

New Bingo Revenue Model For Pooling Bingo Halls Questions and Answers

New Bingo Revenue Model

The AGCO released *Modernization of Charitable Gaming: Direction and Priorities* in December 2005. One of the key points of this document was that the Registrar of Alcohol and Gaming was committed to examining the revenue model for bingo.

In light of the information and recommendations received further consensus was reached by stakeholders that a new revenue model was critical to assisting the industry and resulting revenues to Ontario charities. After significant research and consultation a new bingo revenue model for pooling bingo halls was developed and supported in principle by hall operators and charities associations. The AGCO is targeting May 1st, 2007 to implement the new bingo revenue model.

Recommendations for a new revenue model include:

- Flexibility with games that match their markets
- Prize boards at a maximum average of 70% of wagering
- Marketing fund established at 10% of bingo win with shared responsibility between charities and operators
- All bingo hall revenues split between charities and operators
- Charities receive 45% and operators receive 55%
- Charities' expenses are administration and licence fees
- Operators are responsible for all other expenses

Q1: When will the new revenue model for pooling halls be in place?

A: The Alcohol & Gaming Commission of Ontario (AGCO) has targeted to have the new revenue model in place for May 1st, 2007 for all pooling bingo halls.

The AGCO has just completed 6 regional sessions across the province aimed at municipal licensing authorities, hall owners and operators, hall charities associations and their administrators. The purpose of the sessions was to communicate some of the challenges that have been identified to meet this date, provide a status report, give answers to some of the outstanding implementation questions, and walk through the practical operational pieces to the new process. These Questions and Answers supplement those sessions with additional information.

Q2: What are the expected results of a new bingo revenue model?

A: The new bingo revenue model was developed with the customer in mind. It recognizes that the customer views attending the bingo hall as an entertainment destination with bingo as the main draw and where the customer does not distinguish between services. The aim is to provide an experience where the customer, whether playing games, purchasing products or eating, will spend money and both charities and halls will benefit from the overall revenue.

The combination of the various elements of the new revenue model should result in:

- New game schedules designed using flexibility that will appeal to customers
- Additional revenues from reduced prize boards will move to the bottom line
- Operator profitability and viability will increase
- Charities will receive the same profit on average across Ontario
- Taking advantage of the Model's inherent incentives to grow the business
- Long term adaptability

Q3: Will the new revenue model be mandatory for all pooling halls?

A: Yes. The new revenue model will be mandatory for all pooling halls. The new model will not apply to non-pooling bingo halls unless they choose to become pooling halls. A hall that is currently pooling cannot opt out, nor return to being a non-pooling hall.

Q4: What happens to non-pooling halls?

A: Those halls not currently pooling can continue to operate under the existing revenue model (60/40 split with caps) and the existing Terms and Conditions.

Q5: Some people say the interim revenue model seems to be working so why can't it remain in place?

A: The interim revenue model was established to provide the industry with a stop-gap measure during a difficult transition time as the non-smoking law was extended across the province and the new bingo revenue model was under development. The new revenue model has been established based on extensive consultation and analysis and will be implemented in a consistent manner across all pooling halls in the province.

The interim model was never intended to be in place on a permanent basis. The interim revenue model concludes upon the implementation of the new revenue model on May 1, 2007.

Revenue Splits

Q6: Why have all revenue streams been included as part of the new revenue model?

A: A fundamental principle of the new revenue model is that charitable gaming is a means of raising money for charities. It also recognizes that while charities depend on bingo halls as a venue for their games, the operators are involved in running a business that must remain profitable in order to be viable and they have had increasing costs over the years. The new revenue model is viewed as mutually beneficial and has received endorsement in principle from associations representing bingo charities, and hall operators.

The new revenue model has to be viewed in a holistic manner. It was developed with the customer in mind. This recognizes that the bingo hall should be viewed as an entertainment destination with bingo as the main draw where the customer does not distinguish between who offers different services. The aim is to provide an experience where the customer, whether playing games, purchasing products or eating, will spend their money and both charities and halls will benefit from the overall revenue.

