ALBERTA CHARITABLE
CASINO OPERATORS

Responsible Proposals for the Regulation of Internet Casino Gaming in Alberta

Supporting jobs, growth, and long-term revenue

SUBMISSION TO THE GOVERNMENT OF ALBERTA

NOVEMBER 2023

Introduction

The Government of Alberta is contemplating regulation of Internet casino gaming (I-gaming). Associated long-term government revenues will be best maximized through a tax and regulatory framework that bolsters economic output by both the land and online streams of the casino industry.

Regulated I-gaming is in early stages across North America. In addition to Ontario, only a handful of U.S. states (7) have regulated Internet casino games. Regulation design is unique to each jurisdiction, generally reflecting specific economic circumstances and stakeholder requirements. The norm thus far, reflected in all relevant U.S. jurisdictions, has been to use “tethered” licensing models that bind the economic interests of both land and online providers to facilitate long-term growth in both streams. These “tethered” models vary considerably but share the common objective of maximizing government revenues. Ontario’s open model – implemented only in April 2023 – presents an anomaly relative to this norm. The long-term revenue potential of this approach has yet to be assessed or fully validated through proven performance. A regulatory approach that supports both streams will maximize returns to government and guard against the risks of untested regulatory models. This can be achieved under both open and tethered approaches.

The Government of Alberta is considering implementation of the Ontario model. In principle, this model squarely meets Alberta’s focus on minimal barriers to entry and low taxes. In practice, Alberta’s existing casinos operate in a highly structured market with the highest casino taxes in Canada. As a result, the industry already is not operating at its full potential. To bring Alberta’s casinos to their full potential, maximize government revenues, and keep dollars in the province, modifications to both the contemplated Ontario model and the existing land-based tax framework will have to be made. In addition to tax adjustments, new regulations must look to the future by supporting and encouraging effective integration of land-based and online streams. To date, this has not happened in Ontario, and Alberta will need to keep this in mind.

ACCO’s tax proposals outlined in this paper would keep up to $96.39 million in additional tax dollars in the province.

New revenues from land-based operators would annually produce or sustain[1]:

- Between 485 and 565 FTEs.
- Between $27 million - $33.25 million in labour income.
- A return to AGLC of between $57.75 and $142.45 million.

Relative to the contemplated 20% Ontario tax model, new revenues from online providers would additionally annually produce or sustain:

- Between 842 and 988 FTEs.
- Between $47.6 million and $58.5 million in labour income.

1. See Appendix B: Economic Multipliers

Tax recommendations for land-based and online casinos

At its meeting with GoA officials on October 27, 2023, ACCO focussed its comments on the poor state of Alberta's land-based casinos, relative to our peer casinos in other provinces, and international comparators. Internationally and throughout Canada, the industry is evolving. The long-term focus has been to tackle head-on the industry's historical overreliance on an aging demographic by attracting younger and more experience-focused players through investments in expanded offerings that include best-in-class entertainment, dining, and hotels.

Alberta's casino operators have not followed this trend due to the casino operators' tax/revenue share in this province of 83:17 which is unique in Canada for its high level. Excepting the current temporary 2% adjustment, which is already set to expire in March 2025 this extra-ordinally high tax rate has not been adjusted in over two decades. This continues to hamper industry's capacity to invest in long-term growth through facilities improvement and strategic marketing.

Land-based and I-gaming casinos share players, presenting significant opportunities to drive revenue growth in both segments through data integration, cross-promotion, and cross-play. To successfully achieve this outcome, both segments need continuously modernized offerings to mutually acquire, share, and retain players. This is where Alberta's land-based industry falls short, and why the Government of Alberta needs to revisit its approach to industry taxation.

To summarize: *highest casino taxes in Canada = dampened investment in facilities and customer acquisition = outdated facilities = limited capacity to capture new opportunities, increase economic output and grow revenue.*

At 83% Alberta has the highest casino taxes in Canada

This results in reduced investment in facilities and limited capacity to capture new opportunities.

The tax rate has not been adjusted **in over 20 years**.

Table 1: Summary of ACCO recommended tax improvements.

