

Fifth Session - Thirty-Ninth Legislature
of the
Legislative Assembly of Manitoba
Standing Committee
on
Crown Corporations

Chairperson
Mr. Daryl Reid
Constituency of Transcona

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MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Ninth Legislature

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**LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON CROWN CORPORATIONS**

Monday, April 4, 2011

TIME – 1 p.m.

LOCATION – Winnipeg, Manitoba

CHAIRPERSON – Mr. Daryl Reid (Transcona)

**VICE-CHAIRPERSON – Mr. Mohinder Saran
(The Maples)**

ATTENDANCE – 11 QUORUM – 6

Members of the Committee present:

Hon. Mr. Ashton

*Ms. Blady, Messrs. Borotsik, Graydon,
Martindale, Pedersen, Reid, Mrs. Rowat,
Messrs. Saran, Whitehead, Wiebe*

APPEARING:

*Winston Hodgins, President and Chief Executive
Officer, Manitoba Lotteries Corporation*

MATTERS UNDER CONSIDERATION:

*Annual Report of the Manitoba Lotteries
Corporation for the fiscal year ending March
31, 2007*

*Annual Report of the Manitoba Lotteries
Corporation for the fiscal year ending March
31, 2008*

*Annual Report of the Manitoba Lotteries
Corporation for the fiscal year ending March
31, 2009*

*Annual Report of the Manitoba Lotteries
Corporation for the fiscal year ending March
31, 2010*

* * *

Clerk Assistant (Ms. Monique Grenier): Good afternoon. Will the Standing Committee on Crown Corporations please come to order.

Before the committee can proceed with the business before it, it must elect a Chairperson. Are there any nominations for this position? Mr. Martindale?

Mr. Doug Martindale (Burrows): I nominate Mr. Reid.

Clerk Assistant: Mr. Reid has been nominated. Are there any other nominations?

Hearing no other nominations, Mr. Reid, will you please take the Chair.

Mr. Chairperson: Our next item of business is the election of a Vice-Chairperson. Are there any nominations for a Vice-Chairperson?

Mr. Martindale: I nominate Mr. Saran.

Mr. Chairperson: Mr. Saran has been nominated for the position of Vice-Chairperson. Are there any further nominations?

Seeing none, Mr. Saran is elected as the Vice-Chairperson of this committee.

The Standing Committee on Crown Corporations will please come to order.

This meeting has been called to consider the annual reports of The Manitoba Lotteries Corporation for the fiscal years ending March 31, 2007; March 31, 2008; March 31, 2009; and March 31, 2010.

Before we get started, are there any suggestions from the committee as to how long this committee wishes to sit this afternoon?

Mr. Martindale: I think we should sit until, say, 3 o'clock and re-evaluate at that time whether we need more time or not, with the hope that we might pass some of these annual reports, since two of them have already been considered at previous meetings.

Mr. Chairperson: It has been suggested to the committee that we sit until 3 p.m. if there's questions. Is that the will of the committee—and review at that point in time? *[Agreed]*

Are there any suggestions as to which order the committee wishes to consider the following annual reports?

Mr. Blaine Pedersen (Carman): I would suggest we approach them globally.

Mr. Chairperson: It's been suggested to the committee that we consider the reports in a global fashion.

Is that agreed? *[Agreed]*

Thank you to members of the committee.

Does the honourable minister for the Manitoba Lotteries Corporation wish to make an opening statement, and would you also, please, introduce your officials in attendance here this afternoon?

Hon. Steve Ashton (Minister charged with the administration of The Manitoba Lotteries Corporation Act): Yes, I have an opening statement.

First of all, I'd like to introduce our senior management team that are here: Winston Hodgins, the president, CEO; Tracy Graham, executive vice-president and CFO; Peter Hak, executive vice-president of Corporate Services; Marilyn Robinson, vice-president, Corporate Marketing and People Services; Susan Olynik, vice-president, Communications and Public Affairs; and Dan Sanscartier, vice-president, Gaming Operations. Our chair, Tim Valgardson, is unable to attend. He does have a day job. He's actually in court. He's a lawyer. So just in case anybody gets any ideas, he's representing a client.

What—I appreciate the opportunity to make a brief opening statement. Certainly, I think experience has shown that Manitoba Lotteries is a very well run operation, I think an excellent example of not just how a publicly owned corporation should operate, but any corporation should operate. There's a culture of both efficiency, I think, particular folks on integrity, particularly in terms of the gaming side, transparency.

I do want to note that the government finance office association of the US and Canada has, again, honoured Manitoba Lotteries with the distinguished budget presentation award and with a special performance measures recognition. I'm sure this is right up there with the Academy Awards for excitement at the events. Believe you me, those that work in this field will probably be not taking that as a joke. But I think it does show the degree with which we are getting significant recognition.

And I would note that we were recently recognized as one of Canada's best employers for new Canadians, recognizing Manitoba Lotteries' commitment to diversity. This is one of only 40 employers selected from a field of over 2,700 for this designation. This comes from the editorial team of Canada's Top 100 Employers Award, and it was because of, again, the commitment to diversity and its inclusive hiring practices. This is in addition to the ranking in February as one of Canada's best diversity employers, one of only 45 employers out of

a field of 2,700 to receive that national designation in 2011.

Moving to the annual report, the 2009, 2010 annual report outlined another successful year in terms of net income which was \$306.7 million. Of that amount, \$19.3 million in VLT revenues was paid as unconditional grants to municipalities with another \$50.4 million dedicated to economic development projects both in Winnipeg and rural Manitoba. Seven-and-a-half million dollars of casino revenue supported the Winnipeg Police Service. The majority of revenues, \$229.5 million, was directed to priority programming in the province such as health care, education and community services. I'd like to note that just over \$120 million was paid to lottery and VLT site holders, something that's often not considered, you know, when you look at the impact of Manitoba Lotteries.

I would also stress the strong corporate governance framework. The corporation's come out to being a good corporate citizen, and I think the recognition I mentioned earlier really is in keeping with that.

Just to give a sense of what is happening at Manitoba Lotteries, people are obviously aware of VLTs, which are considered to be a significant part of the operation and, also, the spin-offs for hoteliers, restaurant operators, veterans' organizations, Assiniboia Downs and First Nations site holders. The current VLTs have not been replaced since 2004, and it's becoming increasingly difficult to obtain replacement machines and parts to maintain at the current service level. So that is a challenge the corporation is dealing with.

*(13:10)

Lottery tickets continue to be a popular marketing—and particularly some of the new products—and they continue to be an important part of the corporation's activities, of course, through the Western Canada Lottery organization.

In terms of casinos, the—there have been a number of significant developments. The former Days Inn, which was—which is located next door to the casino, was acquired September 1st, 2010 and was demolished earlier in the new year. Prior to this Lotteries used this opportunity to make the building and its contents available to support the community. In fact, many of the items were donated to community groups.

June 27th, McPhillips and Club Regent casinos merged their surveillance operations. Again, security for the operation and for customers is an important priority. And one of the things I do want to note is the—on the food and beverage side, the degree to which Lotteries is promoting and featuring made-in-Manitoba products as part of its ongoing efforts to promote the Manitoba economy.

In terms of responsible gaming, Lotteries continues to be a recognized industry leader. The budget commitment for fiscal 2011-2012 is approximately \$6.4 million. Of this \$3.3 million was allocated directly to AFM. The responsible gaming strategy focuses on a number of programs, and we're certainly more interested in discussing that in—through questions. And I think it's important to note that this is not an insignificant part of what we're involved with in terms of Manitoba Lotteries.

Community support is very important. Lotteries is involved directly in working with many community groups. In addition, about 400 groups participate each year in the Bingo Volunteer Program, an important source of revenue for those groups. Lotteries is very involved with Habitat for Humanity, which will be building its 100th home in Manitoba. And this is part of the Legacy program, and we continue to work on ways in which we can further that commitment to a very worthwhile endeavour. The Community Support Festival Program is important, and we support many festivals, fairs and rodeos throughout the province. And 2011, Imagine Canada recognized the Manitoba Lotteries for its community support and corporate sponsorship.

Turning to sustainable development, we certainly take our responsibilities seriously, and we were a partner in the most recent announcement in terms of lake-friendly products. We've also achieved carbon neutral status, as certified by Tree Canada. So sustainable development is an important part of what we do.

I want to stress that Manitoba Lotteries is committed to managing its operations to determine long-term sustainability of revenue, and we will continue to reinvest in facilities and programs to develop new and innovative entertainment options. And I want to stress, by the way, that gaming is one part of the mandate but clearly we've seen over the last period of time a significant focus on the food and beverage, and some members of the committee may have had the opportunity to see the focus on entertainment as well. In fact, right now with the

Comedy Festival, I know Manitoba Lotteries has been both a sponsor and a venue, Manito Ahbee—there's been increasing focus in on what has been something that's a trend with the gaming industry generally.

In addition I want to emphasize the corporate social responsibility, responsible gaming, community support and sustainable development I referred to earlier. I would like to thank the board of directors and the executive management team. I also want to really commend the employees. One thing that is often overlooked is the degree to which Manitoba Lotteries employees are very involved in the community. There is an annual event in which those volunteers are recognized. It's quite remarkable actually the degree to which Manitoba Lotteries employees as well as Manitoba Lotteries itself are involved in the community, and I would, as minister, want to thank them for all their efforts. Thank you very much.

Mr. Chairperson: We thank the honourable minister for the opening statement.