The new bingo revenue model will provide operators with the ability to grow the industry and focus on their business. The adaptability of the new revenue model also accommodates changes and any new revenue streams within the bingo hall over the long term.

Q7: Will revenues from break open ticket (BOT) sales and Ontario Lottery and Gaming Corporation (OLG) products and games offered in the hall be considered as part of the new revenue model?

A: Yes. Revenues from BOT sales after prizes and the commission from the sale of OLG products and games offered in the hall will be considered as part of the revenue to be split between the operator and the charities.

Q8: Will there be a distinction between lottery and non-lottery revenues earned by the charities in terms of spending or the use of the proceeds?

A: No. The 45% of revenue received by the charity will be considered lottery proceeds and will be subject to the current requirements on expenses and the use of proceeds.

Q9: Food and beverage sales at a bingo hall may have been contracted out with the operator of the canteen paying a monthly rental fee to the hall operator. How will current contracts with 3rd parties to supply food and beverages be handled?

A: All of the gross sales at the canteen within the bingo hall are used to calculate the 55/45 split between hall operators and charities.

Q10: At certain bingo halls the food and beverage sales run at a loss. How does the new revenue model deal with this reality?

A: The new bingo revenue model deals with a split of the gross sales. The operator is responsible for establishing an efficient business model.

Q11: The current revenue model for Break-open tickets sold within a bingo hall has various expenses and commissions. Which of these will belong to the operator and which to the licensee?

A: BOT revenue will be part of the overall revenue to be split. "Other gaming" revenues and the win and expenses will be split the same way as bingo. The prizes and the 5% provincial fee will be deducted from the gross wager in order to determine the amount that flows into the revenues to be split with 55% to the operator and 45% to the charities. Charities will pay licence fees and their administration costs. The hall operator will pay all other expenses associated with supplying and selling the BOT product in the hall.

Q12: Will bingo revenue be deposited in an account with the Hall Charities Association or at the individual charity level?

A: Per the Terms & Conditions revenue will be deposited into the HCA account.

Expenses

Q13: Will the AGCO fee and the municipal licence fees be the full responsibility of charities?

A: Yes. All licensing fees are the responsibility of the charity holding the licence for the event. Since the charities are pooling funds into one trust account the licence fee(s) would be paid by the Hall Charities Association on behalf of the member charities either by one cheque or individual cheques.

Q14: Will there be changes to who will be responsible for certain expenses?

A: Under the new bingo revenue model the charities are responsible for their administration expenses and all licensing fees. The hall operator is responsible for all other expenses in the hall.

Staffing

Q15: Under the new revenue model are hall operators required to provide runners at events?

A: Yes. Hall operators will be required to provide runners.

Q16: Many charities provide volunteers in addition to the minimum number of bona fide members to conduct and manage their bingo events. Can this practice continue?

A: The bona fide members may be there in a capacity to support the activities of the charity in a conduct and management role and may provide any additional volunteers to assist in that conduct and manage role if they wish.

Q17: What is the AGCO's definition of a runner and his or her role?

A: Runners are the staff on the floor selling paper, identifying winners, and paying out prizes.

Q18: When will the operator be required to supply the paid runners?

A: To allow time to hire and train staff latitude is being provided until June 1, 2007. If the operator requires additional time to hire and train staff they may have until July 1, 2007 however the revenue split for the month of June, 2007 will be 53% for the operator and 47% for the charity.

Licensing Framework/Process

The new revenue model provides greater game flexibility and a managed prize board at a maximum percentage across all bingo games. To support this flexibility and to allow management of the prize board, a single licence approach for all lottery events being conducted in the bingo hall is being implemented.

The licensing framework retains the involvement at the municipal level. Municipalities will continue to determine the eligibility of charities to be licensed

and monitor all uses of proceeds. It will also be a model that works within the existing Order in Council and is consistent with the long term vision of streamlining and simplifying while maintaining or enhancing accountability.

