

The background of the cover is a photograph of a casino gaming table, likely roulette, with a green felt surface. Scattered across the table are numerous metal chips in various colors (red, white, green, black) and several banknotes. A black roulette wheel is visible in the upper right corner. The overall lighting is dim, creating a moody atmosphere.

GREEN PAPER

on Gaming For Bermuda



GOVERNMENT OF BERMUDA
The Cabinet Office



GAMING FOR BERMUDA THE GREEN PAPER

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Foreword to the Green Paper Gaming for Bermuda

*By the Premier, Dr. the Hon. Ewart F. Brown JP,MP
March 2010*



Like any proud people, Bermudians have strong opinions on most subjects. As our faces differ so do our views on gaming generally and gaming for Bermuda in particular.

Recognising the divergence of views on the subject and the absence of comprehensive, localized study on it, the Government tasked overseas consultants and a local panel with the considerable duty to analyze Bermuda's potential for gaming.

Public meetings, written submissions and detailed research yielded the two reports that form part of this Green Paper. To further equip the Bermudian public with the tools to make informed decisions, the Speech from the Throne of 2009 undertook to pursue a full debate of "the vexed issue of gaming for Bermuda".

The shout at the Crown and Anchor table when all bets are placed and the speculation is ended is "up she comes!". So it is with the release of this Green Paper. Bermudians no longer have to speculate about many of the issues that surround gaming. The dispassionate research provided by this Green Paper will permit us as a community to engage in a full and frank debate.

The synergies between the introduction of gaming and the renewal of Bermuda's tourism are inevitable. Similarly, the safety net required to ensure that those affected by the indiscipline in gaming must be addressed. This Green Paper contemplates these and other matters.

The Government recognizes that disparate pieces of legislation presently regulate the gaming that exists in Bermuda. Accordingly, as a matter of sound legislative

practice, it is intended to amalgamate the regulation of all gaming in Bermuda into one Act of the Legislature.

I am grateful to the professionals who conducted the Innovation Group Study and to the Task Force on Gaming, chaired by Mr. Wendell M. Hollis with Mr. Edward Trippe, Mr. Norman Mastalir, Ms. Deena Harvey and Mr. Marc Daniels. I must also extend my thanks to the Bermuda Hotel Association who partnered with the Government of Bermuda to engage the Innovation Group.

Bermuda is at a pivotal stage in its 400 year old story. How we approach the task before us on this issue of gaming will determine our economic future and our positioning in the increasingly competitive tourism marketplace.

I look forward to hearing the views of the Bermudian people on this Green Paper and the specific questions that emerge from this comprehensive research.

A handwritten signature in black ink, consisting of a stylized 'E' and 'B' intertwined, with a long horizontal stroke extending to the right.

Dr. the Hon. Ewart F. Brown JP MP
Premier
Minister of Tourism and Transport



Gaming for Bermuda The Green Paper

An Executive Summary

In 2008 Cabinet approved the conduct of a feasibility study on various aspects of legalized gaming in Bermuda. That study was conducted by the Innovation Group. Recognising the importance of gaming to tourism, the Bermuda Hotel Association partnered with the Government of Bermuda in the engagement of the Innovation Group.

The Innovation Group's scope of work was segregated into five (5) general tasks:

- (i) A gaming market assessment
- (ii) Gaming legislation study and tax considerations
- (iii) A lottery assessment
- (iv) An overview of internet wagering, and
- (v) Economic/social impact considerations

On 4th February 2009, the Premier, Dr. the Hon. Ewart F. Brown JP MP appointed a Task Force on Gaming whose terms of reference were to:

- (i) Work closely with the Innovation Group in the conduct of their study
- (ii) Arrange and host public meetings on the issue of gaming in Bermuda to receive views from the Bermudian people, and
- (iii) To receive the report of the Innovation Group and after consideration of it to make recommendations to Cabinet.

In June 2009 the Innovation Group submitted its report to the Task Force on Gaming. On 20th July 2009 the Task Force on Gaming submitted their recommendations to the Premier. Cabinet further considered both reports and their recommendations and resolved to proceed with a Green Paper to be introduced into the Legislature in the 2009/10 Session.

On 6th November 2009 in the Speech from the Throne delivered by His Excellency the Governor, the Government confirmed that a Green Paper on Gaming For Bermuda would be introduced.

Introduction – an overview of the two Reports

1. The Innovation Group's Report found, recommended and invited the Task Force on Gaming to note the following:

- (i) a lottery is unlikely to meaningfully enhance tourism,
- (ii) hosting internet wagering is unlikely to stimulate tourism,
- (iii) maximizing capital investment and resultantly the quality of any gaming product is especially important; and
- (iv) the social impact issues and considerations.

2. The Task Force on Gaming received the Report of the Innovation Group and taking into account that Report and the submissions received as well as its own work, recommended the following to Cabinet:

- (i) that some form of casino gaming be permitted,
- (ii) that a suitable site in the City of Hamilton is recommended for a casino,
- (iii) that all gaming permitted in Bermuda be incorporated under one omnibus piece of legislation,
- (iv) that the casino be privately owned and operated,
- (v) that there be no restriction on Bermudian participation,
- (vi) that casino opening hours would mirror existing nightclub liquor licensing laws,
- (vii) that a 10% gross revenue tax be levied on a casino,
- (viii) the prescribed application of any revenue received, and
- (ix) that an advanced social service safety net be adapted to address the negative effects of the introduction of gaming.

The respective methodologies by which the two Reports were compiled and the detailed analysis and findings now follow in full.

As a note to readers, the two Reports are considerable volumes and as such the Executive Summaries of each are attached in print. Accompanying this Green Paper is a CD on which members of the public will find the two reports. Additionally, they are available on the Government portal at www.gov.bm



Section I: Executive Summary



Prepared by:
The Innovation Group

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INTRODUCTION

The Innovation Group was engaged by the Government of Bermuda and the Bermuda Hotel Association, to provide consulting services with regard to the potential implementation of gaming in Bermuda. Specifically, we have been charged with recommending a gaming platform for the country that balances the tourism development goals of government with the array of potential economic benefits and reciprocal impacts associated with different implementation scenarios.

Bermuda presently has an extremely advanced and sophisticated economy but has virtually no legalized gambling. While tourism has historically been the leading industry in the country, it has declined over the last 30 years based upon a variety of factors including significant increased competition for leisure travelers from other competing markets.

The implementation of casino gaming in a country that currently does not have legalized gaming must be evaluated from several different perspectives as there are a number of alternatives and approaches that can be considered. The overall objectives of the government will play a role in determining which format and to what extent gaming is permitted. In the case of Bermuda, rejuvenating tourism is the primary reason that the government has decided to evaluate the topic of legalized gaming.

