks or challenges that you face as a corporation. Where do you see there are potential pitfalls or obstacles that could challenge the upside of your projections?

**Mr. Duncan Hannay:** Notwithstanding a global pandemic, which clearly was a massive disruption to our land-based gaming business during that period, I think ordinary course risk to our program would certainly include competition. OLG competes with a whole host of private sector operators in the digital gaming space. A large source of our projected growth in Ontario will come through our iLottery, iCasino and iSports platforms, where we're seeing very sophisticated competition in the marketplace. That's something that the Auditor General has also pointed out as being critically important that we understand that, that we measure our share in the marketplace and that we are responsive to competitors.

We have changing consumer preferences, certainly. One of the other things that the Auditor General pointed out very aptly, frankly, in the report is that our lottery player base is aging, and we need to look for new ways to engage a younger player in lottery—in a responsible way, of course. And so we need to deliver our product and our services in a way that provides interest and traction to a younger audience. As a result, we are in the throes of finalizing a new three-year lottery strategy that will include the modernization of our lottery technology stack that will allow us to bring the types of products and games at scale and be much more agile on delivery so that we can appeal to that younger audience.

The chair, I know in his opening remarks, spoke to the introduction of self-serve technology, and the way that younger people and, generally, behaviourally consumer preferences are moving towards self-serve. As that disrupts the checkout experience at retail locations, we need to adapt and have those self-serve technologies available to our customers. Later this fall, we'll be launching a pilot of self-serve technology that will allow our customers to buy all of our national draw game products, as well as instant products from that self-serve capability. So we're looking forward to that, for example.

And then in our land-based gaming, we have a significant dependency on our private sectors to continue to invest capital to deliver on those commitments. We are very committed to having them do that and supporting them along the way, the launch of Woodbine being the biggest of those investments. Given this will be the largest resort casino complex in the country, the successful delivery of that product and attraction of new patrons, meeting the unmet demand in Ontario, will also be critically important to us achieving the growth that we anticipate growing.

**Mr. Stephen Crawford:** In the limited time we have left, I just want to touch on a bit on anti-money laundering, which, obviously, is important not only in casinos, but it's important in all sectors of the financial system here in Ontario. I know there had been some concerns from the

Auditor General's point of view about anti-money laundering, and I'm just wondering what OLG is doing to ensure that we can absolutely root out anti-money laundering. What steps have you taken since the report?

**Mr. Greg Orencsak:** I'll start and then hand it over to the CEO.

In terms of anti-money laundering, it's something that the province takes very seriously for good reason. I think that's why the gaming sector is highly regulated in Ontario, with a number of players, including provincial and federal partners, that have a shared commitment to the integrity of gaming in the province and across the country and also have responsibilities for anti-money laundering and enforcement.

The key regulator in terms of setting standards is the Alcohol and Gaming Commission of Ontario. The AGCO has an embedded enforcement unit staffed by OPP officers, who are at the front lines of working with casino operators in respect of anti-money laundering enforcement and investigations. And the federal government also has a role to play, obviously, through FINTRAC.

But I will hand it over to Duncan to speak more to this. If we run out of time, I'm sure that we can come back to this, as well.

**Mr. Duncan Hannay:** Thank you, deputy, and thank you, Member Crawford, for the question. This is obviously a critically important area to OLG, because it's really at the heart of maintaining the integrity of our business here in Ontario.

I will say that the Auditor General's recommendations were helpful, and we are certainly going to use those to continue to strengthen both our oversight of casino operators for anti-money laundering compliance, including the issuance—

**The Chair (Mr. Tom Rakocevic):** We're out of time. Just a quick wrap-up.

**Mr. Duncan Hannay:** I would say in closing that we're highly committed to working in what I would call an anti-money laundering ecosystem here in Ontario that includes OLG, the AGCO and law enforcement.