Does the critic for the official opposition have an opening statement?

Mr. Pedersen: Thank you, Mr. Chairman, and it will be rather brief.

First of all, welcome to the executive management committee for coming here. It's always great to meet with you, and I know we've had some ongoing discussions for information. And I know at our last committee meeting, which I believe was in October, I had asked for some written materials and, lo and behold, it showed up on my desks Friday. So I have a feeling it probably came out of your office a little bit sooner than that, but it did end up on my desk on Friday. So that was—it was good to get that information and spend some time going over it.

Obviously, the lottery commission has a continuing strong financial position, which is great to see, and congratulations on being one of the top 50 employers across Canada. It's always a—it's a marketing tool when you win or when you're awarded that certificate, and Manitoba Lotteries has a unique role in Manitoba as the gaming authority in Manitoba. So we look forward to some questions and we'll move on, Mr. Chairperson.

Mr. Chairperson: I thank the critic for the official opposition for the opening statement, and we'll now move to questions, and the floor is open for questions.

Mr. Pedersen: First of all, if we can just do a few on the financial end of it. Your projections for year end that we asked for, and that would be year end March 31st, 2011. In 2010 it was \$306 million, as the minister mentioned, and you're obviously past the year end right now. Your projection was around \$312 million. Is it anywhere near there?

Mr. Winston Hodgins (President and Chief Executive Officer, Manitoba Lotteries Corporation): Our books aren't closed off yet, and they won't be for a while yet. But we are expecting a strong year in the past fiscal year.

Mr. Pedersen: So I'll just take that as it's close to projections then. So we'll see when it does, and when is the final statement available for the year end?

Mr. Hodgins: We have to publish within six months of the end of the fiscal year. So that'd be—I believe it's the end of September.

Mr. Pedersen: And your cash reserves—if I look at your financial statement from before, has your cash reserves changed at all? And, again, I realize that your financial statement is not completed yet, but has—is there any significant changes to your cash reserves?

Mr. Chairperson: If I might caution you at that point, the—[*interjection*] Yes, very careful. Perhaps reword the question because we're only dealing with the reports that have been mentioned previously. So I'd ask you to rephrase the question.

Mr. Pedersen: Are you projecting any significant changes to the end—your cash flow—cash position as of year end 2011?

Mr. Hodgins: If I understand your question correctly, all of the cash that we generate we do turn over to the Province of Manitoba, and the only retained earnings that we—[*interjection*—yes [*inaudible*]] and we've had that level of retained earnings for some period of time. It was actually provided to us some time ago to purchase some property, I believe it was. But that goes back quite some time ago.

Mr. Pedersen: The fees paid to the Manitoba Gaming Control Commission, which I realize is not this minister's department, it was \$2.2 million in '08 and 3.1 in '09, and what was it for the current year then?

Mr. Hodgins: The commissions that we paid to the Manitoba Gaming Control Commission, as I think you mentioned, was \$2.8 million in '09-10. Now it's

based on the number of electronic gaming devices in the province and that would be the ones that we have, the ones that the First Nations have and other site holders, and so that the levy—the lottery retailers as well also pay a fee that is made available to the Manitoba Gaming Control Commission. So, if you take all of those fees, the amount that we've provided to the Manitoba Gaming Control Commission in '09-10 was \$2.8 million.

* (13:20)

Mr. Chairperson: Before I proceed to the next question, Mr. Hodgins, if you'd just pull your microphone up a bit closer, please, it'd be helpful to our Hansard recording folks.

Mr. Pedersen: Under the donations that you provided to me here—corporate donations—the Museum for Human Rights was—in 2007 there was a \$1-million donation to that organization. Is there been any additional funding, and if there has not been any additional funding, is there plans for any additional funding to the Museum for Human Rights?

Mr. Hodgins: The only funding that we have provided to the museum is the \$1 million, and at this point in time I'm not aware that there's any intent to provide any additional funding.

Mr. Pedersen: Okay, I'm just going to go back to some of the notes that I had from our last committee meeting. And collective agreement with the employees, is there a timeline on—do you have a collective agreement in place now, when does it expire, and what is the timeline on that?

Mr. Hodgins: We had two collective agreements that were in place. One was with the Manitoba government employees association, and I believe it's still—it hasn't expired yet, the MGEU? [*interjection*]

So the MGEU agreement is just expiring. The agreement that we had with the Teamsters expired last fall at the end of September. So there's discussions that are under way with the unions now on our collective agreement, but we haven't got replacement agreements in place at this point in time.

Mr. Pedersen: So, with the teamsters union expiring in '10, they're working without a contract and—right now—and it's ongoing discussions, and we won't go into what those are, but there's ongoing discussions. So you'll be in active bargaining then with the MGEU also? Is—and if I may just extend that a little bit, the MGEU, you negotiate what your employees

with lottery even though they're covered under the MGEU; it's not under the government umbrella?

Mr. Hodgins: Yes, we negotiate directly with the MGEU. There's one thing that I—there is one thing that I should clarify with you, and that is that the employees did decertify, and there's a—well, the CAW has now been certified as the bargaining agent for our operations people. The other staff, which are known as the administrative and technical staff, that's before the Labour Board now as to which union will represent them. So we're kind of going through a transition period now. So in terms of negotiations with the food and beverage workers, we'll be negotiating with the MGEU. For our casino staff, what we call operations, we will be bargaining with the CAW, and we'll have to wait until after the Labour Board concludes their hearings on our administrative and technical staff as to which union will represent them.

Mr. Rick Borotsik (Brandon West): Thank you, Mr. Chairman, Mr. Hodgins, and your members of the executive. Thank you for being here, as mentioned earlier.

I have a couple of questions. If we can go to page 7 of the report, it was mentioned earlier that there's a contribution from Manitoba Lotteries to the Winnipeg Police Service of \$7.5 million per year. Can you tell me what that contribution is meant to be, and is it by agreement to the Winnipeg Police Service?

Mr. Hodgins: We don't actually make that contribution directly. The profits from the corporation that are turned over to the government are paid through a government department to the Police Service for police services.

Mr. Borotsik: So that \$7.5 million is part of the \$306 million that would be transferred to the Province and then it's the Province, obviously, that makes that allocation. So it's—you've identified it here as being a benefit paid, but you don't pay it directly.

Mr. Hodgins: That's correct. It's not unlike—and I know you're familiar with the REDI and the UEDI programs—it's a similar kind of arrangement as those programs.

Mr. Borotsik: So if other police services wanted to get some contribution from Manitoba Lotteries, they would have to do it through the department and through the government, but that perhaps can be arranged.

As well as, on that page, it says payments to other levels of government, 18-point-million. Again, I assume that's for the \$306 million. The \$18 million, can you give me a breakdown as to how that \$18 million is allocated?

Mr. Hodgins: If you refer to page 46 again, what I'll have to do to get you a precise breakdown, I don't have that precise breakdown with me, but if you look under allocations and payments it's made up of a number of those items.

Mr. Borotsik: Yes, and I did look at this, but I couldn't come up with the \$18 million, and I do appreciate the payment to the government of Canada of \$2.3 million. The—that wouldn't be the Western Canada Lotteries Corporation, what other government contributions do you see on page 46?

Mr. Hodgins: There's the—the first one, the WCLC partner equalization, those are payments that are made to Saskatchewan and Alberta, and those are for staff that are located in Winnipeg at the head office of Western Canada Lotteries Corporation. So the agreement that was negotiated, and this goes back quite a number of years ago, is that there would be an equalization payment that would be paid by Manitoba for those staff that were in Winnipeg. I believe that's—and because we get the benefit of all the staff being in Winnipeg, the other provinces felt that there should be an equalization payment. So that—so there—that is a payment to Saskatchewan and Alberta so it is to other levels of government.

The payment of the 2.3 is a payment that's made to the government of Canada. It's been going on since about 1980 when the federal government removed itself from lotteries.

That—I'll have to get you the breakdown. I don't want to give you some figures that I'm not sure about, and so.

Mr. Borotsik: Yes. It doesn't come up to \$18 million on this particular category.

As I understand it, the City of Winnipeg does receive a grant of some \$10 million, and I don't know if that goes directly from Manitoba Lotteries or if it goes through the Province of Manitoba. That may well be a portion of that \$18 million.

So could you please give me an itemized listing as to where the \$18 million—it's in your report—payments to other levels of government, so I'm sure you can probably account for it.

Mr. Hodgins: We could account for it. It's not a problem. It's just that these statements are rolled up into summaries and so it's difficult to—for you to kind of—and it, obviously, for me too, to break it out in detail at the table here. So I will get you the breakdown.

Mr. Borotsik: Thank you, and I was going to say it's difficult for all of us, not just myself, okay? Although I am a bit of a neophyte at this, but I know that I'm sure we can find that.

We also show here contributions paid to site holders of \$120 million, and I do appreciate that's a substantial amount of money that goes to site holders.

To go to page 35, it will give a breakdown as to the stakeholders themselves. I have a couple of questions. If you look at the—I'm sorry—page 35. There's been some changes to the rates that are paid to the different stakeholders. I've noticed that, in fact, well, let's talk about commercial first of all. That stayed the same: 20 per cent goes to the stakeholders, but it does say in the report itself that, really, the actual service provided is 10 per cent, but the other 10 per cent is being identified as being a contribution to the site holders so they can continue to promote tourism in the province.