There are a multitude of questions and issues that potentially arise when considering how Bermuda might move forward with some form of legalized gaming. These topics range not only from what form of gambling is best suited for the country and would have the biggest net positive impact on tourism development, but they also include topics such as the locations for gaming, the number of licenses that should be permitted, and the regulatory and tax framework that should be established. In addition, Bermuda needs to consider the potential social and economic impacts that the introduction of gaming could potentially have.

To answer these and other questions and provide the Bermuda Government and the Bermuda Hotel Association with a blueprint for moving forward, The Innovation Group completed a series of quantitative and qualitative analyses. In completing our study we utilized case studies from other jurisdictions and our own proprietary research and financial models as well as data from third party sources.

Scope of Work

The Innovation Group's Scope of Work was segregated into five (5) general Tasks as summarized below:

Task I: Gaming Market Assessment

Under this task, The Innovation Group quantified the gaming revenue potential for Bermuda utilizing models that we have developed for other jurisdictions. In this task we identified and developed six alternative scenarios for casino style gaming. These

alternatives were based upon various assumptions regarding locations, number of potential licenses and other factors. In addition, we examined the potential for small slot clubs where a small number of gaming machines would be allowed in various locations.

The Innovation Group examined the potential revenue impacts of legalized gaming assuming that both local Bermudians as well as tourists of legalized age (+21) would be allowed to participate.

Task II: Gaming Legislation Study & Tax Considerations

Under this task, The Innovation Group evaluated various cases studies from other jurisdictions in an effort to arrive at recommendations with regard to the best potential legal format for gaming in Bermuda to meet the government's ultimate objectives. Included in this task are a discussion of the pros and cons of various approaches to the distribution of gaming locations and the number of licenses, as well as the type of regulatory environment that might best suit Bermuda if gaming were enacted.

We identified the four primary benefits to be derived from the installation of legalized gaming in any jurisdiction, as follows:

1. Economic Expansion
2. Long Term Maximization of Gaming Tax Revenue
3. Quality Gaming Product for Gaming Consumers
4. Industry with Long-Term Viability

An important consideration for the Government of Bermuda if they were to enact gaming legislation is the appropriate tax structure. The tax rates and structure ultimately implemented can have a significant impact on the potential for a successful gaming industry in Bermuda. In order to develop a sustainable industry in the long-term, it will be important to have a tax structure that attracts additional capital investment while still deriving revenue through taxes and providing ample funding for tourism promotion, regulatory oversight and other associated costs.

The Innovation Group's analysis under this task examined the tax rate structure of current gaming markets in selected U.S jurisdictions as well as the Caribbean and Latin America. The analysis highlighted the negative consequences associated with an unstable tax environment or an exorbitantly high tax rate as experienced by certain gaming jurisdictions. The analysis also examined the impact of tax rates on capital investment and the ability of gaming operators to acquire capital at an economically viable rate.

Task III: Lottery Assessment

In this task, The Innovation Group examined the potential for a Bermudian Lottery as a means to stimulate tourism and tourism infrastructure development. While a lottery in some fashion generally does not act as an influence in inducing overall visitation to a destination, it can be a mechanism to generate tax dollars which can be utilized to further promote tourism. Hence, introducing a lottery to Bermuda was examined as part of the overall introduction of gaming to the country.

To develop the demand for lottery products in Bermuda, The Innovation Group utilized several different approaches and models. Each approach was based on gaming trends in comparable locations, adjusted to reflect variations in economic and social conditions, accessibility, and the distribution of gaming opportunities.

Task IV: Overview of Internet Wagering

An additional task as part of The Innovation Group's engagement was the evaluation of Internet Wagering as a prospective form of gaming for Bermuda. This form of gambling has become one of the fastest growing components of the gaming industry. Some jurisdictions such as The Isle of Man and Costa Rica have become havens for the support of internet wagering activities.

Governmental response to this rising market sector has varied. In the USA the emphasis has been on prohibition of internet gambling either based or played in the US. In Europe, on the other hand, the emphasis has been on a policy that allows limited, highly regulated (and often state controlled) gaming that is directed either at a country's own citizens or other legal jurisdictions. And in Australia, the Internet gaming market is much more liberalized, where companies can freely apply for licenses from the authorities in a number of states and territories, and participation is not limited to Australian citizens.

Developing and operating such a business in Bermuda was evaluated as an option for the government. However, issues such as controlling the process, the competitive nature of the industry and determining whether there are ultimate economic benefits and positive impacts on the tourism industry associated with the introduction of this type of wagering was part of our evaluation.

Task V: Economic /Social Impact Considerations

While the overall primary objective of The Innovation Group's study was to evaluate the potential implementation of gaming in Bermuda and how it could enhance the tourism industry, a complete evaluation of situation must include an examination of the various economic and social implications of introducing gaming.

In this task we identified the potential direct and indirect impacts on local economic activity, employment, and on revenues and expenditures. In addition, we estimated the potential social impacts assuming casino style gaming was introduced under various alternatives. The social impact analysis included an evaluation of items such as public safety, crime, community services and behavioral aspects.

CONCLUSIONS

The objective of the proposed introduction of casino gaming to Bermuda is based primarily on inducing tourist visitation by offering an activity that is important to a significant portion of the travelling public and which is present in many of Bermuda's competitors for leisure travel. As a result it is expected that this program will induce further visitation to Bermuda. Secondary goals include the generation of tax revenues to support more robust tourism initiatives.

Gaming, if established, will offer a complementary activity in Bermuda, where daytime activities such as golf and water sports are the primary activity. Based on interviews of hotel management and other tourism industry professionals, Bermuda formerly featured a higher level of entertainment and other evening activities. The drop in evening activities is a lost opportunity, in that some tourists will likely participate in gaming if it were available.

If gaming were to be introduced to Bermuda, casino operators in the country would be in competition with well capitalized and long established casinos in places such as the Bahamas and to a lesser extent other countries throughout the Caribbean, as well as with other major gaming destinations (South Florida, Las Vegas, etc.). In addition, these markets have had the advantage of cultivating gamer loyalty over the past years. Bermuda would face the added challenge of the co-evolution of new regionally competitive jurisdictions such as Jamaica that will have similarly tourism-focused goals driving new casino policies. Thus, it is imperative that Bermuda focuses on establishing policies which maximize the potential competitiveness of the gaming industry.

Despite its proximity to the population of major East Coast U.S. cities and its natural beauty, Bermuda has fallen behind many Caribbean and even Central American destinations for many tourists. While casino style gaming may not be viewed as a panacea to correct Bermuda's tourism challenges, the country is losing out on opportunities by not having casino gaming. Casino gaming is an industry that is now prevalent throughout the U.S. and Caribbean, has become socially acceptable for many adults, and is expected to remain strong in the near and intermediate future as many U.S. adults get older.