**The Chair (Mr. Tom Rakocevic):** We're going to go back to the official opposition, beginning with MPP Fife.

**Ms. Catherine Fife:** I'm going to continue on this line of questioning, especially given the news that came out two and a half weeks ago with regard to Casino Niagara.

I was looking at Mr. Warren's mandate letter, and you can appreciate I was really happy to find a mandate letter in the province of Ontario, because we still are in court trying to get those of the cabinet ministers. But in this mandate letter to you as chair, Mr. Warren, it highlights the 2023-24 priorities and it is from the Minister of Finance. In it, recommendation 6 reads as follows: "Reviewing and ensuring that the anti-money laundering (AML) processes for all gaming operators are appropriate, provide an update on OLG's AML strategy and adhere to necessary regulatory and legislative requirements as needed;"

Given the Auditor General's report that found that "the value of suspicious transactions reported was less than 1%

of revenues in 19 of 27 casinos, including Casino Niagara” and how, during their audit, they went through these mystery shopping assignments at four Ontario casinos to assess, obviously this is happening. The mystery shoppers were able to obtain casino cheques for \$4,900 and \$10,500 with limited play and without any proof of winning.

First, I want to just get some assurance from you as chair that you believe that this actually is happening, because in order to address a problem, you need to acknowledge that it exists. And, then, we were looking at possible solutions, so I wanted to hear what your solutions are that you’re thinking about, and then consider what the auditor said. I just wanted to give you a chance to address that.

**Mr. Jim Warren:** Thank you so much for the question, because there are two things that are fundamental to our business: AML and responsible gambling. More than a mandate letter, in every single meeting I’ve had with the Minister of Finance, he’s started those meetings off by flagging those two issues: “What is OLG doing on AML, and what is OLG doing on responsible gambling?” I think it’s fundamental to our business that we do those things right.

Both of those issues are things that do not have a zero success rate; there are always some issues. And so the question is: What are we doing to be at the forefront of issues on AML? What are we doing to be at the forefront of responsible gambling? It’s a priority of the minister, it’s a priority of the board and I know it’s a priority of Duncan personally as the CEO of the corporation. I think I’ll let Duncan talk a little bit about the specifics of what we’re doing with AML in response to the Auditor General.

I will say that the secret shoppers were caught, and they were put through the process. So I’ll turn it over to Duncan to talk about the specifics about what we’re doing from a priority of what the board has put forward and what the priority that the minister has shared with your concerns, member, for what we should be doing in Ontario.

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**Mr. Duncan Hannay:** Great. Thank you, Chair, for those comments—and to the deputy also.

First of all, again, we welcome the Auditor General’s recommendations and will continue to strengthen our oversight of casino operators as it relates to money laundering in the province. We have a very strict anti-money laundering program in place for all gaming sites in Ontario, and we file information reports to the Financial Transactions and Reports Analysis Centre of Canada, known as FINTRAC, as required. So allow me to provide you with just a little bit of context for background and insight into Ontario’s anti-money laundering ecosystem.

The number of suspicious transaction reports filed from Ontario casinos actually dropped between the period of 2019 to 2022. STRs in 2022 provided more transaction history, which increased information going to FINTRAC, which was an important change, and for OLG and law enforcement, more information on STRs means more valuable intel. The analysis of the STRs does take a bit of time before we can all act necessarily on them. So a first-

time offender, in the case of the Auditor General’s report, isn’t necessarily an example of how the entire anti-money laundering ecosystem in the province works together.

It is a highly regulated provincial gaming market. We work collaboratively with our provincial regulator, the AGCO, the Ontario Provincial Police or the OPP, the Financial Transactions and Reports Analysis Centre of Canada, FINTRAC, as well as our casino operators and the stakeholders to combat money laundering and financial crime in Ontario.

**Ms. Catherine Fife:** Is there a timeline? What’s the time frame? The RCMP, when they looked at what happened in Niagara, said that when reports are discovered, they don’t receive adequate response times from higher authorities. This is from RCMP Garry Clement: He says, “It’s a terrible thing to say, but it’s open season for individuals” in our casinos.