Maybe you could just expand a little bit on that, okay? You're saying it's only worth 10 per cent, but you're giving 20 per cent because there's other value to it, so if there's other value I would assume it's worth 20 per cent.

* (13:30)

Mr. Hodgins: I'll have to go back and explain this. I thought you might be asking about this. But I could assure you that the commercial site holders still receive the 20 per cent.

If I can go back to when the VLT program was put in place. The 20 per cent, in part, was determined as to, I guess, what was felt at that time, the amount that the—you know, the site holders were contributing to have the equipment at their sites, so—and that was determined to be roughly about 20 per cent.

With the introduction of the GST, the GST was charged on the entire 20 per cent. And so, in looking at this, we felt because of the significant increase in the amount of revenues that were being generated through the VLTs now, that the 20 per cent really was an overrepresentation of, you know, the amount

of services that were being provided, you know, to have the equipment on their—at their site.

And we felt that 10 per cent was a closer representation of what the services were that the site holders were providing. And that's like—basically, it's the rent we're paying to have the machines on their site. And so, by moving to a 10 per cent commission and a 10 per cent grant, the GST then was only charged on the 10 per cent as opposed to the 20 per cent.

So there was a cost saving that was achieved by moving to that particular method of calculating the contribution that was being made to the site holders. And it was—it actually saved us quite a lot of money by doing that.

Mr. Borotsik: Okay, so I understand that you split it off. You say 10 per cent is then a value of tourism and promotional and 10 per cent is really a rental rate, if you will, so the rental rate then has got GST. But did you not—is the site holder not responsible for the GST?

Mr. Hodgins: No. No, they're not. So it was actually a cost saving to the corporation.

Mr. Borotsik: Thank you.

To First Nations—

Mr. Hodgins: Could I just add one additional point on what you're asking about.

If you look at the statement on page 46, you can see that the tourism contribution, the six—well, \$6.251 million—and you can see that there was no amount in 2009, and that's what that contribution amount is. So, if you're wondering why it's suddenly appearing in 2010—and that's for the period January 1 to March 31. So, for three months, because this change was implemented as of January of 2010.

Mr. Borotsik: And the federal government, I assume, is on side with this? They see that allocation as promotional duties of the site holder, as being legitimate? Or have they had any concerns at all?

Mr. Hodgins: They have, to this point in time, not expressed any issues with it.

And I can tell you that we did consult with a tax consultant out of Edmonton—KPMG—on this, and they, you know, they supported us on moving ahead in this direction.

I can't say that the federal government may come back at some point in time and raise issues about it,

but we feel comfortable with, you know, the change that we made there.

Mr. Borotsik: And your justification was obviously a rent per square foot. You did some analysis as to what the value of that premise was and then that, obviously, was your rental rate. Is that correct?

Mr. Hodgins: That's correct.

Mr. Borotsik: First Nations—changed the structure on First Nations, as well, as I understand.

Maybe you can just explain it a little bit to me; I'm a little confused. It says they do retain the 90—I'm sorry, page 35. If you'll notice the explanation with the VLT percentages, you say that site holders, First Nation site holders, will continue to retain the 90 per cent. Of the 90 per cent, 5 per cent of the net will reflect the actual services component provided instead of the previous 20 per cent. Can you explain that to me?

Mr. Hodgins: It's exactly the same explanation.

And maybe just to expand on this a little bit. The commercial site holders went from 20 to 10 per cent and the First Nations, they receive 90 per cent and, previously, it was based on a 70-20 split. The 20 per cent was similar to what the commercial site holders were receiving in terms of commissions. But based on the—I guess the advice we got from KPMG, they felt that we could reduce the 20 per cent to 5 per cent.

And, in the case of the Manitoba Jockey Club, they had also been receiving 20 per cent as well, and that was reduced down to 10 per cent, the same as the commercial site holders.

So it was—this was all part of looking at this whole issue about, you know, the amount that we felt was realistic in terms of the—as we described it earlier, the lease payments that we were making in each of those situations. And so the 20 per cent was adjusted in each case, and that's the same with the First Nations. So rather than the 70-20 split, it's now 85-5. So they still get the 90 per cent.

Mr. Borotsik: But less GST charged on the 20 per cent, then?

Mr. Hodgins: That's correct.

Mr. Borotsik: Thank you. That does explain it. It's not quite explained that way in this presentation, but it does help me a great deal.

VLTs. The VLT income has dropped, I won't say substantially, but it's certainly dropped. The—can you explain to me what kind of programs you may put in place to achieve—I assume everybody's looking at increases in revenues as opposed to a decrease in revenues. Can you tell me what the—your proposals are to go forward on the VLTs?

Mr. Hodgins: If I can go back just a bit, when we purchased the VLTs in 2004, what we had discussed with the vendor at that time was to refresh the games while the VLTs were in the field. We were supposed to have a new, what we call a game set. This was to be four new games that were to be made available to us. It was actually in May two years ago, and, unfortunately, the vendor has been having significant difficulties in trying to develop this software without, I guess, major operational problems. And so, unfortunately, we haven't been able to put the game set into the field because we felt that by putting the, you know, the game set in the field about two years ago, that would have taken us to roughly about the time that would, you know, tie in with the replacement of the VLTs because the equipment really only, you know, should—has a life cycle of about five to seven years. But because we haven't been able to put that game set, it's—it gets—to some extent it might be the economy, but I think the bigger—I think the bigger problem really is the—is game fatigue; people just become tired of playing the same games, and I think you're familiar with what happened back in 2004 with the introduction of new equipment, you know, it proved to be very, very popular, and there was a significant pickup in the amount of play that took place at that time.

So where we're at right now in terms of dealing with that issue, we have started going through a tendering process to acquire new equipment. We put out a, what's called a RFI, a request for information, a few months ago. We had a number of vendors who submitted proposals. So we're going through an evaluation process around the proposals that we received. We're hoping that, you know, we can be out to the market, you know, in the next few weeks to ask for specific proposals so that we can start replacing the equipment. In terms of the timing of replacing that equipment, realistically, it's probably next spring or next summer before we'll be able to get the new equipment into the field.

One of the major—one of the, you know, the risks that we have to take into account is if we did put the new game set in the field and there was a major, you know, a major problem with that equipment. We

could have a very, very serious situation in terms of this—the machines could be shut down, and that would be a really serious revenue loss for all the site holders. So that certainly played into it.

Now, I think the question that you were asking about was who was the vendor that—it's IGT, international gaming technology. It's out of Reno. It's one of the—well, it's the largest gaming manufacturer in Canada, or in, I should say, in the world. So it's very frustrating for the site holders and it's very frustrating for us that we haven't been able to get this game set out into the field as we had hoped. But it isn't certainly for a lack of trying. And I know, you know, that I've personally spoken to a number of site holders who have expressed some frustration over the fact that we haven't been able to get new games out into the field, but, you know, it's not for lack of trying. We've made every effort, but we can't put the system at risk.

*(13:40)

Mr. Pedersen: Just to follow up on that, and, if I remember from back at our last committee meeting, and pardon me if I haven't got the right initials here, but it was GLI that tests the integrity of the games and they were not—the vendor was not approving the integrity—the vendor was supplying the games to GLI and GLI was not approving the integrity of these games. So is that process—is that still a problem in here?

Mr. Hodgins: Well, the process that takes place is that when IGT, for example, produce a game set, the organization that ultimately approves us putting any gaming equipment into the field is the Manitoba Gaming Control Commission. But before they will look at the integrity of the equipment, the game set or any new gaming equipment that we are going to purchase is put through this GLI company, they're out of New Jersey, and they will—they're a world-renowned company that looks at the integrity of gaming. They test the equipment to make sure that it's functioning properly, and so this game set has been to GLI on several occasions to have it approved. And if we would have had this meeting about a month or six weeks ago, I would've been very optimistic that we would've been able to finish, you know, all the testing of the game set and start to put it into the field, but, unfortunately, we ran into some more problems. And so we did have an interim approval from GLI and the Manitoba Gaming Control Commission to put the game set into the

field, but when we did our final testing we ran into some more problems. So the Gaming Control Commission has actually withdrawn approval for us to put the equipment into the field. So that—so I'm not sure if that answers your question or not. I can clarify it a bit more if you like, but GLI is one of the companies that does do integrity testing for us and it is a company out of New Jersey. That was the company that we did talk about last October.

Mr. Borotsik: Off of VLTs and on to casinos. The casinos had a much better fiscal year than the previous year. As a matter of fact, on—the gross revenues as I read it—if you want to go to page 36—you've got a comment there where the net incomes of \$72.7 million increased from the previous year's net incomes of \$50 million; That's \$22 million although your gross revenues were not substantially higher. Can you tell me why you did a 43 per cent increase on nets as opposed to having 43 per cent on gross?

Mr. Hodgins: Yes, it's—the increase isn't quite what it looks on paper here and I'll explain the reason why. Now the gross revenues did go up from \$210 million—if you—I don't know if you're on page 55—but they went up from—went up \$11 million. But, for purposes of this statement, what we do is all of our head office costs we allocate to the three business lines, okay. That'd be all of our support costs so that we can give you an indication of how much profit we're making in each business line, and the allocations that had been made up until we looked at them about a year ago had been in place for many, many years. So we thought that we should re-examine all of our overhead costs to see if they were being apportioned properly between the three business lines. And we—after we had completed our review of how they should be apportioned, we did review this with our external auditors to see if they felt that the—I guess, the recalculation of how those overhead costs should be apportioned if they were comfortable with them, and they indicated that they were, and so, basically, what this is is a recasting of our overhead cost.

