

Gaming Revenues: No Jackpot for the Atlantic Provinces

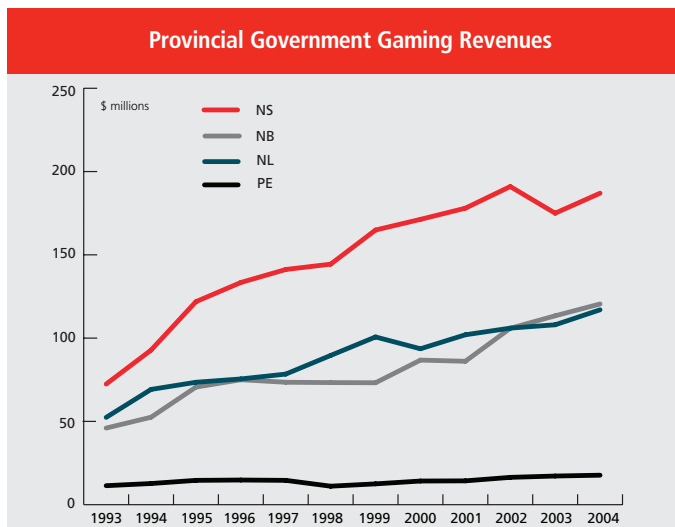
Gaming has been a growing source of revenue for the Atlantic provinces, with a doubling of revenues since 1994. In fiscal 2004/05, Atlantic provincial treasuries collected an estimated \$454 million from gaming activities, equivalent to almost \$250 per adult, and amounting to more than 4% of own source revenues. Indeed, Nova Scotia and Newfoundland and Labrador collected more from gaming than liquor sales or tobacco taxes.

The Atlantic provinces collect gaming revenues from three main activities.¹ The Atlantic Lottery Corporation (ALC) manages and operates all of the region's video lottery terminals and ticket lotteries. The four provinces are shareholders of ALC and each receive an allocation of its net annual income, which amounted to \$426 million in 2004/05. ALC also pays a fee in lieu of sales taxes on lottery tickets. Management of the region's two casinos in Halifax and Sydney is delegated to a private operator with Nova Scotia collecting revenue from a 20% Win Tax on gaming spending at the casinos. In addition, it receives the net income of the casinos less the fee paid to the operator. Nova Scotia collected about \$25 million in revenues from its casinos in 2004/05, of which \$17 million came from the Win Tax. The four provinces also earn revenue from horse track racing through property taxes and an 11% tax on gross wagers at racetracks, which totaled \$3.4 million last year.

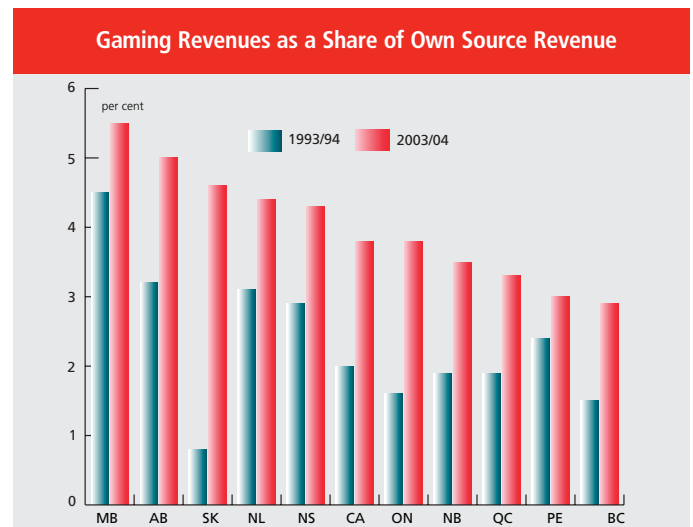
Boosting Provincial Coffers

All provinces in Canada have experienced an increased reliance on gaming revenues since the early 1990s. The contribution of gaming to provincial own source revenue varies across the Atlantic region. Newfoundland and Labrador and Nova Scotia are most dependent upon gaming revenues, which accounted for over 4.3% of their own source revenues in 2004/05. New Brunswick and Prince Edward Island are among the least dependent provinces in Canada, with gaming revenues contributing 3.7% and 2.7%, respectively, of own source revenues in 2004/05. The three Prairie provinces have the greatest reliance on gaming revenues in Canada, with estimated shares ranging between 4.5% and 5.5%.