I wanted to ask you specifically around things that can be done, because the auditor also had some recommendations. In other jurisdictions, they tackled money laundering in a very specific way with checks and balances. So my question is, will OLG, in conjunction with the AGCO, implement requirements for all casino operators to issue casino cheques only when the funds are verified as a casino win?

What we found through the Auditor General’s report is that people are taking in mass sums of money, they’re getting the chips, they’re not playing, they’re ending their day, they’re walking out, their money is laundered. It’s happening in Ontario. There are checks and balances that can happen. You can implement requirements for all casino operators to obtain proof of the source of funds that buy-in for cash—is that in place in Ontario?

**Mr. Duncan Hannay:** Which order would you like me to answer—

**Ms. Catherine Fife:** Right now—because we’re on the issue—in Ontario do casino operators verify the source of funds at buy-in when they get their chips? Does that happen?

**Mr. Duncan Hannay:** Anti-money laundering, first of all, is a big priority for OLG. I will say that. We’re expanding requirements to ensure source of funds is obtained for all cash buy-ins above \$10,000.

**Ms. Catherine Fife:** Above \$10,000. Okay, thanks.

Then, what about the other question that I had where implementing requirements for all casino operators to issue casino cheques only when the funds are verified as a casino win—is that happening in Ontario?

**Mr. Duncan Hannay:** The instances of non-verified play flagged in this audit represents about 0.2% of gaming revenue that may be at risk of money laundering. That’s about \$800,000 at risk of \$3.85 billion—

**Ms. Catherine Fife:** Where did you get that 0.2%?

**Mr. Duncan Hannay:** It’s just a fact that came.

**Ms. Catherine Fife:** Okay.

**Mr. Duncan Hannay:** What I will tell you is that OLG monitors carefully the requirements for service providers to verify play and notes that these requirements are conducted correctly in over 95% of the cases. OLG agrees

with the Auditor General's recommendation that we should continue to strengthen our oversight of casino operators for AML compliance, including the issuance of casino cheques, and OLG is working with service providers to develop enhanced controls for cheque issuance.

**Ms. Catherine Fife:** And how does that oversight happen? You're looking for compliance, but the auditor recommended either regulatory or legislative changes, and so that's what I'm trying to get to. Do we require legislation to ensure that we are not leaving a grey area where money laundering happens in our casinos?

**Mr. Duncan Hannay:** OLG works very closely with the AGCO, along with the OPP and the casino operators, on enhanced AML risk measures. The OLG AML compliance program has set a very high standard for AML programs in Canada, and while monitoring and analysis of transactions, risk assessment and reporting and training as being really core components that ensure that our AML program is both effective and forward-thinking in the province recent measures developed in coordination with our partners, including the AGCO, have improved information sharing and targeted customer analysis, introduced targeted source-of-funds reviews, as well as enhanced training in critical areas like human trafficking and invested in new analytical resources and technology to identify risk.

One example, if I may: In our compliance testing plan for this year, we have included a cross-section of varying sites—small, big and new—to test for compliance within our AML program. Our site risk assessments were provided to the AGCO, who are conducting their own risk assessments and reviews. If there are any significant findings coming out of testing, we'll follow up to engage with the AGCO, review collaboratively and discuss potential next steps or changes to our compliance program.

We collaborate with all members of the AML ecosystem here in Ontario to continually exchange information, to evolve our AML program, and that includes having a strong relationship with the AGCO and the OPP in our ability to disrupt money laundering in the province.

**Ms. Catherine Fife:** It seems to me that we should have had the AGCO here today, as well, and perhaps we'll have a conversation about that later.

But I'm going to pick up on the question from my colleague around moving forward. You've given me some assurances around the bidding process. That threshold is not going to continue to undermine the original goals of modernization of gambling in Ontario. But the auditor also identified a source of competition for OLG, and this is from her report: "OLG had a monopoly on Internet gaming in Ontario. However, as of April 4, 2022, all private sector operators that have operating agreements with iGaming Ontario"—known as iGO, an AGCO subsidiary—"the province's Internet gaming agency, can offer online casino and sports betting in Ontario. This is in direct competition with the OLG's Internet gaming products."