Definitively quantifying the amount of capital investment that might be attracted to the country for additional tourism infrastructure (i.e. additional resorts, rooms, amenities, etc.) should gaming be introduced is difficult as other factors such as the availability of capital influence the outcomes. However, the evidence is clear from other jurisdictions that given the right legislative policies, tax structures and operating environment, casino gaming can be a catalyst for additional tourism development. In order for Bermuda to effectively compete in the tourism arena in the region, it needs to attract additional capital investment. Gaming can be the catalyst that allows new projects to occur as gaming

enhances the potential profits and consequently can work in attracting the financing new projects need.

We have summarized the key conclusions and recommendations from the various Tasks in the following section. Detailed findings and conclusions as well as a summary of our methodology and approach to the individual tasks, specific model calculations, and sources we utilized, are all contained in the relevant sections of the full report.

Lottery

As part of The Innovation Group's overall engagement with regard to potential gaming opportunities for Bermuda, we were requested to evaluate the potential for the introduction of a lottery in Bermuda. In this portion of the engagement, it is recognized that a lottery does not typically generate tourism. However, an argument can be made that lottery revenues could be used to further support efforts of the government's tourism department through additional marketing and advertising expenditures, airlines subsidies or other measures.

Information and data that we have gathered and reviewed as well as an examination of travelers' preferences and habits indicates that the presence of a lottery is not likely to draw either additional tourists to Bermuda or attract additional capital to support tourism infrastructure.

Lottery sales tend to be generated primarily from local residents in an area or region. There are exceptions when consumers might cross a state or country border to purchase lottery tickets for large linked jackpots such as Powerball in the U.S.; however the incidence of this and the dollar amounts spent tend not to be significant. It is unlikely that any meaningful number of U.S. citizens from U.S. cities where there are direct flights to Bermuda would view the introduction of a lottery as a reason to make a new or additional trip to the country. Consequently, the great majority of revenues generated from a lottery would be derived from play from local Bermudians.

Several studies, including those conducted by the National Gambling Impact Study Commission ("NGISC"), the Colorado Lottery, and the Texas Lottery have provided research on the demographics of lottery players in the United States. These studies indicate that lottery players largely mirror the public at large in terms of sex, age, and income levels. However, The NGISC commissioned a study conducted at the University of Chicago's National Opinion Research Council showed that men, African Americans, high school dropouts, and those with average annual household incomes lower than \$10,000 are more likely to spend more disposable income on lotteries. . For this reason it has been argued that lotteries are a regressive tax as they appeal to players with lower incomes.

The motivation behind enabling lottery legislation is frequently politically motivated and centers on a government raising funds in an effort to improve the quality of life for its citizens. Popular programs that receive lottery funds include aiding the elderly and

disabled, subsidizing education programs, supporting cultural institutions, and building infrastructure. In the case of Bermuda, it was specifically mentioned that revenue could be used to subsidize tourism budgets and attempt to drive further tourism. Broader benefits include job creation, the reduction of illegal gambling activity, and the upgrades to information technology infrastructure.

The following chart summarizes the potential lottery revenues estimated by The Innovation Group under several different analytical approaches.

Revenue Estimates (\$US millions)	
Lottery Revenue/GDP	\$51.5
Per Capita	\$17.3
Participation Rate	\$17.3
Average	\$28.7
Average without GDP Estimate	\$17.3

Source: The Innovation Group

Obviously, due to rounding, there is no discernable change in the revenue estimate when averaging the two population-based estimates. The Innovation Group maintains that this more conservative estimate is warranted for forecasting purposes for several reasons which are outlined in our study.

Based upon the limited level of potential lottery revenue and the fact that the great majority would be derived from local Bermudians with no significant increase in new employment, introducing a lottery to Bermuda is unlikely to meaningfully enhance the government's primary goal of stimulating increased tourism.

Internet Gaming

Internet gaming has become a rapidly growing segment of the gaming industry. The Innovation Group has found however that there appears to be no significant or sustainable direct link between the presence of on-line gaming and tourism generation and/or the attraction of capital for tourism infrastructure development.

However, an internet wagering business in Bermuda could generate tax revenues which could then be utilized to further promote tourism through additional adverting and marketing spending, hence create an indirect impact on tourism. Such an approach, though, does not help to develop the tourism infrastructure, generate significant capital or assist Bermuda in developing a competitive advantage in luring additional tourists to the country.

Some of the positive aspects of attempting to develop an internet wagering business in Bermuda include:

- **Opportunity to be the Industry Model**-As the online gaming community is itself calling for greater regulation and oversight, Bermuda has the opportunity to step up and become a model for the industry as a whole.
- **Revenue Generation**-As revenues for online gaming operations continue to grow, there is potential for local revenue generation for countries hosting such sites. However, it should be noted that online gaming operators have publicly stated that a taxation rate of over 10% would make operations difficult, and that countries attempting such a rate would not be sought out.

On the other hand, some of the potential negative aspects of the business include the following:

- **Perceptions & Illegal Activity**-While traditional gaming operations have been largely successful at thwarting accusations of corruption, scams, money laundering and the like, online gaming operators have not. The regulation and oversight afforded physical casinos has rooted out much of the illegal and unscrupulous activity once associated with gambling. However, the loose nature of the internet and of internet gambling does not adhere easily to such a regulatory structure and significant scandals and scams have resulted. The perception of illegal activity occurring within Bermuda's borders could serve to deter businesses in the financial sector from locating or maintaining their offices in Bermuda.
- **Minimal Job Creation**-Our review revealed that employment within the site's host country is not substantial. Many companies in the business have traditionally out-sourced much of the labor for their operations to India. Were online gaming companies to re-locate or incorporate in Bermuda, minimal impacts on employment could be expected
- **Sticky Legal Environment**-The legality of online gambling across the world remains unclear and messy. Any country attempting to become a host for online gambling sites will, inevitably, draw itself into debates and wrangling with the international community over the legality.
- **Negligible Impact on Tourism**-Internet gambling is not a tourism draw. Players in online casinos rarely concern themselves with the physical location of the gaming companies, and are rarely drawn for this reason to visit the host countries. While nations such as Costa Rica, Antigua and Barbuda have thriving tourism industries, these industries are based on their attractive natural environments, resorts, and the like, rather than their use as a base for computer servers for Internet casinos.

Consequently, in the case of Bermuda, the potential negative effects of hosting Internet casino companies potentially outweigh the benefits and more importantly, the introduction of internet wagering would not likely help achieve the primary goal of reviving the tourism industry in the country.