Tax Category	Level	Duration	Rationale
Cap-ex adjustment	5%	Permanent. 5-year review	1. Operators need immediate tax relief to support facilities investments. 2. Immediately increase 2% temporary commission adjustment to 5%. 3. Make permanent so operators can commence cap-ex initiatives.
I-gaming market entry adjustment	5%	5-year minimum	1. Alberta's 83% tax level leaves little cash flow for marketing. 2. Immediate support is needed to drive customer development.
I-gaming tax rate	47%	5-year review	1. FAIR rate in the Canada-Alberta casino gaming market. 2. 7% lower than highest applicable U.S. rate of 54% 3. 3% lower than lowest approximated Canadian rate of 50% (ON.)
Sportsbook commission rate	N/A	N/A	1. AGLC single provider model is unworkable. 2. Commission structure can be re-evaluated when competitive model is introduced.

Policy considerations

Casino tax rates compared.

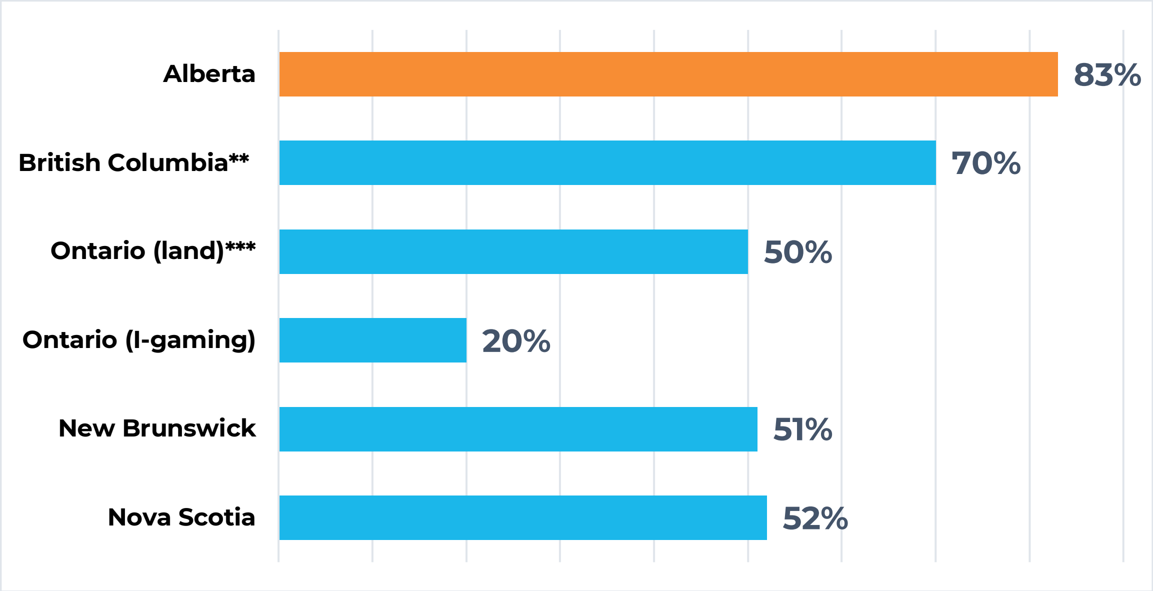
In jurisdictions where casino services are supplied by the private sector, operators are compensated through revenue share agreements with provincial governments. Applicable revenues are generated from the net win of slot machines and table games. The share which operators keep is their income. The share which they turnover to government is a tax.

By way of example, the casino revenue share in Alberta is 83:17. Operators are taxed 83% of slot machine net winnings. They keep only 17% of gross revenue to cover all costs and extract a profit. At 83%, Alberta's casino tax is Canada's highest by a significant margin.

Irrespective of tax model employed, in all jurisdictions the bulk of revenue (100% in Alberta) is derived from slot machines.

Casino taxation levels in relevant Canadian jurisdictions are outlined below, along with the difference relative to Alberta's 83% tax.

Table 2: Canadian casino tax rates compared



Casinos in BC, Alberta, Ontario, New Brunswick, and Nova Scotia are operated by private Service Providers under contract with respective provincial gaming authorities. Tax revenue splits for Saskatchewan, Manitoba, Quebec and PEI are excluded from the above table because casino operations in Saskatchewan, Manitoba and Quebec are managed either by a provincial gaming authority, or First Nations, and PEI's 2 Casino operations are managed by the Atlantic Lottery Corporation.