At what point did you find out that the AGCO subsidiary was going to start an offshoot which would directly compete with OLG? Inquiring minds want to know.

**Mr. Greg Orencsak:** Let me start with that. I will, respectfully, on this point, disagree with the Auditor General—

**Ms. Catherine Fife:** How so?

**Mr. Greg Orencsak:** Because Internet gaming and these websites operated in Ontario illegally. It's not like that kind of Internet gaming did not take place, but it took place in an illegal market, so that competition already existed. Ontarians were placing bets using these websites that were not legal. There were no standards as it relates to the services that were provided by these websites. There was no benefit to the treasury from these websites, so that's my slight disagreement with the Auditor General.

**Ms. Catherine Fife:** But while I have you on that topic, there also is, then, a lack of transparency around the reporting of the money that the province gets from iGO. That is real. In fact, OLG stopped reporting on that, as well. For me, it's about transparency and accountability.

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**Mr. Greg Orencsak:** I think that transparency and accountability is being supported through the new entity in terms of iGO. So iGO is a new government business enterprise. It was established to be the contact and manager of iGaming. iGaming was legalized last April, and you will see that transparency through the financial statements that iGO will provide. Those financial statements will form the basis of the province's financial statements when we report out, for example, on the results for the last fiscal year as part of our public accounts.

**Ms. Catherine Fife:** And they will clearly delineate for every dollar that goes into gambling, how much goes to the province and how much goes to the operators?

**Mr. Greg Orencsak:** So those financial statements will include the full financial results of iGO, including its expenses and revenues that are informed by the operator agreements that exist with those private gaming providers.

**Ms. Catherine Fife:** So that's a yes? We'll be able to clearly tell how much public money is going into some of these ventures and then how much revenue we're getting and how much profit is being determined?

**Mr. Greg Orencsak:** You will be able to see all of the revenues and expenses of iGaming Ontario. That is what the financial statements will provide, and that will help answer those questions, so yes.

**Ms. Catherine Fife:** Okay. I want to go back to OLG as an entity right now, because I was reading through some of my notes and I was going back to that bidding process and how we ended up where we are right now. Back in 2012, it was McKinsey and Co. who were brought in to structure the bids and create a model for OLG to modernize the casino business in Ontario, and OLG actually spent over \$400 million on lawyers and consultants over the next four years to modernize the Ontario casino business.

I want to go back to the original intent around modernization. I mean, the goal was to remove the public investment into these casinos, right? To date, though—and I think this is actually a question for the deputy because of the relationship—I have a better understanding of your relationship with OLG. But OLG had told the Auditor

General that the reason for renegotiating minimum revenue commitments with, for instance, Great Canadian, which is problematic, was it “could have led this operator to enter bankruptcy protection.” However, as of December 31, 2020, Great Canadian have assets of \$3.1 billion and generated \$1.35 billion in revenues with a net income of \$297 million, so they were not at all facing bankruptcy.

You can understand, as the finance critic, if we are going to bail out a private operator like Great Canadian because they say they’re facing bankruptcy—I mean, when did that become the mandate of OLG or the Ministry of Finance for that matter?

**Mr. Greg Orencsak:** I think the mandate of the ministry and of OLG is to be able to ensure that the province can raise revenue through gaming and that gaming is conducted in a responsible way. Through the agreements and the modernization plan, those are objectives that were being sought.