The process is seamless between the two licensing authorities:

- Municipality will continue to assess eligibility, use of proceeds and issue licences
- Municipality will continue to have ability to inspect premises, attach additional terms and conditions (provided they do not conflict with the Registrar's) as well as suspend and revoke their licences
- Registrar of Alcohol and Gaming issues a licence to member organizations of the Hall Charity Association in conjunction with the municipal licences
- AGCO licence issued to specific charitable organization
- Intent is to maintain existing levels of revenue, with municipalities collecting a maximum of \$165 for licensing fees per event (based on existing maximum of 3% of current \$5500 prize board) and the AGCO collecting a fee as % of wagering

Q19: Who will issue the licence(s)?

A: The licensing process will continue to include decision making at both the municipal and provincial levels of government. The municipality will issue licences based on approved eligibility and use of proceeds. The AGCO will issue licences based on the municipally approved licences and review of the games.

Q20: Will the AGCO be issuing licences to the HCA or to individual charities?

A: The licences will be issued in the name of the individual charities however the AGCO will issue all licences on one document for events taking place in a given hall for a certain period. This licence document will need to be displayed prominently in the hall.

Q21: What about municipal by-laws for bingo lottery events?

A: Municipalities may enact by-laws for lottery licensing however they may not contravene the Order in Council or the Terms and Conditions of licences.

Q22: What if the municipal licensing authority receives an application for a bingo event from an applicant that may not be eligible?

A: Municipalities will conduct eligibility reviews to ensure that licences are only issued to eligible charitable organizations. If they determine that an organization is ineligible they will not issue a licence.

Q23: Municipal licensing authorities sometimes issue amendments and cancellations of licences. Will these activities be affected?

A: The AGCO requires 10 business days' notification in order to amend a licence. Other options for unusual/emergency situations are being reviewed.

Q24: Will there be a set licensing period established by the AGCO?

A: The AGCO's licence period will mirror the municipal licence period.

Q25: Can municipalities send amendments to the AGCO by fax?

A: Municipalities and licensees may continue to send amendment requests to the AGCO by fax.

Q26: How will municipal licensing authorities receive payment for licensing fees? What can the municipality charge as a licence fee?

A: One of the goals of the new revenue model is to ensure that fees being received by municipal licensing authorities and the AGCO remain at current levels. Municipal licensing authorities may charge up to \$165 per bingo event and this fee is to be submitted by the HCA Administrator on behalf of each licensee as part of its application package.

Q27: What licensing fees will the AGCO now charge? How does the AGCO receive payment for licensing fees?

A: The AGCO will collect a fee after the event has been completed. The fee will be based on a percentage of actual monies wagered and will be reported with the monthly reports. The amount to be collected has not yet been finalized however the intent is to remain revenue neutral.

Q28: Will there be refunds for fees already paid to cover licences after May 1?

A: Municipalities will determine how they will address fees that may have already been paid to them. The AGCO will issue refunds for fees covering licences that have already been issued and that extend beyond May 1.

Q29: Some municipalities have already issued licences for bingo events that take place after May 1. As the new bingo revenue model is being implemented on that date what should municipal licensing authorities do about these already issued licences to be in compliance with the new bingo revenue model?

A: Municipal licensing authorities have two options regarding this. They can either amend the licences per current procedure (the amendment must be in place before the commencement of the bingo event) or cancel the licences and issue new licences before the event.

Q30: What is the estimated turn around time for new applications for the bingo revenue model?

A: Applications are to be submitted to the municipality by April 1, 2007. The municipality will process the municipal licences and forward the summary applications to the AGCO. Licences will be processed by May 1, 2007 provided they are submitted to the municipality by the April 1, 2007 date.

Q31: What is the estimated turn around time for applications for pooling bingo halls in the future?

A: On an ongoing basis applications will be required to be submitted to the municipality a minimum of 60 days prior to issuance of the licences.

Q32: Will Break Open Ticket (BOTs) licences be issued along with the new bingo licenses or will the BOT licenses be issued separately?

A: The new bingo revenue model has allowed an opportunity to introduce a single licence approach. BOTs will be captured on licences as part of the same licence approved and issued for events conducted in the bingo hall.