**Service Providers pay 75% tax and receive from government 5% of total net win for investments in facilities improvements and strategic non-capital, resulting in a net tax of 70%. Taxes on table games vary by type of game, ranging from 22.5% on craps to 60% on high limit tables.

*** Service Provider performance thresholds, fixed payments, and cap-ex reimbursements, paid to operators by Ontario Lottery and Gaming Corp (OLG) up to agreed thresholds are individually negotiated between each operator (per individual site) and OLG. Uniform to all operators, tax is reduced to 30% for performance above negotiated thresholds. ACCO understands that Ontario's effective negotiated tax rate is consistent with Canada's lower tax jurisdictions of New Brunswick and Nova Scotia, in the range of 50%.

When compared to tax rates in B.C., Ontario, New Brunswick and Nova Scotia, Alberta's rate of 83% is demonstrably excessive. Both British Columbia and Ontario (excepting the COVID period) have experienced high rates of capital investment and are well positioned for long-term growth.

With a difference of 63%, the excessiveness of Alberta's 83% rate, is more so evident when compared to the current tax rate of 20% for I-gaming in Ontario. A key policy objective behind Ontario's use of a 20% rate for I-gaming has been to quickly transition Ontario's online players from unregulated to regulated gaming sites. Revenue capture has been a secondary policy objective. The 20% rate has effectively subsidized online entrants to embark on aggressive marketing campaigns to make that transition possible. There have been negative policy and public health outcomes resulting from these market flooding campaigns, including significant public outcry. Political decision makers and online operators are struggling with how to balance allowable advertising as an effective tool to acquire both new and grey market players with legitimate public imperatives to constrain gambling addiction and otherwise protect the vulnerable, especially youth. A more balanced tax policy, as proposed by ACCO, will assist with the mitigation of this challenge.

From a tax policy perspective there is no good rationale for such a low rate. Online operators will pay more than 20%, and should be charged more, based on fundamental principles of commercial tax fairness. A proper balance between online and land-based operating conditions is required for the long-term health of the combined casino gaming industry.

Table 3: Tax differential compared between land-based and I-gaming Operators in New Jersey, Pennsylvania, and Ontario

Province / State	Date of regulation	Land tax / revenue	I-gaming tax / revenue	Difference	Comments
New Jersey	Nov. 2013	**17.5:82.5	17.5:82.5	**ZERO**	Taxed at parity.
Pennsylvania	July 2019	54:46	54:46	**ZERO**	Taxed at parity.

Despite PA's higher tax rate vs. New Jersey, market participation is high. As of 10/23, Pennsylvania has the highest monthly revenues of all regulated I-casino gaming states in the US.

*** It is worth noting that New Jersey Casino operators retain essentially the same amount in earnings (82.5%) as the Alberta government takes in tax (83%) from Alberta's casino operators.*

Seven U.S. States regulate Internet casino games. Regulation design is unique to each jurisdiction, generally reflecting specific economic circumstances and stakeholder requirements. State governments have preferred to employ "tethered" licensing models that bind the economic interests of both land and online providers to facilitate long-term growth in both streams. These "tethered" models vary considerably but share the common objective of maximizing government revenue by driving income growth in both segments through data integration, cross-promotion, and cross-play.

ACCO has previously submitted to government that an appropriate tax rate for I-gaming companies in a tethered framework is 47%, as this level is low enough to attract new entrants and high enough to ensure that monies generated by I-gaming providers do not unnecessarily leave the province. This rate remains suitable, irrespective of the regulatory model implemented.

This is demonstrated by reviewing two U.S. models with vastly different tax policies, but similar revenue outcomes for their jurisdictions. New Jersey (2013) and Pennsylvania (2019) have the longest relevant track records and most easily comparable data to the Alberta, Ontario, and Canadian I-gaming context.

- At 17.5%, New Jersey has one of the lower I-gaming tax rates of the seven regulating states, and lower than Ontario.
- At 54%, Pennsylvania has the highest I-gaming tax rate of the seven regulating states, and considerably higher than Ontario's I-gaming rate of 20%.
- In New Jersey, I-gaming presently constitutes approximately 35% of the total gaming market in the state, after 10 years of regulation.
- In Pennsylvania, I-gaming has only been regulated for 4-years, but online gaming revenues already constitute approximately 30% of total gaming revenues and can be expected to keep growing.
- In August of 2023, Pennsylvania - despite its substantially higher tax rate - surpassed New Jersey with the highest online casino gaming revenue of all regulated states ($171.9 million vs. $155.3 million).