I think from the perspective of the Ministry of Finance—and I think I tried to speak to this earlier—we obviously look at the annual results. They’re really important in terms of where we are today, what money and income can we count on this year, but also looking at what the results of modernization can be over the longer term, and that’s where growth is really important to us in terms of what it’s likely to get at—

**Ms. Catherine Fife:** Deputy, you understand, here was a company that said, “We’re on the brink of bankruptcy and we can’t meet our contractual agreements,” and then OLG forgave what they were supposed to be generating, and then at the end of the day there was never any concern around bankruptcy. They were not negotiating in an open and fair way, and we as a province didn’t do our financial due diligence in making sure that their bankruptcy claims were valid. So would you chalk this up as a learning experience, or are there now checks and balances to make sure this doesn’t happen again?

**The Chair (Mr. Tom Rakocevic):** Two minutes.

**Mr. Greg Orencsak:** I think Duncan spoke to this earlier as well. All of the AG’s observations, all of the learnings through the procurement process are being incorporated, for example, into how the Windsor bundle is being procured.

I would say to you, MPP Fife, what is again important for us to consider and is not included in the AG’s report is what would the province’s returns from gaming have been had modernization not taken place? There isn’t the base case that would suggest to us that would be really important to be able to compare the results to because what modernization has helped us with is, it helped to create an incentive structure where operators have an incentive to make investments, to grow gaming revenues, and just like their profits increase, so will the province’s profits.

**Ms. Catherine Fife:** I know, it’s hypothetical, but I don’t believe that we would be paying to the capital infrastructure for casinos. I guarantee you, especially in the midst of a housing crisis in Ontario. I do have some assurances that this is going to change, but the province and OLG are in a power position to negotiate these

contracts. We don’t have to accept poor results or renegotiate contracts, especially when we’re dealing with operators who claim bankruptcy when bankruptcy was never an issue.

So I would like to see the financial due diligence on these contracts to be held at a higher level so that the interests of the people of this province are actually at the forefront, at the centre—and my time is up.

**The Chair (Mr. Tom Rakocevic):** We’re out of time.

We will be returning to the government side, beginning with MPP Skelly.

**Ms. Donna Skelly:** Thank you, gentlemen, for your presentation.

My first question is focusing on online gambling. We know that, prior to April last year, OLG was the only company, organization, that offered online gambling. You mentioned illegal offshore gambling. Prior to April last year, how much money do you believe the province was losing to offshore gambling?

**Mr. Greg Orencsak:** I don’t have those figures on me, MPP Skelly, but basically it was losing every dollar that could have been generated for the province. I think under the new legalized framework, there is in place a revenue-share rate with respect to how revenues are shared between iGaming operators and the province, and that’s an 80-20 share rate. So the private sector operators get to keep 80% of the revenue and the province gets 20%, and the province’s expenses are paid out of that 20%. But there was no revenue-sharing in place obviously under an illegal market, and there were no standards and no regulation in place either in terms of responsible gaming, for example in terms of self-exclusion programs and the like.

**Ms. Donna Skelly:** Although you’re arguing differently, the Auditor General states in her report that: “The growth of Internet-gambling revenue has slowed at the Ontario Lottery and Gaming Corp. and the arrival of more than 20 other online sports-betting sites in the province may be the reason why.” You disagree. Maybe somebody from OLG can talk about what separates you from the pack? Why would someone want to choose your agency to gamble with as opposed to any of the other private sector online sites?

**Mr. Greg Orencsak:** If I could just clarify my comments. I disagreed with the Auditor General respectfully in that there was no competition to OLG prior to legalization of iGaming because the competition was through these illegal websites that, as we’ve talked about earlier, there was no regulation of and there was no benefit to the province from those illegal websites. But consumers in Ontario did use those illegal websites, in addition to playOLG.

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But I will now turn it over to the CEO to speak to the specifics of your question.

**Mr. Duncan Hannay:** Great. Thank you for that, Greg, and thank you for the question, member.

Certainly, it’s a priority for OLG to remain competitive in the digital gaming marketplace. OLG has been investing in its digital platform. In fact, in October 2020, we



launched our new product at OLG.ca. It's a new online gambling platform that replaced our old playOLG platform, and it combines our digital offerings on our website to leverage the significant traffic that we receive on our website, whether that be from online gamers or whether that be from lottery customers. In 2021, OLG further evolved our digital products to include native apps, in the spirit of being competitive, as well as our digital sports-betting solution, Proline Plus.