Tax & Legislative Study

With the goal of enhancing tourism in a highly competitive environment, maximizing capital investment and thus the quality of the gaming product is especially important for Bermuda. Policies which are most likely to drive the intended results and which The Innovation Group recommends considering are as follows:

Maximize the Potential to Create an Attractive, Internationally Competitive Industry

- The jurisdictions with the lowest effective tax rates often feature the most elaborate casino developments, such as in Las Vegas, Atlantic City, Mississippi, and The Bahamas. The profit margins enabled will allow for attraction of significant initial capital investment and subsequent reinvestment. Thus, institution of a low tax in the range of 10-15% is likely to induce the maximum level of investment and enhance tourism offerings through the development of an internationally competitive gaming product. Depending on the desired effect, a graduated tax rate for Bermuda could start in the 10% range, allowing smaller operators a chance to compete, while an upper range of 15%-18% would permit higher tax revenue while still supporting the government's partnership with the industry.
- Limit the number of major casinos to reduce competitive risk and encourage investment.
- Relevant to the size of the market opportunity, significant up-front license fees should be avoided. We do suggest a modest up-front license fee be established purely to help defray the costs of the regulatory, licensing and background investigation costs the Government of Bermuda will incur.. It would be advantageous to also design a minimum investment criteria or component guidelines for major resort-casinos; or to encourage an equivalent enhanced investment profile through a competitive bid process.
- Minimizing licenses may have an added benefit unique among the case studies featured in this report. With a small number of unemployed people on the island, and relatively expensive operating costs, a limited number of facilities will stand a better chance of operating profitably and minimize the negative effects that could take place with excessive expansion. We would note that excessive expansion in other jurisdictions did not lead to the growth in tourism that is the main goal of the enabling legislation.
- To the extent possible, limit direct restrictions on the casino operating environment such as hours of operation, betting/wagering limits and other items, which tend to limit revenue potential and/or increase costs.

Maximize Impact on the Greater Tourism Product

- Allow smaller casinos at hotels that have greater than 100 rooms to bolster development of new hotel supply (new rooms) and subsequently induce incremental international tourist visitation via hotel marketing efforts and the overall improvement of the tourism product. Economics will determine the number and size of these.
- A graduated tax will increase the probability that smaller amenity type casinos will develop at hotels.
- Casinos operated in conjunction with hotels will be much more competitive in the region in inducing visitation. Many regular casino gamers that play in destination markets receive free or subsidized accommodations, food and beverage, and other resort amenities. Casinos located outside of hotels would simply have a more difficult time competing regionally with properties in the Bahamas, Puerto Rico, Aruba, Las Vegas, and Atlantic City.
- Allow an independent casino to be developed to accommodate locals and tourists seeking a larger, more energetic gaming environment. This property would likely be larger and, not being in a hotel, would likely attract the majority of the local patronage. The property would also appeal to tourists seeking a gaming experience that are not staying at hotels offering casinos as well as hotel guests that may seek larger casinos that typically feature more energetic environments. We have identified this situation as a possible stand-alone casino in downtown Hamilton.

Maximize Stability in Tax and Regulatory Environment

- In order to create the stable market environment that will best induce the development of a healthy industry and long-term tourism benefits, offer a guaranteed period during which taxes would remain constant or within a set range.
- In order to create both the reality and appearance of a transparent and legitimate industry to global gaming investors, operators, and patrons alike, it is imperative to create a strong regulatory and oversight mechanism (such as a properly empowered, and funded Gaming Control Board or Commission) which can enforce the operating guidelines established for the industry. Such an authority will ensure confidence among investors and fairness to gaming patrons. Furthermore, the authority will guarantee that there is no tint of corruption or criminal involvement within the jurisdiction. This is necessary to attract major international gaming companies with licenses at risk in other jurisdictions, and also broadens the availability of debt financing to those companies.
- The Innovation Group has estimated that the annual costs for establishing and maintain a Gaming Commission or Board as well as investigators, licensing, and auditing. The estimated annual costs to oversee casino gaming were estimated at

\$2.2 million for three large casinos. These costs are obviously outside of costs that we assume would be absorbed by the appropriate Bermudian government agencies as it relates to developments in the normal course of business (i.e. zoning, construction permitting, etc.) This regulatory structure may be supported by a separate fee paid by licensees and prospective licensees so that the structure is fully supported regardless of how gaming revenues of the industry might fluctuate.

Maintain a Healthy Gaming Industry

- A portion of annual tax revenues should be used directly to offset community costs and potential negative social impacts associated with the development of gaming. Based upon our revenue estimates as well as costs for social impacts on law enforcement, fire protection and services for problem gambling, 1.5%-2.5% of annual gambling revenues (depending upon the ultimate scenario that is adopted) should be adequate to cover these costs.
- A portion of annual tax revenues should be earmarked for government based marketing and promotional efforts, targeting consumers who might see the presence of legalized gaming in Bermuda as a draw. Given the significant dollars spent currently by the country to promote and support tourism, it is not expected that this figure needs to be significant (i.e. 2% of gaming revenues).

Casino Gaming Market Assessment

There are no known examples of tourism destinations in which a lottery or internet wagering is a major driver of tourism visitation and a draw for tourism capital investment. Conversely, casino style gaming in some format has proven to be a viable alternative for jurisdictions when it comes to stimulating tourism, under the right circumstances. The key to any legislation implementing gaming in Bermuda needs to take into account the opportunity to create the following benefits:

1. Economic Expansion
2. Long Term Maximization of Gaming Tax Revenue
3. Quality Gaming Product for Gaming Consumers
4. Industry with Long-Term Viability

To fully evaluate the opportunity for Bermuda, potential revenue numbers were developed under a number of scenarios. From these estimates, the positive impacts to the country on taxes, jobs and tourism development were estimated

The Innovation Group examined a number of case studies to demonstrate casino gaming and its relationship to tourism. These jurisdictions included Cyprus, Puerto Rico, Monaco and Chili.

Bermuda's location and access to the major metropolitan areas of the Eastern United States provides a dynamic opportunity for the tourism industry. With approximately 25%

of U.S. adult leisure travelers stating that the ability to participate in casino gambling while on vacation is important to them, Bermuda is at a disadvantage to other jurisdictions, particularly in the Caribbean, in attracting these potential visitors. More importantly, as a catalyst casino gaming will enhance the attractiveness of Bermuda for potential investors by not only adding an attractive amenity to a resort, but also providing an additional source of cash flow upon which capital can be raised.

While our initial Scope of Work conceded up to four (4) different potential scenarios for casino gaming, during the course of our work it became evident that several additional alternatives should be evaluated. In the end we completed six (6) different alternatives. The various scenarios were completed based upon different opportunities with regard to where licenses might be located in an effort to provide the most convenient alternatives for tourists (and in an alternative scenario residents also).

Potential locations include a casino based in Hamilton, the Dockyard, and St. George, as well as casinos established at existing hotel properties and possibly in bars or taverns. Scenarios were defined in order to provide insight into different operating environments that were discussed during meetings with government officials and tourism industry professionals, and to incorporate The Innovation Group's knowledge of existing gaming markets, the most prominent being discussed in case studies within this report.