HCA Administrators

Q33: What is the role of HCA Administrators?

A: The HCA Administrator will administer/coordinate Hall Charities Association activities which may include:

- coordinating the completion of all licence applications for the individual charities and filing them with licensing authorities
- preparing and submitting the summary application
- filing monthly reports on behalf of the HCA
- administering trust accounts
- scrutinizing reports and calculations from the hall operator

- processing payments
- reviewing hall revenues from ancillary operations
- distribution of net proceeds to charities
- ensuring that the average prize board does not exceed the specified percentage

Q34: Will the HCA Administrator be paid?

A: The HCA Administrator may be paid for his or her services. The charities' revenues can be used for administrative costs that are reasonable and necessary.

Q35: Does the HCA Administrator need to be an accountant?

A: The HCA Administrator must be able to fulfill the responsibilities of the administrator. There is not a requirement that the HCA Administrator be an accountant. They will need to be complete application forms and submit them to the Registrar for April 1st. They will not be required to submit the fee at this time. Within one year they will be required to be registered as a Gaming Services Supplier.

Q36: Can an HCA Administrator work for more than one hall?

A: Yes.

Q37: Does the HCA Administrator need to be independent from hall operators?

A: HCA Administrators must maintain an arm's length relationship with bingo halls owners or operators as of May 1st, 2007 when the new bingo revenue model is implemented.

Q38: If the HCA Administrator needs to operate independently from charities and hall operators what level of involvement could they have with charities during the event?

A: HCA Administrators cannot act as a bona fide member for the conduct and management of the events. HCA Administrators will still be permitted to serve as members-at-large of member organizations.

Q39: Will it be the AGCO who approves the HCA Administrators and gives them guidelines to follow?

A: The position of HCA Administrator can be held by anyone who can fulfill the operational requirements of the position and who is working at arms-length from

the hall operator. They will be required to be registered as a Gaming Services Supplier by May 1, 2008.

Applications/Forms

Q40: As part of the new bingo revenue model will there be standardized applications/forms for applicants to submit?

A: Yes. The AGCO is streamlining the applications process and reducing the amount of paperwork. The purpose is to make the application process user-friendly and to allow for consistent decision making by licensing authorities.

The following is a list of the applications required as part of the application process:

- Charitable Gaming Application (each member organization must complete)
- Charitable Gaming Summary (completed by HCA Administrator)
- Charitable Gaming Summary Spreadsheet (completed by HCA Administrator and included with the Charitable Gaming Summary)
- Declarations (completed by the HCA Administrator and each member organization and included with the Charitable Gaming Summary)

Terms & Conditions

Changes are being made to the Terms and Conditions and Lottery Licensing Policy Manual as a result of implementing the new bingo revenue model. A new framework will mean a “Core” set of Terms and Conditions common to all lotteries with the focus on honesty, integrity and accountability, Terms for the requirements specific to different lotteries, Standards and Directives as may be required.

For the purposes of the new bingo revenue model there will be a set of Terms for all lotteries conducted in a bingo hall. There will be different Terms for lottery schemes that occur outside of a bingo hall.

Q41: Will there be any updates to the Terms and Conditions, in particular for Bingo?

A: An updated version of the Terms & Conditions and Terms for bingo halls is currently being developed for the implementation of the new bingo revenue model on May 1, 2007. The new Terms for other lottery schemes outside of a bingo hall will follow after May 1st.

Q42: Will there be any updates to the Lottery Licensing Policy Manual (LLPM)?

A: The LLPM will be updated after the May 1st implementation date.

Q43: Will there be any updates to the Order in Council (OIC)?

A: The OIC is currently under review.

70% Prize Board

As part of the development of the new bingo revenue model an analysis conducted throughout the bingo marketplace in Ontario found that a number of bingo halls were unprofitable. It was determined that the most significant factor distinguishing profitable halls from unprofitable halls was that unprofitable halls had higher prize boards as a percentage of total wagering.