Mr. Borotsik: Yes, I appreciate that. If you look at the two columns on page 55 you've gone from 103 in administrative cost to—117 to 103, and then on the video lotteries you've now allocated from 11 to 24, so there's 13 millions different. So all you're telling me, Mr. Hodgins, is it's a reallocation of the actual administrative costs from revenue stream bringing video lotteries and casinos and lottery too—the lottery didn't change substantially. Why the reallocation?

Mr. Hodgins: Well, the allocations had been made—had been in place for, well, as long as I'd been at the corporation. We felt that we should go back and revisit them to see if they were, I guess, accurately reflecting the support that our head office costs and other support costs were contributing to each of the business lines, to try and get a better sense of what the profits were in each of those, on a go-forward basis.

Mr. Borotsik: Yes, and I appreciate that. And I saw the numbers, but if you look at the write-up it says that there was an increase from \$72 million to \$50 million, and I assume—it says here—because there was a continued focus on the casinos as a total entertainment destination resulting in increased visitor traffic for non-gaming related amenities.

So I assume that a lot of that increase in the nets was because of those areas, but what you're telling me now it's really simply a reallocation of numbers on administrative costs that had that increase.

Now, in saying that, because my next question, revenue streams, do you have a breakdown as to actually what the nets are for your food and beverage service, as well as the net income for your entertainment component of the casinos?

Mr. Hodgins: I don't have that with me, but we do keep track of all of our cost centres.

Mr. Borotsik: There is no breakdown in the financials; it's just all in one category. Could we receive a costing of the entertainment, as well as the food and beverage—what your gross sales are, cost of sales and what your nets are for both food and beverage as well as the entertainment? I guess, what I'm trying to get at, is there value there? Are you actually making money at those two revenue centres or are they break-even just simply to bring in people into the casinos? And I would appreciate if I can get those numbers.

Mr. Hodgins: Well, we could take a look at that. Yes.

Mr. Borotsik: When you say, take a look at it, you do have them. You just told me that you have the—you've broken them down. I would expect anybody who's in management would want to know what their costs and what their nets are. So if you have them, can we get those numbers?

Mr. Hodgins: I would say, sure, if you want to have a look at them.

Now, the one thing that I want to—two things that I—two comments that I'd like to make. Although we reallocated our overhead cost of three lines of business, our casinos are doing very well. And so some, you know—you're right that part of the increase from the 50 to the 72 is through that reallocation process. But there's also some portion of that related to the increase in the revenues associated, you know, with the, you know, the gaming and I know on gaming that takes place at the casinos. So it isn't all just related to the, you know, the recasting of the overhead costs, so.

The other point that I would make is that one of the things that we do not include in our food and beverage and other, well, the entertainment, is the amount of revenue that we generate as the result of people that come to the casinos to participate in our non-gaming activities. Now, we can—and that's part of the reason why we bring people to the casinos is that—and not everybody that comes does game, and that's fine. We accept that. But there's a certain percentage of our customers that do come, will, as part of their entertainment, will game. And so that's part of the reason why all casinos are going towards the kind of a total entertainment concept.

Mr. Borotsik: And I assume that's why you have a VP of marketing. We want to definitely have entertainment so that we can attract the gamers, and the gaming will be reflected into the casino earnings, as opposed to the entertainment earnings. That's why I would like to see the breakdown if I could.

We'll get away from that one, and we appreciate the fact that there are different revenue centres. We know that lotteries like—Manitoba Lotteries Corporation, like any other corporation, has to look at increasing their nets, as opposed to having them decreased, and that means looking at different ways of doing that, and that's different revenue centres. One of the revenue centres that has been anticipated, I think, over the past little while, has been online gaming. Can you give us an update as to where you are with respect to online gaming and what kind of revenues you have projected for online gaming going forward in the future?

* (13:50)

Mr. Ashton: Yes. I should indicate we have been looking at it and, certainly, indicate we've made no decision to proceed with it. We certainly have been monitoring developments in other provinces. I had the opportunity recently to meet with the BC minister, my counterpart, on a number of issues,

including this as well. And the key thing to stress here is online gaming at the provincial level is fairly new. BC has, for example, been up and running. In fact, Winston can give some of the time frames, and they did have some initial difficulties with the operations. So they're only just beginning to get, you know, some sense of their own revenue streams. So certainly we're assessing that and we're not alone. I know Saskatchewan, I'm talking to my counterpart there, they have not made a decision to proceed; neither has Alberta. Some jurisdictions have made a decision to proceed and some have made the decisions not to proceed.

So at this point it's—on the financial side, it's difficult to give definitive numbers on what it might mean for Manitoba. You could make estimated guesses, I think, is probably the best example of it. But the broader policy question, we have not made a decision to proceed with online gaming at this time.

Mr. Borotsik: Yeah, okay, I'm sorry, Mr. Hodgins, I see that that's obviously a policy decision that hasn't yet been made by the government, and I'm sure that if it's made, you'll be very capable to be able to run with that particular ball when given the opportunity.

However, in saying that, there's other—perhaps other revenue streams that you've looked at; they're within your own purview without having the responsibility of going to government. Have you looked at any other kinds of revenue streams within the existing operations that you have now to increase any of those revenues?

Mr. Hodgins: Well, maybe I could just talk very briefly about each of our business lines. I did talk about our video lotto, our VLT program, and we're certainly looking at the replacement of machines, which, you know, based on our last experience, generated additional revenue. In terms of the casinos, we have been refreshing the gaming floor.

We—the policy that we operate with is that we're not expanding gaming within the—you know, within the corporation. So we have been refreshing our gaming equipment, and we have been doing that for a number of years. We replace roughly about 20 per cent of our equipment on the floor every year either through purchasing new equipment or conversion of existing equipment. That has proven to be extremely popular with our customers, and that's, you know, in part the reason why our revenues have been increasing at the casinos.

Our non-gaming amenities, you mentioned some of the, you know, some of the non-gaming amenities. There's our entertainment, there's our—the food and beverage which certainly attracts a lot of people to come to the casinos. We took the food and beverage from a very significant loss situation to one where, you know, it's approaching a point now where we're, you know, making a small profit on it, or we hope to make a small profit on it this year. So, you know, those are things that have all contributed towards the profitability of the casinos.

But certainly we're going to be continuing to look at, you know, options available to, you know, the casinos. One that I could mention, the minister mentioned in his opening comments, the new hotel at McPhillips. There's a—I could tell you, there's no final deal in place, but I would very much hope that we could put a hotel at McPhillips in the same fashion that there's one at Club Regent.

When the hotel at Club Regent opened it was very—it had a very positive impact on the corporation. People that come into the city either through bus tours or through passenger traffic getting themselves there through their own vehicles or whatever, they want to stay at the hotel. And I'm sure that we could probably generate more business from outside the city if we had a hotel at McPhillips. And so that would be another way of generating additional business for the casinos.

In terms of the lotteries, the lotteries have, you know, we've introduced the Lotto Max program. It replaced the Super 7 and it has proven to be very, very popular and is also generating additional revenue for the corporation.

I would also add that beyond just the revenue streams we are also very conscious of our expenditure side of our operations. We spend a lot of time looking at how we can operate more efficiently, and so that also adds to the bottom line as well.

So those are some of things that we're doing to try and, I guess, improve the financial position of the Province. The one thing that we have to do, we have a—we do have a responsible gaming program in place that, you know, we're seen as one of the leaders in Canada in terms of responsible gaming. And so as a corporation we have to kind of balance responsible gaming against the profits of the, you know, of the corporation. And so, you know, there's maybe some things that we could do that we don't do because we want to act in a responsible fashion.

Mr. Borotsik: Yes, and I appreciate it's a fine line that you walk. Obviously you're trying to expand revenues at the same time of being a conscientious corporate citizen.

And I'll ask you a question now, and I probably know the answer because you probably don't have the policy purview to incorporate it, but have you ever looked at the beverage expansion or expansion of beverage services to the gaming floor? And I'm talking about alcoholic beverages right now.

Is that beyond your—

Mr. Ashton: The answer is that has been an issue that has been raised, but we've not made any decision to move in that direction. So the answer is—sure, it's raised fairly frequently by customers, in some cases by the First Nations casinos because, you know, they operate under the same rules that we have. So it's an issue we're aware of, but the decision has been not to proceed with beverages on the gaming floor.

Mr. Borotsik: That would be answering my question; it wasn't in your operational purview. Thank you, Mr. Winston—Mr. Hodgins. Mr. Winston?

An Honourable Member: You have a direct answer, though.

Mr. Borotsik: All right, I got it. Thank you, Mr. Hodgins.

One last question, and then I'll turn it over to my colleagues, and it's got to do with debt. To go to page 53, it identifies the long-term debt of the corporation. And I—more for my own information than anything else—you currently have a debt of about a hundred—well, \$142 million outstanding at the present time.

First of all, maybe explain to me why it is that you've had to enter in to these types of loan arrangements, and they're quite a substantial number of them, all of them held by the Province. I appreciate that. And all of the interest—I'm sure there's a premium of interest going to the Province because they'd like to get their premiums on other interest payments from other corporations.

I have a couple of questions. The first one is, why—there's some fairly small loan outstanding amounts. You do have some fairly substantial cash flow. I've seen your statements and you do generate a fair amount. Why is it that you've entered into loan arrangements, for what purpose?