These scenarios are defined in the following table, where elements included in each respective scenario are marked with an "X". In scenario 1, a single casino in Hamilton was selected as the only location to offer gaming. This casino is listed as "Independent" as it is not assumed to be part of a hotel. Scenario 2 adds independent casinos in Dockyard and St. George. Scenario 3 further adds casinos at large hotels, defined as hotels with 100 rooms or more. Scenarios 4 and 5 both remove independent casinos while 5 adds gaming at small hotels. Scenario 6 considers one casino in Hamilton and gaming in large hotels.

Scenario Summary

Scenario	1	2	3	4	5	6
Independent Casinos						
Hamilton	X	X	X			X
Dockyard		X	X			
St. George		X	X			
Hotel Casinos						
Large Hotels ¹			X	X	X	X
Small Hotels ²					X	

Source: The Innovation Group

1) Large Hotels are defined as including over 100 rooms and include Elbow Beach, Fairmont Southampton, Fairmont Hamilton, Grotto Bay, Newstead Belmont, Tucker Point and the proposed Hyatt

2) Small Hotels include properties with less than 100 rooms

Independent casinos were assumed to be located in central areas accessible from cruise ship docking facilities, water shuttle terminals, taxi stands, and the public bus system. These facilities as well as those located in hotels were assumed to be visible with signage guiding potential patrons and attractive and clean in their appearance. Ingress and egress for vehicles was assumed to be adequate at times of peak visitation with ample parking for guests.

Our estimates of gaming revenues for each of the scenarios were based upon several key assumptions:

- Proposed hotel room additions, as described in the report, will come online by 2011;
- In each of the scenarios presented, properties and the Bermuda Department of Tourism both undertake significant marketing efforts both on the Island and in the key source markets for visitation;
- Hotel operators will employ professional marketing programs, including advertising and promotion, instituted prior to opening, and maintained throughout the period of analysis;
- A significant effort to drive mid-week casino patronage is successful;
- The U.S economy will stabilize and begin recovery in 2010;
- No significant economic or visitation fluctuations will occur during the period of analysis; and,
- It is expected to take some time for induced visitation to ramp-up to its full potential. Several markets have historically taken some time to ramp-up, and with the growing familiarity of gaming in source markets, it is estimated that substantial marketing efforts will enable Bermuda to reach its full induced potential over three years.

In order to project potential gaming revenues under each of the scenarios, various potential customer segments were evaluated and examined. These segments included 1) local Bermudians 2) existing tourists, and most importantly, 3) induced visitation as a result of the introduction of casino gaming. The possibility to attract induced visitation as a result of the introduction of casino gaming is potentially the most significant source of growth for the tourism industry in Bermuda. Several other destinations, including Atlantic City, Las Vegas, Puerto Rico, Macau, and the Bahamas have attracted new visitors with the introduction of gaming or the addition of significant additions to supply

Combining revenues from all sources, the proposed Bermuda casinos are estimated to generate between \$83 million in Scenario 1 and \$145 million in Scenario 3 in 2011. The following table summarizes the gaming revenues by market segment:

Gaming Revenues

Market	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6
Local Market Revenues	\$18,806,426	\$23,723,729	\$25,569,038	\$20,578,738	\$21,248,195	\$23,917,974
Visitor Market Revenues	\$64,840,869	\$90,206,405	\$119,530,074	\$100,893,083	\$101,311,092	\$106,533,726
TOTAL GAMING REVENUES	\$83,647,295	\$113,930,134	\$145,099,112	\$121,471,821	\$122,559,287	\$130,451,699
Gaming Positions	875	1,656	1,986	1,649	2,388	1,911
Win per Position	\$262	\$188	\$200	\$202	\$141	\$187
Win per Visit	\$183	\$167	\$181	\$197	\$195	\$196
Win per Occupied Room (Island-wide)	\$135	\$179	\$208	\$178	\$180	\$188

Source: The Innovation Group

The introduction of casino gaming to Bermuda could generate potential gaming revenues between \$84 million and \$146 million annually (based upon Year 2 revenue forecasts). However, the gaming revenue estimates are only one piece of a complex analysis regarding the overall impact to the country. The gaming revenue forecasts that were generated formed the basis for further analysis on the overall economic and social impacts that the introduction of gaming might have to Bermuda. For instance, from an Economic Impact perspective, the gaming revenue numbers do not reveal the full impact on overall tourism generation and hotel occupancies. In addition, the introduction of any form of gaming may have hidden social impacts that need to be accounted for and properly addressed.

Casino Sites and Locations

Although no decisions on gaming in Bermuda have been made, nor any legislation developed, and guidelines for locations have yet to be established, it is apparent based on discussions with Bermudian officials and citizens, as well as feedback gathered through the mail, online, and through forums, that if casinos were established in Bermuda, it likely that the quality and quantity of facilities would have to conform to the overall positioning of the island country. Hence, it is our recommendation, based upon these factors as well as the limited revenue potential for the country, that there should be a limited number of licenses strategically located in the country. These locations may be present in larger hotels as well as in one centralized facility. These facilities should also conform to the quality of product that the existing and expected tourists prefer.

Having the ability to offer casino gaming within the confines of a hotel or resort would provide operators with another valuable marketing tool. However, The Innovation Group recommends that only resorts or hotels that have a minimum of at least 100 rooms be allowed to offer casino gaming for the reasons noted below.

- The costs to start up and operate casinos in every inn, resort, hotel or motel based upon the results of our pro forma operating statements suggests that too many

smaller facilities will create significant inefficiencies thereby leading to the development of lesser quality product offerings and/or inevitable failure;

- The costs to regulate and monitor numerous smaller facilities could be significant to the government;
- The lack of experienced employees and availability of employees in general would lead to significant labor operating costs;
- The diffusion of gaming customers around the country to many different locations could create a less than appealing casino environment for tourists and local Bermudians alike. Casino players generally prefer environments that are active; and
- In order to attract investment capital to the country for the development of additional tourism infrastructure, such as new rooms, resorts, and amenities, developers and operators need to be able to establish an appropriate set of returns to satisfy their investors and ultimately finance developments. Limiting the number of licenses to only those larger hotels will result in more favorable investment conditions..

In addition, the results of our Pro Forma Operating Statements, indicates that only a few existing and prospective hotels would likely actually move forward with the development of casinos as part of their resorts under the proposed structure given the upfront capital costs as well as the costs to operate.

In addition to hotels, centralized casinos may make sense in a number of other locations. Providing a limited number of stand-alone casinos, such as in Monte Carlo, can enhance the overall environment.

During our site visits we identified a number of potential sites for stand-alone casino development. In addition, any casino gaming that might be implemented at larger hotel sites was reviewed in the event that a larger facility was purpose-built as a casino or casino hotel. These potential locations, in addition to the hotel facilities already located on the island, were considered as potential casino locations.

Given the dynamics of the Hamilton market both for local Bermudians and tourists, a location in Downtown would provide an opportunity for a destination casino similar to a Monaco situation. If properly positioned and marketed, the casino could be part of the overall development that could act as a draw not only to Hamilton but to Bermuda as a whole for tourists and travelers from the eastern U.S.