After an evaluation of other jurisdictions across the country that had prize boards averaging 60% to 65% it was determined that Ontario's prize board was substantially higher than others, on average about 74%. Thus it was determined that a 70% prize board across the province would be an appropriate initial step in managing the prize board down.

Q44: The revenue model states that charities will now need to ensure that the prize board is no higher than an average of 70% of all bingo wagering. Does this mean the prize board will change from session to session, day to day?

A: Not necessarily. Overall it has to be an average of 70% of wagering over a 3 month review period. Individual games or sessions may be higher than 70% in prizes provided an average of no higher than 70% is achieved over the 3 month period.

Q45: How will the AGCO ensure that halls are meeting the 70% maximum prize board?

A: The prize board percentage will be monitored to ensure that it is being achieved consistently across the province. Monthly reports will be submitted to ensure that halls are on track in meeting the target. Review periods will occur every 3 months to allow the averaging to address fluctuations due to payouts for progressive games and seasonal fluctuations.

Q46: How will the AGCO handle those who may not be reaching the 70% target?

A: Options of various methods for encouraging all participants to meet that objective as well as appropriate actions to be taken if it is not met are currently being reviewed. More details will follow, however, the AGCO had indicated its expectations around achieving the 70% prize board and that it will use graduated discipline to ensure that it is met.

Q47: What do you mean by graduated discipline?

A: Graduated or progressive discipline refers to various levels or degrees of discipline. Options being explored range from warnings, to monetary penalties, suspensions and/or revocations.

Flexibility

Game flexibility is a key component of the new revenue model allowing game schedules to be designed with the player in mind while ensuring the overall prize board does not exceed 70% of wagering. Under the new bingo revenue model finding ways to lower the prize board while still maintaining (or even expanding) the customer base is seen as a priority and enhanced flexibility will be provided to attain it.

It is expected that the charity as the licensee will be acting on the advice of the operator and the HCA Administrator when determining the appropriate game schedule for their licence application. Operators involved in the business on a daily basis have the knowledge and expertise to assist with the designing of an appropriate game schedule to appeal to the customers. There will no longer be a distinction between municipal and provincial games. For instance a game schedule could consist of all progressive games if it was determined to be the best offering for the players. There is also additional flexibility such as removing the prize caps, number of ball calls and restrictions on set must-go dates.

A game schedule and game rules will be required as part of the licence application. How the games will be played, how winners will be determined and the prize structures will need to be outlined as part of the licence application and that information will need to be available for players as well.

Q48: Currently there are bingo events licensed by a municipal licensing authority and additional AGCO-licensed games held in conjunction with municipally licensed games. Will the distinction between municipal and provincial games still exist?

A: No. The charity now acts on the advice of the operator in deciding what games to include with the application. One aspect of the new revenue model is further game scheduling flexibility that allows halls and charities to decide which games would be more profitable for everyone.

Q49: Are there limitations on the number of bingo sessions at the hall?

A: No there is no limit.

Q50: For progressive games based on achieving the pattern within a certain number of ball calls will there be guidelines laid out as to how the numbers would increase on the progressive games?

A: As part of the flexibility framework this would be decided by the charity with the operator's advice and the specifics of the game would be included in the game application for review by the AGCO. The new framework requires that the rules as approved with the licence application and communicated to the customer would be applied consistently.

Q51: How will halls address the progressive games in play nearing the end of April or that have closing days in May, following the implementation date?

A: As of April 30th all progressive games must be concluded. The AGCO will amend licences upon request in order to allow the staggering of the must go date before May 1st. All games after May 1st must be on the new licence.

Marketing Fund

The report regarding the new bingo revenue model revealed some interesting facts about how marketing and promotions are conducted in the bingo marketplace. It found that on average only 1.5% of bingo "win" is spent on marketing and that it is often not spent effectively. This is much lower than the percentage spent on marketing for other types of gaming.

As part of the new bingo revenue model a marketing fund will be established that sets aside 10% of all bingo win for marketing. This will support marketing activities for the hall based on the establishment of a marketing plan for a bingo hall. Joint decision making between the charities and operators will be utilized to determine how best to spend those dollars.