Mr. Hodgins: Well, I guess there's two ways of paying for your capital investment. You could either pay cash—*[interjection]*

You either pay cash, or you can go to the market and borrow. And I can tell you that if we paid cash for all of our capital investments, our cash flow to the Province would be substantially less. But I would think that, you know, it's not an unreasonable approach to, you know, to incur the kind of debt that we are and pay for—amortize it over, I guess, well, depends on the kind of debt it is. It's—but we felt that it was a good—it was a—we felt it was a prudent business decision to finance our capital investments over different periods of time. I think they're in the statements here. You probably saw where there's different amortization periods for different kinds of debt and that. So that was—that's a business decision that we have taken.

Mr. Borotsik: Yes, so the business decision is not to pay out of cash flow, but to borrow money instead and then pay it over a period of time. I appreciate that, and there's obviously a cost of that.

The one that sort of jumps out is there's \$135 million outstanding, and I did read the explanation. It's at 6.9–.50 per cent. It was interest only. Principal due on maturity was August 30th, 2010. You did receive an extension—it says so at the bottom—till March 31st, 2011. Have you refinanced that 135 and at what terms?

Mr. Hodgins: Yes, we have refinanced it, last fall, I believe it was. *[interjection]*

Was it March? *[interjection]*

I'll get the exact date and the interest rate for you.

An Honourable Member: And the term, please, because it was—

Mr. Chairperson: Mr. Borotsik.

Mr. Borotsik: Yes, it was interest only, as I understand. There were no principal payments made on that 135. So how long's the 135 been outstanding, and what are the terms now of the 135? It's a \$135 million, by the way, just for Hansard's purposes.

Mr. Hodgins: The—it's \$135 million, as you mentioned, and the repayment is based on a 20-year term, and the interest rate is 5.05 per cent.

Mr. Borotsik: Is there a premium from the Province on that 5.05?

Mr. Hodgins: I'm not sure what you mean by a premium.

Mr. Borotsik: Well, there are other corporations, Crown corporations, that borrow—the Province borrows money on their behalf and there's a one-point premium that they pay for that money. Is there a one-point premium at this point in time?

* (14:00)

Mr. Hodgins: That's something that I'd like to be able to check and get back to you and let you know.

I know there was an administrative fee at one point in time but, quite honestly, I can't remember if that's the case. I think they used to charge a quarter of 1 per cent for an administrative fee, but I don't know that—I'm not sure if there's a premium of 1 per cent. But I'd prefer to check into that and get back to you with that information.

Mr. Borotsik: Thank you, I would appreciate that.

As I said, it's not unusual. There are other Crown corporations that do pay a premium, in fact, it's substantial, especially when you've got \$8 billion in debt, but we won't go into that particular Crown corporation. And I hope that you never get to \$8 billion in debt or we're all in a lot of trouble.

Can you tell me what the 135 was for initially? It's obviously been outstanding for quite some time. Can you tell me why the \$135 million—that's a lot of money—and again, out of cash flow you could have reduced that, more so than just interest. What was the 135 for?

Mr. Hodgins: The \$135 million was for the expansion of the casinos in '99.

Mr. Borotsik: And at that time the deal was that it was interest only and that you weren't going to pay any principal.

Mr. Hodgins: Actually, when I got involved to the corporation, it was short term. It was actually—it was kind of like interim financing which really, potentially, could have put the corporation at risk if interest rates had gone up substantially. So, at that time, we made a decision that we were going to finance it with long-term debt.

Mr. Borotsik: Last question—and I promise, this is my last question and I've got two colleagues who want to grill you for another two hours.

However, my last question—and it's on page—if I can read my writing—page 59, I believe. Yes,

page 59. It's on the consolidated schedule of net income and comprehensive income.

If you'll notice consultants' fees—and I do know that we have a breakdown—just recently, as a matter of fact, I think the consultants came on Friday. And I know that there was a question that was asked some six months ago, but we did get it on Friday. However, there was no breakdown of the cost of those consultants. But if you can, just bear with me, Mr. Hodgins.

In 2009, there was \$6 million that was paid for consultants. In 2010, it was two million six, which, congratulations, when you said you were very cognizant of trying to keep a handle on expenses, I know that this is one area that you did, but can you tell me why there's such a dramatic change from 6 million in 2009 to two million six in 2010?

Mr. Hodgins: I think if you go back and look at some of the previous statements that our consultants—excuse me—our consulting costs were in the order of around 2 and a half to 3 million dollars. And so, there was this one time, I guess, amount of \$6.1 million and it was for some consulting work that we had done related to looking at how we could renew the casinos. And so it was a one-time charge and it was kind of like a timing thing to some extent as well, as opposed to being charged over a couple of years. But it was, as I recall it, it was for an engineering company. That was primarily the reason why that increase took place. But, I think if you go back and look over the years, we'd generally be in the range of about \$2.5 million for our consulting costs.

Mr. Borotsik: Well, just—this is my last question, but it's a series of questions, obviously.

So, you're looking at about \$3.5 million for one contract. And who was the contractor? Who was the consultant?

Mr. Hodgins: It was Smith Carter.

Mr. Borotsik: Thank you very much, Mr. Hodgins.

Mr. Cliff Graydon (Emerson): The MLCC holdings on page 37. I just have one question on that.

And it says during the 2009-10 fiscal year, MLCC—or MLC Holdings Inc. acquired \$26.9 million in capital assets for lease to the Manitoba Lotteries. Where would they have acquired that \$26.9 million from?

Mr. Hodgins: Sorry. The holding company was established in order for us to try and, I guess, reduce some of our GST costs. It was largely the debt that we had associated with the gaming equipment in the corporation and it was transferred to a holding company. The holding company purchased our gaming assets and they are leasing those back to us. And so, when we did that, the GST was 7 per cent and so the—I believe that was a—*[interjection]* yes, the other—Tracy just reminded me that we also pay two times on gaming equipment. That's part of the arrangement with the federal government, that we pay GST—two times GST. So we're actually paying 14 per cent in GST charges with the—to the federal government. But, in any event, we transferred our—the debt associated with our gaming equipment to this holding company, and we were able to do that with the—well, the GST was seven per cent at that time—we were able to get an input tax credit, I believe it was, when we transferred that back, which was about \$20 million from the federal government, and we used that \$20 million to pay down our debt.

We are now leasing that equipment back at—from the holding company and when we pay—I guess it's its annual lease charges, and we're paying GST now at five per cent as opposed to the seven per cent. So there's a saving there as well, and the interest saving on that \$20 million that we were able to pay down is roughly about—I think it's around \$1.4 million every year. So we were able to save GST. We were able to save on the interest charges associated with that \$20 million that we were able to pay down on our debt. So it was a tax-saving measure, if you like. So we still own the—well, the assets are still owned through this holding company, and it's our board of directors that sit on this holding company.

Mr. Graydon: Well, thank you for that. If I understand it right then, it was a way of eluding paying taxes. Would you say that that's—is that the terminology that one would use in this situation or it was just a good business practice?

Mr. Hodgins: I just think it's just—it's a way of us achieving some efficiencies in our organization. I'd rather keep the money for the Manitobans as opposed to transferring it to the federal government.

Mr. Graydon: I need to better understand where that holding company got their money. You transferred this to them. You just transferred—you loaned them \$26.9 million? I mean, somehow that got transferred, there has to be a tax on that.

Mr. Hodgins: The assets that were transferred were actually acquired with capital authority that was approved through The Loan Act. So that's where the authority came from originally, and then the assets were just transferred to this holding company. So they—any of the assets that were involved they were acquired with authority that was approved by the Legislature.

Mr. Graydon: Then it—as we go on then in liquidity and capital resources, it says cash expended on property and equipment for '09 and '10 totalled exactly the same amount, \$26.9 million. So is that—you bought that then?

* (14:10)

Mr. Hodgins: So when we put together our consolidated statements so we're showing the entire picture of our operations, we include the operations of the Manitoba Lotteries Corporation and the holding company. So you get a picture of the—of our entire operation. I think that's probably the simplest way I can explain it, and that's why it's the same amount.

Mr. Graydon: In that case, then, Manitoba Lotteries spent \$31.2 million on property and equipment in '08-09. Can you explain the difference in—what would they have bought that was less in '10? Or '09-10?

Mr. Hodgins: If I could just refer you over to page 47.

Mr. Graydon: Forty-seven?

Mr. Hodgins: Yeah. So you can see the \$26.9 million is about middle of the page.

An Honourable Member: Yes, it's under investing activities. Is that what you're referring to?

Mr. Hodgins: Yes. And so—yes. Although it appears as a—it's a—it would appear as a negative amount, that's actually the increase to the consolidated statement for the equipment that we purchased in 2010.

Mr. Graydon: I'm going to have to give this a little bit more thought. I'm not following your train of thought, and yet I'm not exactly sure what question I want to ask on that at this point. So I'm going to move on to a different question and I'll come back to this later, till I get my head wrapped around it.

In-house catering. You do your own—in the casinos you do your own in-house meals, service. That's all done in-house, none of that is tendered out?

Mr. Hodgins: We—the only part of it that is operated through an independent operator is the McDonald's. But all the rest of the food and beverage operations are done in house by the corporation.

Mr. Graydon: Do we have a number of what this would generate as a revenue generator?

Mr. Hodgins: I think that is the request that Mr. Borotsik has asked if we could give you a statement that shows what the revenues and expenses are.

Mr. Graydon: It'll come with that particular statement?