The Innovation Group understands that sites within the Downtown Hamilton area that can be developed as a potential site for a stand-alone casino are limited and the process for identifying, securing and/or acquiring a site could be complicated. In addition land costs are exceedingly high, although there appears to be a general consensus among the various government entities that re-developing the waterfront is a priority. Hence a number of options need to be explored further in terms of how property might be secured for purposes of gaming. Ultimately, an open, public bidding process initiated by a request for proposals (“RFP”) will likely be necessary. This process will ensure that an

optimal investment is made with the stated goal of inducing tourism while allowing all interested parties to leverage their experience and creativity for consideration.

Singapore is a recent example of how a government developed an RFP to attract potential developers, though we would point out that the scale of development slated for Singapore is larger than what is recommended for Bermuda. Singapore legalized casino gaming in 2005 and said it would allow two casino resorts to be built. Genting was awarded rights to build and operate the Sentosa casino, while Las Vegas Sands was selected for the Marina Bay Sands resort in central Singapore.

In this situation the government awarded two individual 30-year operating concessions. The demographics and proximity of Singapore to significant population basis in Asia allowed for significant upfront fees. At least 5 investment groups, most of which included the largest and most established names in global gaming industry, were vying not only to pay the concession fees but pledging substantial development projects in order to win the opportunity to compete in the market.

Singapore's RFP outlined a small number of technical requirements relating to the possible sites, but presented only the following in terms of an investment guideline for one of the opportunities:

“It will be a world class resort that offers a comprehensive range of recreational and entertainment facilities, including venues for international shows and themed attractions, as well as other amenities such as hotels, spas, fine dining and retail that will provide every visitor with a memorable total leisure experience.

Special attention and efforts should be devoted to the architecture, design and landscaping of the IR [integrated resort] development such that it occupies a pre-eminent position among the most attractive tropical resorts in the world. The overall design should be sensitive to the local context of the site, specifically the tropical island nature of Sentosa and the marine/coastal frontage of the site.”

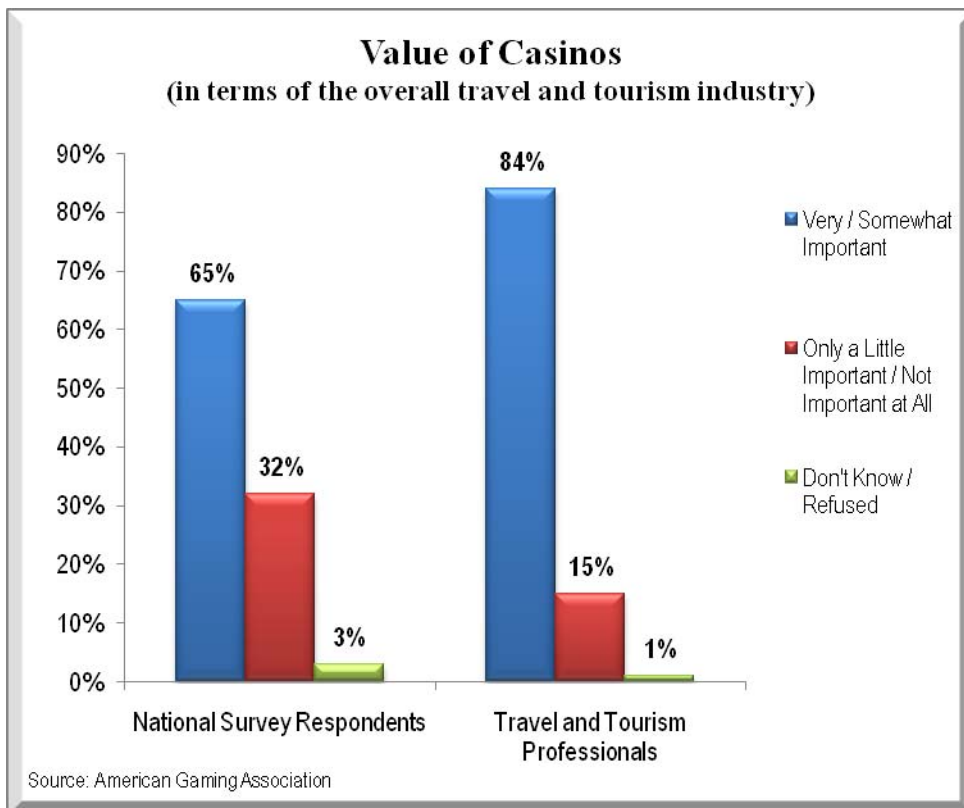
Other Considerations

Other considerations pertaining to prospective casino gaming in Bermuda include the ownership and operating structure of casinos. There are various models in place around the world ranging from private sector owner-operator models (most U.S. and Caribbean jurisdictions) to government owned with private operators (Ontario, Canada model) and even to government owned and operated (Manitoba and Quebec, Canada). In our opinion, based upon a variety of factors including our work around the world in numerous casino jurisdictions, we recommend that an “Owner-Operator” model works best for developing a sustainable long-term industry for a number of reasons:

- All financial, management and operating liabilities rest with the private license holders. These entities employ professional and experienced personnel who are responsible for operating & managing the facilities.

- The responsibility for raising the necessary capital rests with the private sector, which takes the risk of the devolvement, payback, returns, etc. (In Ontario, Canada there are examples of government owned facilities that are operated by the private sector whereby the private sector operator has assumed the development risks).
- The Owner-Operator model has proven to be the most efficient approach. Often the private sector can leverage their existing operations, support personnel, management team and balance sheet. The private sector also has the knowledge and experience and in many cases a database of existing gamblers and travelers (if they are a casino or lodging company) that they can use to cross-market. The private sector is motivated to build competitive facilities in order to effectively compete in the marketplace.
- There is no inherent conflict of interest when it comes to regulation and operation as is the case in a government owned enterprise. Governments should be the entities that regulate and monitor the industry; by also being an owner-operator, conflicts of interest, or the perception thereof, are inherent.

The casino industry has proven to be a catalyst for tourism development in other jurisdictions, the chart below shows just how important U.S. adults and travel and tourism professionals feel that the casino industry has become to the overall tourism market in the U.S. Approximately 65% of Americans feel that casinos are a very or somewhat important aspect of tourism industry. Among Travel and Tourism Professionals, this number jumps to approximately 84% revealing the strong importance of gaming in overall leisure and travel.



Additionally, all respondents were asked whether they agreed with the following statement: “Casino destinations attract tourists, and many of these people also visit other major sites in the surrounding areas, thereby helping the overall economy in the region.” Interestingly, approximately 76% of National Survey Respondents and Travel and Tourism Professionals, Very Much Agree / Somewhat Agree with that statement.

