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2024 BUDGET BRIEFING NOTE

Consideration of a Municipal Lottery

Issue/Background:

- At its meeting on September 6, 2023, City Council considered the report 'Updated Long-Term Financial Plan' and requested the City Manager to report back on the necessary steps and government approvals required to establish a municipal lottery within Toronto and to provide an analysis of the potential revenues that could be generated through the implementation of such a lottery.
Item EX7.1: <https://secure.toronto.ca/council/agenda-item.do?item=2023.EX7.1>
- This briefing note considers preliminary potential legal, policy, revenue, and implementation considerations for a municipal lottery.

Key Points:

Legislative Authority

- The City does not have the legislative authority under the *City of Toronto Act, 2006*, to operate a municipal lottery, and the Alcohol and Gaming Commission of Ontario (AGCO) does not have authority to grant lottery licences to municipalities.
- The City is also prohibited by the Criminal Code of Canada¹ (the "Criminal Code") from running a lottery itself.
 - Any request to allow the City to run lotteries directly would require amendment to the federally enacted Criminal Code.
 - Subject to certain exceptions, the Criminal Code contains a general prohibition against gaming and lotteries and creates an offence punishable by up to two years imprisonment upon conviction.
 - Exceptions to this prohibition exist for, amongst others, the province, and charitable and religious organizations, pursuant to provincial licenses.
 - There are no exceptions for municipalities.
- At this time, there has been no requests to, or indication from, the federal or provincial governments to make amendments or introduce legislation to permit municipalities to run lotteries.

¹ R.S.C. 1985, c. C-46, s. 206.

Jurisdictional Scan

- An initial search for a comparable lottery found no evidence of a municipality conducting a lottery in Canada, the United States, Australia, or the United Kingdom to generate government revenues.
- Staff identified some smaller-sized municipal councils in the UK which conduct charity lotteries.
 - Revenues are in the tens of thousands and are directed to local charities.
 - Tickets are often coordinated and sold by the charities themselves.
 - These lotteries are not comparable to a municipal lottery for the purposes of generating municipal revenues.

Revenue Potential

- As noted above, no comparable examples of municipalities operating a lottery were found to develop an appropriate revenue projection for the City of Toronto.
- While authority does not currently exist to implement a municipal lottery, to produce a high-level estimate of the potential revenues from a municipal lottery, staff have conducted analysis based on the Ontario Lottery and Gaming Corporation (OLG) lottery ticket² revenues and profits.
 - This analysis has used a set of assumptions that have a high degree of uncertainty. The figures in this analysis are only intended to give a sense of the order of magnitude.
- For the fiscal year 2021-2022, the OLG reported net profit from all game types (lottery, instant tickets, sports bets) of \$1.306 billion in Ontario once prizes and expenses were accounted for.
 - It was reported that lottery ticket net revenues (revenues minus prizes) comprised approximately 68% of all net revenues.
- It can be estimated that a Toronto-run lottery could **produce net revenue in the ranges of \$15 million to \$40 million annually** based on the following high-level assumptions:
 - A Toronto-run lottery would have the same efficiency of net revenue to operating costs;
 - A Toronto-run lottery would scale with the Toronto population's share of the OLG lottery profits.
- However, a Toronto-run lottery would face challenges in generating the same revenue as compared to OLG for several reasons, including that it would:
 - Face competition from other forms of gaming, including the national and provincial lotteries run by OLG;
 - Have a lower prize payout owing to a lower pooled base of players; and
 - Face adoption challenges as a new venture as compared to established lotteries.

² This includes Ontario components of national lottery games (LOTTO 6/49 and LOTTO MAX) and Ontario regional lotteries (e.g., ENCORE, LOTTARIO and ONTARIO 49).

- These factors would contribute to a lower level of engagement and potential revenues. Therefore, to estimate revenue potential, staff considered that these factors might reduce profits to 10% to 25% of the equivalent OLG profits.
- Detailed market research on the demand for and cost of implementing a municipal lottery would be required to develop a refined estimate of the potential revenues that could be generated by a municipal lottery in Toronto. This would likely require engagement with external consultants.
- Any potential revenues would be strongly affected by the design of the lottery, including method and location of sale, eligibility, draw frequency, pay-out rates and overall prizes.
- In addition, potential net revenues would be reduced by costs associated with conducting a lottery, including one-time set up costs and ongoing administrative and operating expenses.

Policy Alignment

- In developing recommendations for the Updated Long-Term Financial Plan, staff advanced recommendations for revenue tools that align with strategic Council and corporate priorities at the City of Toronto, taking into consideration:
 - Estimated financial benefits to the City of Toronto
 - Time and ease of implementation, including authority to implement
 - Impact to stakeholders including residents, businesses and visitors
 - Alignment with the City's corporate strategic priorities and objectives
 - A balanced approach of opportunities (operating, revenue, capital, assets and intergovernmental)
 - Ability to execute the opportunity vs. requirement to explore or consider concepts further before implementation
- Given the City's inability to implement it, a municipal lottery was not considered as a revenue option as part of the Long-Term Financial Plan.

Conclusion

- Given the lack of legislative authority and low estimated revenue potential, City staff have not recommended further consideration be given to implementing a municipal lottery at this time. However, should any future legislative changes enable the potential to introduce a lottery, staff may consider additional analysis at that time.

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