Mr. Graydon: The VLTs are distributed throughout the province, and I believe they've been distributed with a fair degree of fairness in different areas. What happens when, for instance, a hotel closes in an area, and/or one burns down, for example, and the equipment is lost? Either way, that equipment is not in that area. How do you balance that, and do you then put equipment in the next facility down the road or do you just ignore that area?

Mr. Hodgins: Well, an unfortunate event such as a, you know, a hotel or a building burns down that, you know, we have equipment in, if there are—if there's another hotel that's constructed—we've had situations where hotels have burned down and then they've been rebuilt, or there may be other, you know, facilities that open in that community. Certainly, we would put equipment into it. You—and I think you're aware of the fact that to have VLTs it has to be in a liquor—well, in a facility that has a liquor licence, and we allocate the machines on the basis of the number of seats that they have by liquor licence.

So, you know, it isn't that we would ignore a community, but if they don't have a facility that meets the requirements of our program, we can't put machines into that community.

Mr. Graydon: It seems to me that a couple of years ago I was asking questions about these VLTs, and they said that they would never go below three in a facility. But some of them same facilities at one time were running five and six in the same facilities. They were just down—created because of the revenue stream that was being generated.

Now, if you lose a site through, for example, the Queen's Hotel on Christmas Day, you lose three machines there. Then, would they show up in the same community? And when I say the same community I'm talking about within a 10- or 15-mile

radius, because those same people that were using these three machines are going to be using machines somewhere else.

Mr. Hodgins: Well, I think if, you know, if that particular scenario were to develop, then I would expect that the revenues associated with the increased play on wherever those, you know, this new—this other facility is, that would certainly be taken into consideration in the redistribution. So if they generate additional revenues, sites can receive additional equipment. So it isn't always that we're taking equipment out of sites, the lower producing sites, but if there are sites that do have increased play at them they can receive additional equipment.

So in the situation that you're referring to, if they have enough—I mean, it isn't that they just marginally increase their play. They—it has to be demonstrated that, you know, that there's enough increased play to justify the additional equipment, and that's based on the benchmarks that are used each year for the replacement of equipment.

Mr. Graydon: Would you agree, then, that there are peak periods during the day that the machines are used?

Mr. Hodgins: That's probably true in every site in the province that, yes, that there's probably certain times during the day that, you know, that there's increased play.

Mr. Graydon: So if those peak periods happen to be 12 to one, lunchtime, or from four till five or four till six, till supertime, and there's a limited amount of machines in a facility, there's no way that you can bring your revenue stream generated the higher if the machines had been busy at that point all the time. So these people then have to drive much further. There's no way that the machines will ever increase because there has been a loss in a community or in a number of communities. Would you agree to that?

Mr. Hodgins: Well, there's an overall cap that we deal with, which I—we talked about the last time. It's 4,482 VLTs that we operate with. And I would say there's over 500 site holders and probably all 500 site holders could make the same argument. So we can't increase machines beyond the 4,482. So we're, you know, it's not possible to address that situation with a, you know, an individual site holder because we could deal—we probably could have that same argument from every site holder that, you know, that we have in the province, that there's certain periods when they'd like to have more machines. And when

we operate within that overall cap of 4,482 it's not possible to put more machines in.

Mr. Graydon: Mr. Hodgins, in rural Manitoba there's a definite distance between the hotels. And so when you lose a site and you haven't got the opportunity to raise your revenue stream, and you suggested it would take a year to do that, I know that there's a lot of people that—in the city of Winnipeg—that would like to have all of the machines that are in rural Manitoba. But at the same time, in fairness to rural Manitoba, and I'm—especially in my constituency where we've lost six machines now in the last two years—and they're not going to be replaced. And no one in that constituency has the opportunity, none of the other site holders have an opportunity, to increase their revenue flow because of the peak periods that people use the machines. They're at a disadvantage out there. The reason—if my memory serves me right, and sometimes it slips a little and I expect you to correct me if I'm wrong—but the VLTs were a way of making rural Manitoba a place that people would stay, and it was a revenue generator in small community.

* (14:20)

Mr. Ashton: Yes, I think it's important to note here that there is an allocation policy; there is a cost to the machines, the operation of the machines, that has to be factored in. The policy which really has been in place, you know, in a similar fashion from day one, does recognize the circumstances, you know, that vary between hotels and restaurants, between rural and urban, and there is a process that takes place.

I know the member's talking about peak periods; that's applicable to all site holders. It's no different than any other operation, a business operation or any other commercial operation. At the end of the year there's certain revenues that are in place and, obviously, Manitoba Lotteries has a responsibility to ensure an equitable distribution, and a lot of work has gone into ensuring that. In fact, I'd like to stress that we do consult with the industry, as well, both the hotel industry, the restaurant industry and we have ongoing consultation with veterans' organizations because they're also a significant stakeholder.

So, you know, there is a process that is in place. There has been some allocation, or reallocation, over time. I stress it's not just rural areas, but businesses do change in Winnipeg and, in some cases, you also get businesses in addition to going out of business, decide to use the space for other purposes rather than

VLTs as well. So there's, you know, obviously that factor that's built in. So the current policy attempts to reflect all of that, and it really is based on a long-standing policy which is the overall revenue is there for obviously public purposes, for a significant site-holder payment. I mean I put the number on the record earlier. And within those confines we have worked out arrangements that we think work very well. There's relatively little reallocation every year. In fact, Lotteries can run through perhaps, you know, some of that.

We also do have a number of seasonal sites. We do reflect, you know, that. I mean there are parts of the province that are, you know, seasonal tourist attractions in some of the facilities we have in place there. So there's a whole series of factors that go into it. You know, I certainly appreciate that it can create somewhat of an inconvenience. But we've also seen areas in rural Manitoba where you will see one site holder perhaps get out of the VLT side or close down and then others will, you know, be in the position to provide that entertainment option as well. So it's not done on a strict geographic basis.

But if you actually look at it, we do have pretty broad distribution across the province with the current policy, and I think we've really kept the original mandate which has expanded, of course, you know, the urban side. But when the previous government brought in VLTs it was focused on, initially on rural Manitoba, and whether it's the ready funding, the site-holder payments, we are a major supporter of the hospitality industry throughout the province.

And I do want to stress, I thank the member for actually raising that context, that people often forget that side of it. I mean we're always cognizant of the responsible gaming side, but we also have to recognize there's a lot of restaurants and a lot of hotels and a lot of veterans organizations. And I'm going to stress the latter, veterans organizations. I mean I know legions and army/navies in this province that would not be in existence if it wasn't for the VLTs. And, in fact, initially they weren't included in VLTs. I remember a committee dealing with a Lotteries report by the minister of the day where it was pointed out that was an inconsistency. But I do want to stress that is an important thing we do keep in mind, is the fact that this keeps a lot of restaurants, hotels and veterans organizations in a much better financial situation than they would be without VLTs.

Mr. Graydon: Thank you for the long answers to a short question. And you're right, absolutely right, that there's a number of the Legions that wouldn't be in existence today if it wasn't for the VLTs.

I'm just questioning some of the protocol that goes into it. I'm not questioning what you do or what the long-standing tradition has been and how you allocate the machines. But when you see a large area that loses machines, either from the closure of one hotel or the other one burning down, and you know that people are driving and because they are on the border we do attract some out-of-province money coming into those facilities and they're not there, and the peak time is noon and that—but, at any rate, I won't belabour that.

I want to ask you a question and I'm not sure why I'm thinking this. But I'm thinking in the back of my mind that The Pas casino—do we subsidize that particular casino for some reason? Is that subsidized in any way?

Mr. Hodgins: No, it's not.

Mr. Graydon: Thank you, then. I—for some reason I had in my mind that when I was up there that there was some subsidy goes into that and I just can't put my finger on it right now. But thanks very much, I'll pass this on to my colleague.

Mrs. Leanne Rowat (Minnedosa): I have a few questions with regard to the responsible gaming aspect of the annual reports. Can you provide for me some background on the responsible gaming council that is listed as the consultant? It's on the consultant list that was provided to us. I know that Manitoba doesn't have a responsible gaming council so I'm assuming this would be the Canadian gaming council or the Ontario council, and if you could provide also some background on their role in Manitoba. What were they doing to assist?

Mr. Hodgins: The one that you're referring to, the research council, is a Ontario-based organization and we have done work with them as part of our responsible gaming research. What we do is we collaborate with other Canadian jurisdictions to try and share some of the work around responsible gaming. And I think, with respect to what you were looking at there, I think some of the work that we did was around our Voluntary Exclusion Program—*[interjection]*—around our Voluntary Exclusion Program, I think that was the research project. Now, there's others that is done as well, but what we were doing is looking at the Voluntary Exclusion Program

in terms of best practices, I think that was—yes, in terms of best practices because of some of the challenges that we have in trying to administer that program.

Mrs. Rowat: I'm having trouble hearing, volunteer exclusion program?

Mr. Hodgins: Voluntary Exclusion Program.

Mrs. Rowat: Voluntary Exclusion Program.

Mr. Hodgins: That's where people will sign up to be excluded from casino properties.

Mrs. Rowat: Could the—can you provide me with some further background on that program? Was there—did they come in and do research on that or did they develop some policy for you or—?