Two observations can be made from these comparisons

With Alberta's tax rate of 83%, from a practical standpoint parity with I-gaming operators presents a significant policy challenge

I-gaming operators are clearly willing to enter new markets and compete at rates well above the 20% rate currently charged in Ontario.

Additional Documents

Government of Alberta questions from October 27, with detailed replies

Q1: *Without* the potential for regulated I-gaming in Alberta, what tax change is required, and for how long, to bring casino infrastructure up to industry standards.

A: A further 3% decrease in tax rate from the current 83% to 80% on a permanent basis. B.C., Ontario, New Brunswick, and Nova Scotia all view continued capital expenditure as essential to long-term industry development and provide support to industry for this purpose. ACCO's proposal is based on the existing Facility Improvement Commission framework currently in place in British Columbia, which is straightforward, simple, and easy to administer. The British Columbia Lottery Corporation annually provides Service Providers with 5% of net win for facility improvements and certain marketing initiatives to grow long-term revenues. Capital and marketing support has long been a foundational element of the regulated casino industry in BC. These expenditures are over and above BCLC expenditures on slot machines and maintenance (costs that are also absorbed by AGLC in Alberta.

By way of simple comparison, on average, the quality of casino facilities in British Columbia is demonstrably superior to those of Alberta. The reason for this is simple. Through its Facilities Improvement Commission of 5%, in fiscal 2022/23, BCLC provided operators with $96.8 million[1]. Contributions at this level occur annually. By contrast, Alberta operators find it very difficult to maintain facilities to meet modern consumers' expectations, specifically because they receive no support for facility development and are taxed at 83%.

Effective April 1, 2023, AGLC implemented a "Temporary Commission Adjustment" for two years. The adjustment reduced the tax on land-based operators from 85% to 83%, ostensibly to drive further market growth by supporting capex and marketing expenditures. The "temporary" nature of the increase was implemented by AGLC's Board of Directors to test the viability of the program, with a view to validating the program and increasing the amount – by undefined intervals – toward the five percent target rate. No target date for implementation of the full 5% has been set by AGLC.

However, due to the program's short-term nature, no major capex initiatives will be undertaken using these new monies. As the amounts are very modest, and because the planning, capital raising and build phases of a major capex initiative take much more than two years, it is impossible to validate the capex component of the temporary adjustment. The program is currently being assessed at six-month intervals. The first assessment is currently being completed. ACCO has urged AGLC to accelerate implementation of the full 5% increase.

In support of this initiative, ACCO worked in alignment with AGLC on impact projection models (attached as *Appendixes B and C*) regarding a 2% tax decrease on labour income, employment, and return to AGLC.

Using these models, a permanent tax reduction of 5% for casino operators would annually produce and/or sustain:

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[1] *BCLC Gambling Service Provider Commissions Report Fiscal Year 2022/23, pages 4-5.*

- Between 485 – 565 FTEs.
- Between $27 million - $33.25 million in labour income.
- A return to AGLC of between $57.75 and $142.45 million.

Q2: *With* the potential for regulated I-gaming in Alberta, what additional tax support would the industry need to compete with I-gaming companies.

Given that substantial new capex developments could take at least 5 years to plan, finance and build, operators would require an additional tax adjustment of 5% for at least five years, primarily to support long-term player development and marketing with a view to a future integrated market offering with best-in-class gaming and entertainment experiences.

Q3: What is a suitable tax rate for I-gaming companies?

ACCO's preference is for tax parity (after land-based taxes have been reduced).
In the alternative we have previously proposed 47%. 47% is a fair rate in the Canadian and Alberta context, for the following reasons:

- Based on an estimated available market of $330 million, a 47% tax rate will provide the Government of Alberta with annual revenues of $155.1 million vs. only $66 million at a 20% tax rate.
- 47% is lower than the highest I-gaming rate in the U.S., which is 54% in Pennsylvania.
- Pennsylvania's market is highly competitive. Fiscal 2022-23 reported year-over-year I-gaming revenue growth of 24%.
- In August 2023, Pennsylvania was the highest grossing I-gaming state in the U.S., surpassing states with tax rates lower than 10%.
- 47% is lower than the lowest land-based rate in Canada, which is 51% in New Brunswick.