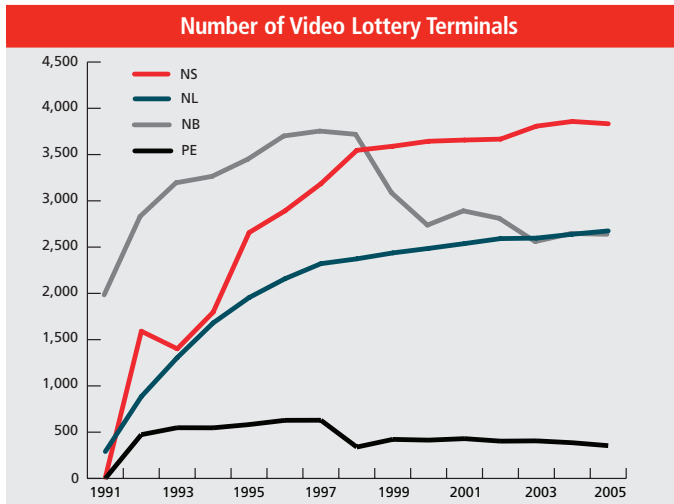
Despite rapid gains in gaming revenue over the last decade there are signs of a slowdown in the last few years, likely reflecting the maturation of the gaming industry and competition within the industry. Total Atlantic gaming revenue was only 5% higher in 2004/05 than in 2002/03. Net receipts from lottery tickets have waned with the Atlantic provinces collecting 14% less in revenues last year than in 2000. Revenue from Nova Scotia's casinos has also declined since 2002/03 and another poor year for tourism may dampen this year's take. Indeed, the relative contribution of gaming revenues in Newfoundland and Labrador and Nova Scotia has declined since 1999, partly reflecting the rapid growth in offshore



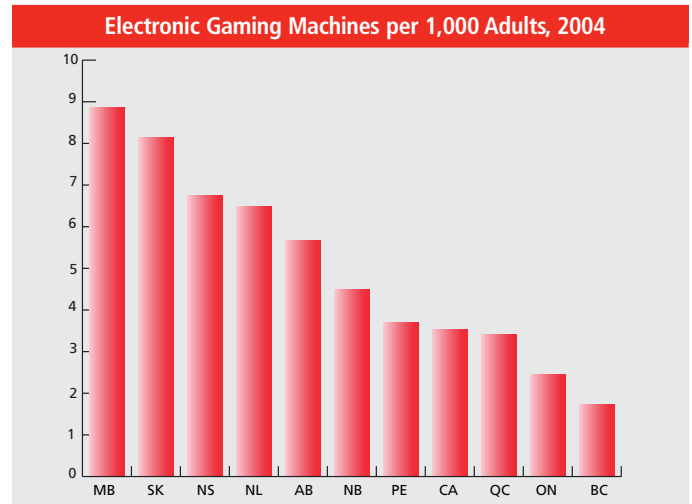
Source: Provincial Departments of Finance.



Source: Canada West Foundation.



Source: Atlantic Lottery Corporation.



Source: Canada West Foundation, Statistics Canada.

resource revenues. However, the newly-opened racino in Charlottetown is expected to boost this year's gaming contribution to Prince Edward Island's treasury.

VLTs – The Gaming Cash Cow

Video lottery terminals (VLTs) generated \$321 million in net revenues for the Atlantic provinces in 2004, up almost 50% since 1999. VLTs now account for about 75% of the Atlantic Lottery Corporation's net revenue, an increase from 65% five years ago.

There are approximately 9,500 VLTs across the region in close to 1,900 bars and lounges with an additional 1,100 terminals (or slot machines) in Nova Scotia's casinos. Nova Scotia has the highest concentration of electronic gaming machines in the region at seven per 1,000 adults (19 years and over), but behind Manitoba and Saskatchewan with nine and eight respectively.

The number of VLTs in the Atlantic region grew phenomenally following the introduction of regulated VLT gambling in 1990/91. However, the number of terminals has not changed much since 1999. Incidents associated with problem VLT gambling have prompted the provinces to limit VLT access. In 1998 and 1999, Prince Edward Island and New Brunswick removed terminals from non-liquor licensed premises, which reduced the total number of VLTs within two years by 33% and 26% respectively. Nova Scotia capped the number of non-reserve terminals at 3,234 in 1998 and is now implementing a five-year strategy to remove 800 VLTs at profit retail locations this November, with another 200 through attrition. In March, Newfoundland and Labrador also announced a five-year plan to reduce the number of terminals by 15% beginning in 2006.

Several studies have suggested that video lotteries are the most addictive form of gambling and that problem gamblers are the ones who contribute the most to net revenue. In Nova Scotia, for instance, problem gamblers account for more than half of net VLT revenue.³ With almost one in five adults using VLTs in 2003, Nova Scotia has the second-highest percentage of VLT gamblers in Canada, behind Manitoba's 28%.³

Conclusion

Atlantic governments have used their growing revenues from gaming to help finance essential government programs such as health care, education and infrastructure. However, the provinces are under increasing pressure to address the social fallout from gaming, especially VLTs. While some people can enjoy buying a weekly lottery ticket or an occasional visit to a casino, for others an addiction to gambling can ruin their personal, work and family life as well as creating social costs such as spending for treatment. With gambling revenues showing signs of a slowdown, the provinces and ALC are trying to balance new strategies to sustain revenue with the social cost of gaming. The provinces are perhaps beginning to discover that gaming is not the easy money it once seemed.

1. The provinces regulate and license charitable gaming such as bingo but do not collect significant revenues from these activities.
2. Karen Hayward, *The Costs and Benefits of Gaming: A Literature Review with Emphasis on Nova Scotia*, GPI Atlantic, July 2004.
3. Canadian Partnership for Responsible Gaming, *Canadian Gambling Digest*, September 2004.

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