Mr. Hodgins: Well, we've had a voluntary excluded program in place for many years in Manitoba. In fact, Manitoba was one of the first jurisdictions that was put in place—that had this program put in place, and so other provinces have also been implementing voluntary exclusion programs as well. And so what the research that was undertaken was to look at what are all the practices across the country and what are considered to be best practices to assist people to stay away from the casinos when they exclude themselves, and so there was a report that was put together that looked at what I mentioned as being best practices. I can tell you that most of the—what are deemed to be best practices that we have in place in Manitoba. So it was—that was one of the projects that this council was involved in.

Mrs. Rowat: Thank you, Mr. Hodgins.

Can you also indicate to me—I understand, just based on the research in one of these documents, that there was also some work done on native or Aboriginal gaming addictions—can you indicate to me whether that was part of the responsible gaming council?

* (14:30)

Mr. Hodgins: We're not the only entity in Manitoba that does research around responsible gaming. Beyond ourselves, the Manitoba Gaming Control Commission and also the Department of Healthy Living have a mandate to conduct responsible gaming, and the particular initiative that you're referring to is a responsible gaming research project that's being undertaken by the Manitoba Gaming Control Commission.

Mrs. Rowat: I had just received a note on that; I just wanted clarification on that, so, okay. I appreciate that.

I have some questions with regard to the '08-09 report, and this would be in the area of responsibility to communities, obviously. Just wanting to know if you could provide me with the status of the World Lottery Association responsible gaming accreditation. Apparently, WLA was providing an objective framework for MLC's responsible gaming approach, and just wanted to know if you can provide me with the status of that and also if there's a public report that could be shared.

Mr. Hodgins: We're currently working on that. It's quite an extensive, I guess, piece of work that has to be put together to apply to the World Lottery Association to be accredited. So we're—if I can—so we're hoping that this fall that we'll be able to, I guess, apply for that accreditation. So it's—it—I guess the, well, the report that's being put together, you know, it's not available at this point in time, but it could be, you know, it will be available down the road. But this is a—the World Lottery Association; it's actually an international organization that would be looking at this.

Mrs. Rowat: Can—Mr. Hodgins, can you provide me with, I guess, some further background on that? Would that include all casinos within the province, both Aboriginal and off-reserve casinos? So that would be an accreditation requirement across the province?

Mr. Hodgins: This accreditation is one that Manitoba Lotteries Corporation is applying for and would not include any of the other gaming entities in the province.

Mrs. Rowat: Just to be sure—to be clear then, this would just include the ones that you're responsible for. So on-reserve casinos would not be part of the accreditation process?

Mr. Hodgins: That's correct.

Mrs. Rowat: Another report that MLC was working on was the problem gambling help line study. And I'm just wanting to know what the status is of that report.

Mr. Hodgins: I'm told that the report has been completed, and we did that in conjunction with the AFM, so it's—it is completed, but it hasn't been released at this point in time. But I'm also told that the results were very positive.

Mrs. Rowat: It said this study would be available next year, and that was '08-09, so I'm wanting to know would the report be available this spring? Can I get some definitive timeline on that?

Mr. Hodgins: Because the AFM was our partner in this project, we'd want to consult with them, but I would expect that the report would be available in the next, you know, say, two to three months.

Mrs. Rowat: Can the—can Mr. Hodgins indicate to me, he—who else may have been a partner besides AFM? Were there any other organizations that would have been partnering with MLC?

Mr. Hodgins: The two partners in it, as I understand it, is the AFM and the Manitoba Lotteries Corporation.

Mrs. Rowat: On page 23 they talk about providing responsible gaming messaging with the broader public. Can the—or can Mr. Hodgins indicate to me what type of a budget, or will there be a campaign rolling out this spring?

Mr. Hodgins: Just while we're looking at—to see if we have information on the cost of it. The campaign was just completed at the end of March. So it ran during February and March. It was a television campaign. It was actually—it was a campaign that we had run previously and we ran it again in February and March. So there isn't any plans to run another campaign until next year.

Mrs. Rowat: Okay, I'll—I'm just wondering if she's looking for the budget item. I'll wait for that.

Mr. Hodgins: The media buy was \$225,000.

Mrs. Rowat: Thank you. And can Mr. Hodgins provide me with detail on where that would have been advertised? Who would have been used as the deliverer of that campaign?

Mr. Hodgins: It ran over a four-week period, January 24th to February 20th, in the daily and weekly newspapers. And it was Winnipeg, Brandon, rural and northern Manitoba, and the First Nations communities. And then there was TV in Winnipeg and Brandon. It was on CBWT, CBWFT, Global, CKY and City TV.

Mrs. Rowat: On page 33 of the '08-09 annual report there's a strategic direction for '09-010—or '09 and '10—and one of the responsibilities to the community indicates: Continue to improve and implement the Responsible Gaming Strategy.

Was that a public document that would have been provided? I'm just trying to determine if there were some targets that MLC was trying to reach and how to determine those outcomes. So I'm just wanting to know if that was a public document that would have been available.

Mr. Hodgins: I don't believe it was a public document, but, certainly, we could, you know, share information on that if you'd like to see it.

Mrs. Rowat: Thank you. I'd be very interested in receiving a copy of your Responsible Gaming Strategy.

Mr. Hodgins: If I could just add, our initial Responsible Gaming Strategy was put in place back in the early 2000s. So, you know, we've been working on this for some period of time now. But we could certainly make information available to you on what the strategy is.

Mrs. Rowat: Thank you, Winston. I'm just wanting to get my head around the elements with regard to implementation and the benchmarks, et cetera, on how that plays out.

In that strategy I know that there's a community financial counselling service, and I know that that has been ongoing. I believe in the '08-09 annual report there was one person that was providing those services. I guess I would like to get an update on that program. Could the—or can Mr. Hodgins indicate to me the number of staff that are currently involved in that program, a breakdown of those positions and their roles. And, also, I'd like to know how the program is—has been rolled out, the number of people that have been in contact with MLC and also how that—what happens when a person does touch base with you.

* (14:40)

Mr. Hodgins: I have some of the information that you're asking for and I'll share that with you now. But some of the numbers and that we would have to get for you because it is an external group and it is, I think—let me see.

So this goes back to 2004 when the program was first approved. It was done on a pilot basis. We did do an evaluation of the program and it was very—received very positively by the clients of that program.

They initially started off with one staff person; they now have two. And they hired the second person so that they could serve rural Manitoba—rural

northern Manitoba. The current funding agreement with the counselling services has a total value of—I'll just give you a round figure, \$428,000. Now that's for the period April of 2010 to March of 2013, so it's for a three-year time frame.

So the—some of the objectives of the program is a quick access to service, reported behaviour changes in clients, reduction of financial crisis for participants. So they actually sit down with clients and help them to try and get their affairs organized when they're having a problem, and to try and, I guess, provide people with increased knowledge of financial management, and also to, I guess, discuss with them some of the negative effects on their finances related to gaming. And I think they also deal the whole issue around coping mechanisms for people with gaming problems.

Mrs. Rowat: Can Mr. Hodgins provide me with a number of contacts that would have been received last year by the staff people working in those offices? Probably a breakdown of how many in Winnipeg and then, probably, the rural northern person.

And the location of the rural person, would it be Brandon or would it be Thompson?

Mr. Hodgins: My understanding is the second person is located in Winnipeg, and travels to the rural part of the province.

Mrs. Rowat: So both positions are located in Winnipeg and there's a—okay, then I'll—there's probably a number of Estimates questions.

Or can I—I'd like to know the breakdown of the mileage, then, of the cost of that individual travelling from Winnipeg to the rural communities and northern Manitoba. I guess that would come through you rather than Estimates, I guess.

Mr. Hodgins: We'll have to get that information from the particular organization.

Mrs. Rowat: I'm assuming there's a 1-800 number?

Mr. Hodgins: I'm sure they do but I don't have that information with me.

Mrs. Rowat: Okay.

I have a number of questions with regard to that but I'll do that through correspondence as well.

The Responsible Gaming fund, I'd like to get a list of the organizations that have received funding from MLC and the amount of dollars each of those organizations have received. And then, from that

point, to get a better understanding of how the fund works. The programs and research that is being done by each of those organizations, what role do they have and how are they identified as recipients for that—those dollars?

Mr. Hodgins: That's information that we'll have to provide you.

Mrs. Rowat: Just one final question with regard to your Club Card. It's been identified in previous reports and in this report, and it's identified as a tool for Responsible Gaming, but it's not a mandatory card. Can you indicate to me how you determine the success of that card with regard to individuals who may have gaming issues or addictions?

Mr. Hodgins: You're quite right, it's not a mandatory card; it's voluntary.

I can tell you that probably about half of our—the gaming that takes place at our casinos is carded play, so there's about 50 per cent of the people that use the card and about 50 per cent that do not use the card, but there's—and again, this is optional—there are two Responsible Gaming features that we were able to introduce for people that do use the card, and again, if they voluntarily want to use it. One's called the Gaming Activity Report, that—where people can go in and ask to find out about the amount of gaming that they had done over a particular period of time. We've—we found that, you know, there's a number of people that have, you know, interest in getting that information. So that's one of the Responsible Gaming features.

We also have what's called the player choice limits feature, and that's where people can actually set the time frames around the—when they game, and they can also set limits in terms of how much they game. So those are two game—that is a feature that hasn't been widely used at this point in time, but it is available to anybody that wants to use that feature.

Mrs. Rowat: Just one more, I think. With regard to your percentage of revenue that goes towards Responsible Gaming, is it—what percentage does MLC allocate towards Responsible Gaming at this point?

Mr. Hodgins: Two per cent of our net income.