Excluding iLottery products, it is estimated that OLG accounts for approximately 20% of the current Ontario online gaming market, so we would be a major competitor in that market. Our online gaming platform has grown to 1.6 million registrants and more than 314,000 active players each and every month. The digital business, in fact, is expected to grow from \$59 million to \$302 million in NPP and \$139 million to \$669 million in proceeds from the period of fiscal 2020 to fiscal 2023, which just ended at the end of March. This return to province is greater than the sum of the regulated market combined.

Our online platform is high-margin. Approximately 45% of proceeds translates to the net profit for the province. As the Auditor General duly points out, our ability to remain competitive in that space is going to be critical.

I also mentioned our Responsible Gambling platform, our position around PlaySmart and the trust that we have with Ontarians as a long-time operator in this marketplace. I think that's also core to our proposition in that gaming market.

**Ms. Donna Skelly:** I guess what I'm looking for, without giving away all of your secrets or the secret formula—all of these other companies are investing in their online platform. We have sports betting, we have everyone now using professional athletes, and there's a lot of controversy surrounding that. What sets you apart from anyone else? I'm sure that same message is being repeated in every other platform, in every other gambling facility. So why would anyone move to your particular website to gamble?

**Mr. Duncan Hannay:** Great question. Thank you for that, by the way. On any given week, we engage up to 60% of the adult population with our products—

**Ms. Donna Skelly:** In Ontario?

**Mr. Duncan Hannay:** In Ontario. So we're a well-established brand in this province—

**Ms. Donna Skelly:** So you should have 60% of the profits.

**Mr. Duncan Hannay:** We're trusted by Ontarians, and we're known to be a provider that also looks out for the interests of our players as well with our Responsible Gambling program, PlaySmart. So I think our brand sets us apart.

The fact that we offer lottery products through our digital channel as well to complement the other gaming solutions, as well as sports betting, is core to our proposition. At 1.6 million registered adults on our platform, that's a significant opportunity for us to continue to grow,

bring new products to market and responsibly grow that part of our business here in Ontario.

**Ms. Donna Skelly:** So let's talk about responsibility. This is really tough. I couldn't imagine the position you're in, but let's face it: Online opportunities usually target younger people. How do you grow your business without targeting younger people, and what measures are you going to put in place to ensure that we're not creating a problem that we're not going to be able to deal with? How's that from a mom?

**Mr. Duncan Hannay:** No, listen, I think that's a fabulous question and certainly one that a mom should be asking. In her report, of course, the Auditor General made a number of recommendations for OLG. I'll point out again we operate a world-class Responsible Gambling program. It's really the cornerstone of our competitive advantage and to why we exist as an organization. We believe it's critical to the long-term sustainability of our business in this market.

The Game ON strategy that our chair recommended off the top is integrated across all areas of our business, from lottery, to digital, to casino, to charitable gaming. That Responsible Gambling PlaySmart program cuts across all areas of those businesses. We're investing \$19 million in our commitment to player health across our land-based gaming, lottery and digital businesses in fiscal 2024. All employees and service providers are required to complete our award-winning, foundational PlaySmart training. In addition, all management and designated front-line staff are required to complete advanced-level training co-designed and co-developed by the Centre for Addiction and Mental Health.

We are the first Canadian operator to adopt facial recognition in casinos.

**Ms. Donna Skelly:** What about for online?

**Mr. Duncan Hannay:** We verify all players who register online. They have to have proof-of-age verification at the point that they register.

**Ms. Donna Skelly:** But how do you follow up? They register, and then down the road they're playing again—how do you know it's not stolen ID?