The global I-gaming industry will make little to no capital investment in Alberta. Every dollar that is not taxed will leave the province – up to $264 million annually.
A 20% tax rate, per the Ontario model, is essentially a subsidy to already cash-rich companies that will use the money to flood the market with unwelcome ads for the purpose of securing regulated market footprint. Under-resourced land-based operators will be unfairly forced to surrender a portion of this footprint due to Alberta's antiquated regulatory and tax design.

Q4: What is a suitable commission structure for retail sportsbook?

The AGLC's current single-provider sportsbook model and proposed commission structure is unworkable and needs to be revisited. There is no competition under the current retail sportsbook model developed by the AGLC. Vendor pricing is automatically distorted in favour of the vendor, and AGLC serves as an intermediary between operators and the sportsbook vendor. Therefore, there is no room for operators to negotiate or have a say in preferred pricing.

Appendix A: ACCO model vs Ontario's 20% tax model

Modelling updated relative to submission of September 11, 2023, due to updated business plan forecasts published by AGLC.

Assumptions

- This is a simplified model for a normalized 12-month period, using AGLC's 2025 online revenue projections.
- AGLC has previously indicated that it has captured approximately 30% of the illegal market through the PlayAlberta platform.
- 2025 AGLC projections of $153 million place total available market at approximately $510 million.
- **Remaining illegal market is $357 million**, which serves as the base figure for ACCO's projected tax income and patriated revenues.
- Under ACCO's model, **Alberta keeps an additional $96.39 million in-province**.

Ontario's 20% tax model	Total available online market	Estimated Available Illegal Market	Online Operators Retain in income. **80 %**	AGLC / GOA Retains in tax revenue **20 %**	**Dollars Leaving Alberta**	**Dollars Remaining in Alberta**
	$510 m	**$357 m**	**$285.6 m**	**$71.4 m**	**$285.6 m**	**$71.4 m**
ACCO Proposed Model	Total available online market	Estimated Available Illegal Market	Online Operators Retain in income. **53 %**	AGLC / GOA Retains in tax revenue **47 %**	**Dollars Leaving Alberta**	**Dollars Remaining in Alberta**
	$510 m	**$357 m**	**$189.21 m**	**$167.79 m**	**$189.21 m**	**$167.79 m**

Additional Benefit to Alberta through ACCO model: $96.39 m

Assuming this additional $96.39 million is fully deployed in Alberta's economy, using the standard multipliers in *Appendix B*, the additional annual benefit relative to the Ontario 20% tax model will be to annually produce or sustain:

- Between 842 and 988 FTEs
- Between $47.6 million and $58.5 million in labour income

Overall, using standardized models, the $167.9 million produced from the ACCO model will annually produce or sustain:

- Between 1,477 and 1,722 FTEs
- Between $82.9 million and $101.9 million in labour income.

Appendix B: Economic Impact Multipliers

This modelling, presented by ACCO, was utilized by AGLC to inform the business case for implementation of the temporary 2% Commission.

The following economic impacts are projected from a full investment of the 2% increment:

- Between 194-226 FTEs supported
- Between $10.8 and $13.3 million in labour income
- Average annual earnings per FTE of between $56.1 and $59.1

Projected economic impacts on FTEs and labour income reflect both sustainment of existing positions and newly created FTEs. Projected impacts are based on annualized output and do not account for planning and construction lead times on capital investments.

Methodology

These projections were developed using standard economic multipliers published and utilized by Alberta Treasury Board and Finance (TBF), based on the 2017 Supply-Use tables produced by Statistics Canada. Each table includes multipliers to measure impacts, by sector, on total output, GDP, labour income and employment (expressed as # of jobs per $1M).

Casinos have evolved into complex, labour intensive operations that support thousands of full and part-time jobs in gambling services, non-residential construction, arts and entertainment, recreation, accommodations, food services, public relations and marketing and other services.