Ambient Machines

The Innovation Group was asked to provide insight into the market potential for ambient machines to induce tourism. Ambient machines, such as those widely available in bars and restaurants, were available in Bermuda up until 2005, when the Prohibition of Gaming Machines Act of 2001 (amended in 2004) took effect. Estimates of the number of machines and their performance vary widely, and are potentially speculative, and were thus not included in this report. Furthermore, ambiguity surrounding the number of machines made it difficult to generate an estimate of their performance.

Ambient machines do operate in markets where casino gaming is available, most notably West Virginia and Louisiana in the US, and on a slightly larger scale, very successfully in social clubs in, Australia.

Although no research has been completed in West Virginia, The Innovation Group has conducted interviews of some operators and understands that no broad tourism marketing effort exists that features ambient machines. Moreover, in terms of a substantial mass capable of attracting tourism independent of advertising, none of the operators we’ve met with over time have mentioned that tourists are visiting the region in order to play the machines available in bars and taverns. It should be noted, however, there is some incidental play among tourists that visit the bars or taverns.

Economic Impacts

We selected three different scenarios for further analysis. The selection of these particular scenarios was done in order to provide a representative sample of the three basic concepts for casino development. The first concept is one of a centrally located casino in Hamilton (as in Scenario #1), the second concept analyzes three casinos serving the central, eastern and western portion of the island thereby serving visitor and local populations in these areas (as in Scenario #2), and finally a concept which allows the development of casinos at major hotels throughout the island, (Scenario #4). The remaining scenarios in the casino revenue analysis aspect of our work are basically combinations or hybrids of the above three concepts.

- Scenario 1 which includes a single stand-alone casino in Hamilton.
- Scenario 2 which includes stand-alone casinos in Hamilton, the Dockyard and St. George.
- Scenarios 4 which includes casinos only at major hotels which are defined as including those facilities with over 100 rooms and includes Elbow Beach, Fairmont Southampton, Fairmont Hamilton, Grotto Bay, Newstead Belmont, Tucker Point and the proposed Hyatt.

In order to calculate the economic impact of casino spending, The Innovation Group needed to estimate various operating expenses for casino operations. Consequently, The Innovation Group developed pro forma operating data including gaming revenues and anticipated operating expenses for certain of the potential casino development scenarios. This provided the necessary economic inputs to allow for an estimation of economic impacts deriving from the introduction of gaming.

Pro Forma Operating Statements were developed down to the Earnings before Interest, Taxes and Depreciation and Amortization (“EBITDA”) line item. EBITDA is a common metric utilized in the gaming and resort industries for evaluating the potential viability of a project and the amount of leverage that can be applied to a project. The following is a summary of Operating Profit (pre-Gaming Tax) based on a range of revenues that would be generated by casino hotels in the market. It should be noted that this is **before** gaming taxes which are taken off of the top line gaming revenues.

Resort Operational Comparisons

Gaming Revenue Expectations	\$45 million +	\$25 million +	\$10 million +	> \$10 million
Operating Profit - Pre Gaming Tax	\$22,500,000	\$10,000,000	\$3,500,000	\$2,000,000
Margin	50.0%	40.0%	35.0%	20.0%

The following details the results of the economic impact analysis.

In terms of annual economic impact, Scenario 4, the “Large Hotel” scenario, provided the greatest impact on income, employment, public sector revenues and balance of payments as shown in the tables below.

Total Economic Impact as a Result of Spending by Casinos and Induced Tourists (in 000 000's of \$)

	Scenario 1 Hamilton Casino	Scenario 2 Three Casino Scenario	Scenario 4 Large Hotels
Income			
Direct	\$52	\$73	\$89
Indirect	\$25	\$32	\$41
Induced	\$26	\$36	\$44
Total	\$103	\$140	\$175
Public Sector Revenue			
Direct	\$13	\$18	\$23
Indirect	\$4	\$5	\$6
Induced	\$9	\$12	\$15
Total	\$25	\$34	\$43
Balance of Payments			
Exports - Total	\$107	\$145	\$182
Imports - Direct & Indirect	\$16	\$21	\$28
Imports - Induced	\$22	\$30	\$37
Net Impact	\$69	\$94	\$117

Total Employment Impacts as a Result of Casino Spending and Spending by Induced Tourists

	Scenario 1 Hamilton Casino	Scenario 2 Three Casino Scenario	Scenario 4 Large Hotels
Direct	855	1,177	1,493
Indirect	423	548	714
Induced	449	614	768
Total	1,727	2,339	2,975

However in terms one time of construction impacts Scenario 2 provides the greatest impact in terms of employment, income and direct government revenue.

Direct Government Revenue from Construction

Direct Government Revenue	Tariffs	Employment Tax	Total
Scenario 1-Hamilton Casino	\$6,380,794	\$10,614,400	\$16,995,194
Scenario 2-Three Casino Scenario	\$9,088,977	\$15,119,441	\$24,208,418
Scenario 4 Large Hotels	\$4,511,206	\$7,504,356	\$12,015,562

Total Economic Impact on Income and Employment From Construction

	Scenario 1 Hamilton Casino	Scenario 2 Three Casino Scenario	Scenario 4 Large Hotels
Income			
Direct	\$15,921,600	\$22,679,162	\$11,256,534
Indirect	\$4,153,461	\$5,968,200	\$3,020,046
Induced	\$6,922,435	\$9,549,121	\$4,941,893
Total	\$26,997,496	\$38,196,483	\$19,218,472
Employment			
Direct	230	328	163
Indirect	60	86	44
Induced	100	138	71
Total	390	552	278

One of the primary goals of the introduction of gaming to Bermuda is to induce greater visitation to the Island and consequently, by implication, to improve the economic conditions of the existing lodging industry which has been hit by falling occupancy rates and revenues. The following table presents the direct impacts on the hotel industry in terms of impact on occupancy rates and revenues.

Impact of Gaming on Hotel Occupancy and Revenues

	Existing Demand	Existing Demand	Current Occupancy Rate	New Demand as a Result of Gaming	% increase in Room Demand	New Occupancy Without Additions to Supply	Occupancy Rate Assuming Tuckers Point and Hyatt Developments	Increase in Room Revenue as a Result of Gaming
Scenario 1	1 casino downtown Hamilton	597,531	59.84%	96,794	16.20%	69.50%	64.20%	\$31,108,479
Scenario 2	3 casinos- Hamilton, Dockyard, St. Georges	597,531	59.84%	114,713	19.20%	71.30%	65.80%	\$36,867,333
Scenario 3	3 casinos plus casinos at major hotels	597,531	59.84%	177,087	29.60%	77.60%	71.60%	\$56,913,710
Scenario 4	casinos only at major hotels	597,531	59.84%	160,422	26.80%	75.90%	70.10%	\$51,557,549
Scenario 5	casinos at major hotels and all small hotels	597,531	59.84%	160,422	26.80%	75.90%	70.10%	\$51,557,549
Scenario 6	1 casino downtown Hamilton and at major hotels	597,531	59.84%	174,437	29.20%	77.30%	71.40%	\$56,061,765