The marketing fund will be established with the money deposited into a dedicated trust account. Up to 20% of the marketing fund will be used to create a provincial bingo development fund. This fund will be similar to the Break Open Ticket Development Fund which has operated with great success for that particular

sector. The Provincial Bingo Development Fund will be administered by charities and operators and focus on supplying the industry with research and marketing to broaden the overall scope and success for bingo through activities such as advertising, promotions, education and training. Details on the governance structure of the provincial fund are not yet final.

Q52: In our hall our current advertising and promotions account maintains a balance to make budgeting possible by avoiding fluctuations due to monthly variations, etc. What should be done with that money?

A: The amount can be carried forward into the new marketing fund provided there are clear accounting records maintained to identify this.

Q53: Will the AGCO be examining current limitations on advertising and promotions?

A: As part of the AGCO's consultation on the modernization of charitable gaming, a full review of advertising and promotions for all lottery events is underway. The AGCO will be examining how additional flexibility can be built into the system to support the ongoing viability of the industry.

Q54: What happens if the money from the marketing fund is not spent?

A: If the money earmarked for the marketing fund is not spent it will be returned for the prescribed split between the commercial operator and the charity licensee.

Q55: Will the 10% marketing fund be spent at the hall operator level, the charity level, jointly, or by some kind of marketing board?

A: The implementation of the new bingo revenue model with a dedicated marketing fund provides an opportunity to establish a province wide Bingo Development Fund. The Bingo Development Fund may be used to conduct research into the industry, the player, and the growth opportunities as well as developing marketing plans and strategies that can be utilized across the province. As a result a portion of the marketing fund established at the hall level will be dedicated to a provincial bingo development fund. The parameters regarding that fund are currently under development and will be shared with all stakeholders as soon as possible.

The portion of the marketing fund that is available for use at the hall level is expected to be administered by the hall operator and Hall Charities Association jointly through the development of a marketing plan. Standards for the plan are still under development.

Q56: Are any approvals needed in order to spend monies in the 10% marketing fund?

A: It is expected that the HCA and commercial operator will develop a marketing plan. Details regarding what criteria may be included in the marketing plan as well as what changes may be made to advertising guidelines are currently under review by the AGCO.

Q57: Is the new marketing fund mandatory?

A: Yes. All pooling halls will participate.

Q58: Will the bingo marketing fund be a temporary measure or will it be ongoing?

A: A focus on the marketing of the business is required on an ongoing basis therefore the bingo marketing fund will be ongoing and a benefit in sustaining and growing the bingo sector.

Q59: Will the funds for the Provincial Development Fund for bingo go to the AGCO?

A: No. The Provincial Bingo Development Fund is not a government administered fund and the money will not go to the AGCO. The development fund will be run by representatives of charities and hall operators on a province-wide basis.

Q60: What if there is a bingo hall that is filled to capacity and thus extremely successful- will they have to maintain a marketing fund that appears to be unnecessary for this hall?

A: Yes. All marketing funds will go into the marketing trust account. The charities and operator at a very successful hall may decide that they don't require additional marketing and may decide to have the funds flow to be split between the hall and charitable licensees.

Liquor in a Bingo Hall

Q61: How can a bingo hall apply for a liquor licence?

A: Recent amendments to the *Liquor Licence Act* established a pilot project that will allow for the licensing of bingo halls. The AGCO is currently accepting applications for liquor licences in bingo halls. In order to be considered, a hall must be a registered hall with an HCA that is pooling proceeds and is thus operating under the new bingo revenue model. The AGCO will not issue liquor licences for bingo halls until the implementation of the new revenue model. No

bingo hall may sell or serve liquor before May 1, 2007 under any circumstances. The application process may take some time so interested operators are encouraged to apply soon.

Q62: With respect to liquor at bingo halls, will there be municipal approvals?

A: All liquor licence applications require information to be collected from the municipality as part of the process. For bingo halls, there will be an additional requirement to notify the municipality in advance of the application and to provide a copy of the notification with the application.