**Mr. Duncan Hannay:** Without giving away the secret sauce, as was said earlier, we have a number of checks and balances within our system to ensure that those who play—for example, facial recognition in the casinos, enhanced identity verification online. And of course we have checks within our retail environment: anyone looking under the age of 25 would be asked to provide proof of identification.

**Ms. Donna Skelly:** Okay. I'd like to talk about bricks-and-mortar before handing it over to my colleague.

I'm from Flamborough—Glanbrook, so I have Flamboro Downs in my riding, and I think they probably contribute about \$4 million annually—it's around the \$4-million mark to the municipal coffers.

Are you considering perhaps rethinking the agreement with some of the casino operators and giving a little bit more cashflow to the municipalities?

**Mr. Duncan Hannay:** As I said earlier, it is a set formula that we have with municipalities today.

**Ms. Donna Skelly:** It's a sliding scale.

**Mr. Duncan Hannay:** It's a sliding scale. It's consistent across the board. We believe it's fair and it's working effectively, and those monies are certainly going to good use, as I know is the case in your riding. At this moment, we are not looking at making any major changes to the municipal contribution agreements which are also embedded in our contractual commitments with those service providers.

**Ms. Catherine Fife:** But still negotiable.

**Ms. Donna Skelly:** Yes, it is still negotiable.

I think I'm going to hand it back over to the birthday boy.

**The Chair (Mr. Tom Rakocevic):** MPP Byers, you have nine minutes.

**Mr. Rick Byers:** Excellent.

Thank you very much for your presentations this afternoon and for the discussion. It's very much appreciated. It's an important report by the Auditor General on important lines of business.

I might just start with both you, Duncan and Deputy Minister, as you reflect on the report—I started my career as an auditor, and as you can tell, that was an awfully long time ago. In giving reports, I appreciated it when my clients said, "I hadn't thought of that. We're going to change." As you reflect on the report—and you've commented a little this afternoon—can you give a sense of a couple of examples where you said, "That was valuable insight, and we're changing operation activities as a result of the recommendations you've provided"? Any observations would be welcome.

**Mr. Greg Orencsak:** Sure. And if it is indeed your birthday, happy birthday to you.

**Ms. Donna Skelly:** He's really milking it today.

**Mr. Rick Byers:** I am indeed, and I'll continue to.

**Mr. Greg Orencsak:** You're entitled.

As we said at the outset, it's always valuable to have the Auditor General look at things, look under the corners. Sometimes hindsight is 20/20, and the auditor often looks backward; in government, you have to be able to look forward.

If I look at a budget-planning process, for example, the province has a multi-year fiscal plan, it has to make some assumptions about the future. It needs to be able to rely on forward-looking plans to be able to inform a business case, inform the benefits realization as it relates to modernization, for example.

**1520**

I think some of the recommendations that are particularly useful in respect of what Duncan had already pointed to around anti-money laundering—some of the changes that OLG is making in respect of how cash is handled in casinos—are a really good example of something that's positive in the Auditor General's report.

But I will share the floor with Duncan because you had asked for his perspective as well.

**Mr. Duncan Hannay:** Great. Thanks, deputy, and thank you for the question, member. I'm still relatively new to OLG, I guess you could say, so I would say that—and I think culturally as an organization, we really welcome input from outside parties, including the Auditor General. We find those recommendations, those observations to be helpful to our business. We want to learn. We want to adapt our business and certainly change in line with the viewpoints of others that scrutinize our operation. OLG is certainly a very heavily audited organization, I would say. So I've had the benefit of a great deal of information at my disposal and at my team's disposal to make changes.

The areas that I would say, as a management team within OLG, we have really centred our focus on, particularly over the last couple of years, would be anti-money laundering, the impact and effectiveness of casino modernization and cyber security I would say would be the other key areas. So I think amongst the many recommendations that the Auditor General put forward, it's those in that area that we are scrutinizing, and scrutinizing ourselves, to look for ways that we can do better.