Mrs. Rowat: Can Mr. Hodgins indicate to me the last time that percentage would have been increased, or has that been consistent for the last number of years?

Mr. Hodgins: The 2 per cent has been in place for a few years now. When we first introduced it we had—it was to be implemented in a phase way over a period of time. I think it was—initially it was supposed to be introduced over about a—and I might be wrong on this—but I think it was for a five-year—over a five-year period. It was to be increased from—I believe we introduced it at 1 per cent then it was to be increased to 2 per cent. But there was a decision that was taken by our board of directors shortly after we introduced the program to increase it to 2 per cent and it's been at that level for some period of time.

Mrs. Rowat: Has there been discussion at the board level to increase that 2 per cent to two-and-a-half, or have they looked at it or revisited that amount based on the need for supports that are out there within the community?

Mr. Hodgins: There haven't been any recent discussions around that issue. Because our profits have been going up every year the, you know, the amount of money allocated for Responsible Gaming has certainly been increasing. It hasn't been, you know, static; it has been increasing over the years.

But, having said that, you know, I know our board is, you know, very supportive of Responsible Gaming and, you know, I'm sure at some point in time they'll look at that issue.

Mrs. Rowat: More of a statement than a question, I guess: With the 2 per cent revenue increase, and saying your revenues are going up, I'm the critic for Healthy Living and I do believe that addictions have been skyrocketing; the numbers are going up dramatically within this area as well as other areas. So I think that, you know, if there is a discussion at some point you may want to take into consideration that, you know, society is seeing, you know, definite challenges in that area. So just wanting to know if there was any discussion with regard to the 2 per cent revenue. Thank you.

Mr. Ashton: Yes, I think that's getting into sort of a broader policy area. I think we've seen over time the degree with which we've taken responsible gaming seriously. It's all history, you know, back to the '90s that led to that and, certainly, we constantly re-evaluate the needs that are out there. I'm not sure I would agree with the statement that addiction rates are skyrocketing. Most of the research indicates that there are people that do have difficulty. The estimates vary, but, certainly, gaming, it often runs, you know, 3 per cent range, depending on how you define it. I always put that in comparison with other

addictions. I actually asked a question once what it was for alcohol and was advised by people in the addictions area it's about 12 per cent.

So, clearly, you know, I have difficulties there, and there are, you know, various other addictions that the member is aware of, you know—from her critic portfolio—from her community.

* (14:50)

So we—regardless of what the trend is, though, we're also dealing with new challenges. What's interesting with the online gaming issue, for example, is regardless of whether the Province is involved or not, there's online gaming taking place. There's 2,000 sites right now that are operating, so that does provide, you know, new challenges even on the gaming side where it's not within our control as a jurisdiction, but there are people that are involved with it. In fact, other provinces are running into the same thing where actually people are not coming, you know, for treatment, for addiction—that's actually related not to anything to do with this province, but, you know, more generally.

So we are constantly evaluating our involvement on the gaming side, and I do want to also flag that we're also very cognizant on the research side, because, certainly in gaming, gaming's evolved fairly significantly in the last 10, 20, 30 years, and there have been significant developments the last period of time, so we're also looking not just at the treatment side, but getting a handle on what is happening, what the trends are, you know, social impacts, individual impacts. So we are going to be, over the next period of time, moving in a new way in terms of gaming research, which we see as part of the combined Responsible Gaming Strategy.

Mr. Pedersen: I just want to circle around a few other questions that haven't been touched on yet today. Spirit Sands Casino—this is, if I remember correctly, it's an American First Nation company that's building it and will manage it, and what is MLC's involvement, then, in Spirit Sands?

Mr. Hodgins: As with the other two First Nation casinos, our responsibility is to acquire the gaming equipment that will be put into the facility, and once the casino is operating then we provide what is called conduct and management responsibility. It's really providing oversight to ensure that the gaming is run with, you know, with integrity, and that's our responsibility.

Mr. Pedersen: And any—I would imagine you're keeping up to date with what's happening. Any start date, tentative start date that you've heard back from them on this?

Mr. Hodgins: That's not information I'm aware of as to where they're at with their project.

Mr. Pedersen: Also on your—the information you provided me in writing, it was corporate sponsors—no, I'll find it. Consultants, that's what it was. It was consultants. Why is—what would you have used the Manitoba Bureau of Statistics for as a corporate consultant?

Mr. Hodgins: We—for certain of our projects, you know, if we, for example, need to have an economic impact study done, we'll use the Manitoba Bureau of Statistics to assist us with that work.

Mr. Pedersen: Okay, and I assume that then they would, even though it is a—one government entity to another, you would have to hire them at a corporate rate, business rate.

Mr. Hodgins: My understanding is they operate almost like a special operating agency, so they charge you at their work, and so we pay for that. Any time we use them, we pay for the work that they do for it.

Mr. Pedersen: Under corporate sponsorships—and you did provide me with a list of, quite an extensive list of corporate sponsorships, which is a good thing—is there any—what are the requirements for corporate sponsorship? Is there tracking of those corporate sponsorships once you've made them? Obviously, you're looking for some commercial feedback from your sponsorship. There is a purpose for doing them. What is your tracking and requirements for these?

Mr. Hodgins: Well, we do have quite an extensive list of organizations that we do support. First, they have to be not-for-profit organizations. So there are, you know, criteria, quite extensive criteria that we have. We don't typically support capital projects. But it's—it—what we're looking for are, I guess, events that are project specific. So, the—but we do have a follow-up process that we follow with organizations to determine if, you know, they're meeting the objectives that are set when we approve the funding.

Mr. Pedersen: Okay, we'll—I'll leave that one. There's some questionable ones in there, but I guess that's, again, that's the corporation's decisions to do those.

One other question I have is your advertising campaign, and you did provide me with some literature on your We Roll Together program, 179.3-thousand-dollar campaign. Has that campaign come to an end now? Is there another advertising program? And what kind of feedback did you get then from this? Obviously, when you spend money on an advertising campaign, you're looking for results and what is an update to this?

Mr. Hodgins: The Roll Together campaign is concluded as you mentioned.

We do have, you know, an ongoing program of advertising. We have billboards, you know, throughout the province and that. It's sometimes difficult to measure exactly how successful they are. I mean, if people are travelling from the US and come up 75 and they see our billboard, you know, they may come to the casinos but we wouldn't necessarily know that. But it's just general advertising that we're doing to try and attract people to come to the casinos.

One of the things that we're finding is that the number of bus tours that are coming to the province are down substantially and it's not just, you know, a problem that we're experiencing. It's more traffic. You know, it's the—what we call FIT travellers; it's people who are coming with their own vehicles. So there's a need for us to try and advertise and market our facilities for those people that are coming into the city to visit. And so there's general advertising you do and you can't necessarily always put a number or a dollar to that but it's just general awareness of our facilities.

Mr. Pedersen: So, it was—the program was We Roll Together, as obviously you're trying to sell a brand. Was there surveys done within your customer base then, to see—did We Roll Together stick out in their mind? That's the kind of feedback I was wondering if you were doing. And if you did or didn't do that, is the next advertising campaign going to be totally different again? Did We Roll Together not work or is it an ongoing venture?

Mr. Hodgins: Well, we did it last year but we're not intending on doing exactly the same thing for this year. We're—you know, we look at different ways of trying to market our product.

You know, we used to have a lot of mass mailers going out and we don't do that as much as what we used to because we're now able to get email addresses, so we look at ways in which we can try

and market as efficiently as possible, and so the use of emails is much more effective. I mean, there's the whole issue of social media and trying to market through that and, I mean, that's where the industry is going now.

An Honourable Member: How many friends do you have on Facebook?

Mr. Hodgins: I don't have any because I don't have a Facebook page, but I'm one of the few.

So, you know, we're looking at different ways that we can try and market our facilities as cost effectively as possible.

Mr. Chairperson: Before we move on to the next question, we've—the committee agreed that we would review our sitting time at 3 p.m. and we've reached that point.

And what's the will of the committee? Does the committee need a few more minutes to conclude questions before we move to the reports?

* (15:00)

Mr. Pedersen: Mr. Chairman, I look at my colleagues and I think they've been worn out by the good folks at Manitoba Lotteries. So I think there is some written questions for written responses. We would certainly appreciate timeliness back on there. And I would urge the minister to do that, too, as we know—all know there's an end date to this current session and that's so that we can get those answers back and go from there.

So, with that, Mr. Chairman, I—we're done asking questions.

Mr. Chairperson: That concludes the questions, then. We'll move to report. Is that the will of committee? *[Agreed]*

Annual Report of the Manitoba Lotteries Corporation for the fiscal year ending March 31st, 2007—pass; Annual Report of the Manitoba Lotteries Corporation for the fiscal year ending March 31st, 2008—pass; Annual Report of the Manitoba Lotteries Corporation for the fiscal year ending March 31st, 2009—pass.

Shall the Annual Report of the Manitoba Lotteries Corporation for the fiscal year ending March 31st, 2010, pass?

Some Honourable Members: No.

Mr. Chairperson: The Chair hears a no. The report is not passed.

The hour being 3:02 p.m., what's the will of committee?

Some Honourable Members: Committee rise.

Mr. Chairperson: Committee rise.

Thank you to members of the committee for your participation here this afternoon, and the Chair

requests that if you do not need your reports, the annual reports before you, please leave them for subsequent committee meetings. Thank you to committee members.

Committee rise.

COMMITTEE ROSE AT: 3:02 p.m.

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