To establish suitable income and FTE projection ranges that reflect the industry's economic contribution, we applied multipliers from two TBF tables to measure a) direct and indirect impacts, and b) direct, indirect, and induced impacts, as follows:

	Multipliers: Direct and indirect		**Multipliers: Direct, indirect, and induced**	
Sector	**Labour income**	**Employment per $1 mil**	**Labour income**	**Employment per $1 mil**
Non-residential building construction	0.402	4.8	0.472	5.5
Repair construction	0.522	6.5	0.641	7.4
Advertising, public relations, and related services	0.495	6.2	0.601	7.0
Gambling industries	0.394	7.3	0.463	8.4
Food services and drinking places	0.542	14.9	0.674	17.4
Arts, entertainment, and recreation	0.614	13.1	0.791	15.9
Average	0.494	8.8	0.607	10.26
Impact (*22 million)	**$10.8 M**	**194**	**$13.3 M**	**226**
Impact: Av. income	**$56,115**		**$59,088**	

Appendix C:
Projections and Methodology – Return to AGLC

This modelling, presented by ACCO, was utilized by AGLC to inform the business case for implementation of the temporary 2% Commission.

Projections

Based on an investment of $22M, industry projects an annual return on investment to AGLC in the range of 1.05 to 2.59, representing $23.1 million to $56.9 million as follows:

Scenario	Investment amount	Total ROI	Incremental Slot Net Sales	Charities 15%	Operators 15%	AGLC 70%	AGLC ROI Multiple
1.	**$22,000,000**	Min. 1.5	$33,000,000	$4,950,000	$4,950,000	$23,100,000	1.05
2.	**$22,000,000**	**Outliers removed** Mid – 2.6	$57,200,000	$8,580,000	$8,580,000	$40,040,000	1.82
3.	**$22,000,000**	Mid – 3.7	$81,400,000	$12,210,000	$12,210,000	$56,980,000	2.59

Industry cannot account in advance for how the new investment dollars will be distributed by investment category. The model assumes an even distribution of monies across all three investment categories (as described below).

Methodology

To achieve projections grounded in Alberta-specific casino investment experience, operators submitted to AGLC. 21 recent examples of successful investment initiatives in the province, across three categories of investment:

- capital investment /facility improvement
- marketing and promotions
- non-gambling entertainment

Operators reported the impact of these investments on net slot sales and provided relevant comparative reporting periods against which the AGLC could measure the results. The AGLC reviewed and validated all submissions. The AGLC calculated an Operator ROI multiple to slot revenues for each submitted example, where ROI represents total slot net sales, divided by the amount invested, and annualized where appropriate. These ROIs were shared by the AGLC with industry for the purposes of building this business case. The AGLC's direct participation in the analysis was utilized, both for validation purposes and to safeguard operators' proprietary information. Industry used the AGLC's ROI data to establish a range of potential future returns that could result from a full investment of the proposed 2% increment.

We applied a conservative approach, which set low targets relative to the range of ROI's achieved in the 21 validated examples. For greater prudence, outlier investments in all three investment categories were removed, in other words, all investments with a disproportionately positive performance. Projection targets were then set using a three-step methodology, as follows:

1. The **low-end** was set to the investment with the **lowest return (ROI: 1.5)** of all 21 AGLC-validated examples, across all categories of investment.
2. The **high-end** in each category was set as the **median ROI** for that category.
3. The **middle** value was set to **the mid-point between the low-end (1.5) and the high-end (median)**.

This approach mitigates for exceptional / non-replicable circumstances and allows for conservative projections.

About ACCO

Alberta's bricks and mortar (B+M) Casino industry is comprised of properties managed by Traditional Charitable Casino Operators, Host First Nations, and Racing Entertainment Centres.

The Alberta Charitable Casino Operators (ACCO) represents the majority of private sector traditional charitable casino operators and properties across Alberta. We provide information, perspective, and industry insight for decision makers throughout the Provincial Government, Alberta Gaming, Liquor and Cannabis (AGLC), participating charitable organizations, community stakeholders, media, and the public.

Alberta's Traditional Charitable Casino Operators invest in our communities, pay taxes, create jobs, and provide top quality entertainment experiences.

Key industry Facts

Casinos generate approximately **10,000 jobs** in Alberta and **$554 million in labour income**.

<u>In 2021-22</u>:

- Bricks and Mortar casinos generated **$871.7 million** in net sales.
- 62.5% of net sales – **$545 million** – was generated by traditional charitable casino operators.
- Each year, on average, all casinos together generate more than **$200 million** for Alberta charities.
- With 14,491 slot terminals and 5,584 Operating Video Lottery Terminals, Alberta has the most gaming machines per adult of all Canadian provinces.
- Alberta's market is saturated with limited room for growth.