We recognize that modernization was imperfect. I think on the one hand, we can reflect and look back and say that we've seen \$2 billion in private sector capital coming into Ontario to modernize and build new casinos and expand that offering within the province. That's money that was unlikely to come into those operations without it. At the same time, we had some learnings from modernization. These are complex, multi-year, very complicated agreements.

As we look at the business and as we look at those revenue thresholds that were put in place with those casino providers, I think, on the one hand, we can say that those revenue commitments will actually be exceeded over the first 10 years of modernization by \$6 billion. So that's quite good.

I know there's a lot of specific instances in terms of contract negotiations that the Auditor General would criticize, and we accept that. I think what we've done in response to that is to ingest that input and that information as we look to modernize Windsor now as our final bundle and make sure that we include those guardrails, both in the RFP process as well as in the contracting with a new service provider in Windsor to ensure that, for example, capital commitments that are made are in fact commitments that will be delivered contractually.

We'll also position our contracts in a way that—I'm not saying there won't be any renegotiation. These are complex, long-term contracts, and things do change, in fact. But we want to provide more certainty to the province as we go through this contracting process with a new service provider.

Those would be really the three areas that I would centre on in terms of the benefit that the Auditor General provided.

**Mr. Rick Byers:** That's very valuable in both respects. I'd maybe actually ask the ward chair, Mr. Warren, the same thing: Even though auditors' reports tend to focus,

as they should, on a lot of operational matters—perhaps from a governance point of view, any practices, as you reflected on it, or a skills matrix around the table? Governance and government agencies have got different elements, of course, some of them more challenging. I don't know whether there's other elements that came out of that Auditor General's report that you and your board have reflected on as well.

**Mr. Jim Warren:** It was interesting for me as board chair, because of course I was appointed in December 2022 and I think my first meeting with the auditor was in March 2023, so it was pretty quick. Her first question to me was why had I not made any expenses, and I'm like, well, because I haven't had the chance to go anywhere. It was COVID and I had been at home on Zoom all the time. It was one of my first in-person meetings.

A great recommendation that the auditor put forward was that the board was not using enough outside consultants. In fact, the board was using no outside consultants at all. And so—of course in a judicious way—the board has looked at ways, around exec compensation and a few other matters that we're looking at this year to look at and re-examine from her report, that we not just get the advice and guidance of management, which do a great job, but that it's also equally important for us to get, as a board, some outside, independent advice and guidance, as recommended by the Auditor General. We've already implemented a new procurement process in order to do that—again, of course, supported by a business case—so that we get some value for the taxpayer. But getting that independent third-party advice to the board is very important.

**The Chair (Mr. Tom Rakocevic):** A minute left.

**Mr. Rick Byers:** Excellent. Todd, do you want to go?

**Mr. Todd J. McCarthy:** Yes. I just want to, through you, Chair, close with this question: With respect to partnering with Indigenous communities, I note that Great Blue Heron Casino on Scugog Island, among the First Nations, the Mississaugas of Scugog Island, has the expansion, one of seven renovation projects across the province, and also a \$30-million investment in a new hotel. Is that an indication of the continued confidence in the important partnership with Indigenous citizens as well?

**Mr. Jim Warren:** The one thing—as the board chair, I'll answer the question—is, I think we're trying to actually redefine the relationship between OLG and First Nations. As board chair, this past fall, for the first time ever, we went on the road as a board and had the meeting at Great Blue Heron, had Chief LaRocca come and address the board and come and speak directly to the board—

**The Chair (Mr. Tom Rakocevic):** We're at time.

**Mr. Jim Warren:** —to talk about the history of what's happened in the past and how we can work better together in the future. So we're doing more than just talking; we're trying to do as well.

**The Chair (Mr. Tom Rakocevic):** Thank you very much. That concludes the time for questions this afternoon. I'd like to thank all of you for appearing before the committee today. You're dismissed. Thank you.

We will now pause briefly as we go into closed session so that the committee may commence report writing.

*The committee recessed at 1528 and later continued in closed session.*

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