While we have not developed full economic impacts for scenarios 3 (3 casinos plus major hotels), 5 (major and minor hotel casinos), and 6 (one casino in Hamilton and major hotels), the above information provides a good surrogate for economic impact estimation for these scenarios. It should be noted that both scenarios 3 and 6 provide greater impact on hotel revenues and thus would be expected to have a greater economic impact than scenarios 1, 2 and 4. It would however be our expectation, based on the market size and the economics of casino construction, and the requirements of financing and operational costs, that the development of casinos at major hotels and indeed smaller hotels (included in Scenarios 3, 4, 5, and 6) would in the end result in many of the properties choosing not to go forward with casino development with the result that the economic impacts would be reduced. It is our belief that Scenario 6 offers an attractive option in that Bermuda would be guaranteed a major casino in Hamilton and would at the same time also benefit from at least some of the major hotels in this scenario moving forward with casino development. This would result in significantly greater economic impacts than under scenarios 1 or 2 but somewhat less than that shown here for Scenario 4 (assuming all major hotels would develop a casino in that scenario).

The following table provides a complete summary of the economic impacts of the three scenarios analyzed.

Summary of Economic Impacts

	Scenario 1	Scenario 2	Scenario 4
From Operations and Induced Tourists (Annually recurring impacts)	1 Casino Downtown Hamilton	3 casinos- Hamilton, Dockyard, St. Georges	Casinos Only at Major Hotels
<u>Income</u>			
Direct	\$52	\$73	\$89
Indirect and Induced	\$51	\$68	\$85
Total	\$103	\$140	\$175
<u>Public Sector Revenue</u>			
Direct	\$13	\$18	\$23
Indirect and Induced	\$13	\$17	\$21
Total	\$25	\$34	\$43
<u>Balance of Payments</u>			
Exports	\$107	\$145	\$182
Imports	\$38	\$51	\$65
Net Impact	\$69	\$94	\$117
<u>Employment</u>			
Direct	855	1177	1493
Indirect and Induced	872	1162	1482
Total	1,727	2,339	2,975
<u>From Construction (one year impacts)</u>			
<u>Income</u>			
Direct	\$16	\$23	\$11
Indirect and Induced	\$11	\$16	\$8
Total	\$27	\$38	\$19
<u>Employment</u>			
Direct	230	328	163
Indirect and Induced	160	224	115
Total	390	552	278

In addition to the impact on existing properties, the advent of gaming and the added attractiveness it brings to hotel developers considering developing property on the island cannot be ignored. As has occurred in other jurisdictions, it is likely that several of the planned hotel projects currently in hiatus would move forward as a direct consequence of the advent of gaming in Bermuda. The presence of gaming offers the prospect of an additional profit center that developers can utilize in raising financing and providing adequate returns to equity holders; hence gaming has been instrumental in other jurisdictions in helping to jumpstart new projects. However, it is very difficult to quantify the economic impacts of these proposed projects in Bermuda without knowledge of the specific economics of each project.

Overall we have estimated that the costs to Bermuda of introducing gaming would total \$4.6 million annually, these would be offset by taxes and a special levy to pay for additional police services and programs to mitigate effects of problem gambling. It is therefore concluded that the positive of introducing gaming to Bermuda outweigh the negatives in terms of economic impact by a significant margin.

Likely Range of Capital Investment

Based on the EBITDA margins as projected in this analysis and assuming an 18% gaming tax and problem gambling levy the following provides a rough range for the likely level of capital investment under each scenario. This is based on our experience of the type of return investors would be seeking in this sector.

Range of Likely Capital Investment			
	Scenario 1	Scenario 2	Scenario 4
Low	\$105	\$100	\$95
High	\$160	\$150	\$140

Social Impact Issues & Considerations

Any analysis of the potential impacts of bringing some form of legalized gaming to Bermuda needs to take into account the potential social costs associated with the industry as well as the cost to monitor and regulate the industry and provide the necessary support services.

Other jurisdictions have faced similar issues. The Australia Government Productivity Commission, for example, explained: “The challenge for all governments ... is to find a response which balances the undoubted right of individuals to gamble if they wish with the ongoing responsibility of governments for overall community welfare.”¹

Utilizing data and research from numerous other jurisdictions and both proprietary and published third party research, The Innovation Group evaluated the various social implications and estimated certain costs that might incur should legalized gaming be introduced.

The data points out that many of the social impacts concentrate on the costs to a gaming area brought about by problematic gamblers. An Australia Productivity Commission report on gaming, for example, concluded “the principal costs for society related to gambling (costs that are not offset by benefits elsewhere) result from *problem* gambling.” The Solicitor General of the United States came to a similar conclusion: “Many of the associated social costs to casino gambling stem from ‘pathological’ or ‘compulsive’ gambling by approximately 3 million Americans.”²

¹ Australia Productivity Commission.

Attempts to quantify these costs result in a wide range of estimates. Without carefully defined—and widely accepted—measurements of the social costs of problematic gambling, debate will likely continue.

The following areas were reviewed and examined by The Innovation Group as part of our study:

- Concerns Regarding Crime
- Financial Crimes of Burglary, Theft, Embezzlement and Robbery
- Loan Sharking
- Crimes Around a Casino Environment
- Prostitution
- Social Impact Issues
- Bankruptcy
- Suicide
- Impacts on the Family
- Child Abuse and Neglect
- Homelessness
- Substance Abuse and Comorbidity
- Domestic Violence
- Divorce

Social Impact Initiatives

After examining the social impact issues traditionally debated when a jurisdiction brings a new type of gaming into an area, it is imperative that initiatives be considered to mitigate any negative circumstances as well as to maximize the positive experience for the jurisdiction and its citizens.

Through the course of our study we identified several initiatives that could be a benefit to Bermuda and its residents in the new era of casino-type gaming. Each initiative includes a variety of recommendations from which the Bermuda Government and the Bermuda Hotel Association may make choices and prioritize the order in which problems should be addressed.

Initiatives are recommended in the following areas:

- Workplace
- Family impact
- Neighborhood
- Faith community
- Youth
- Older adults
- Public safety and crime prevention
- Public awareness.

The recommended actions are intended to be cost-effective through development by Bermudan staff and consultants. These initiatives can be furthered strengthened by public input and policy development through the normal government policy channels.

There are certain steps that a local community can take to ensure that the advent of a casino benefits local merchants and businesses. A casino and its environs should be carefully master-planned to ensure that casino patrons have access to quality retail and F&B developments in the immediate area of the casino. Such a master plan should carefully look at access routes, merchant mix, visibility and the attractiveness of the area. By working closely with the casino developer local communities can not only extract the maximum benefit from casino visitation but can also enhance the success of the casinos. For example any alternative that considers a casino in downtown Hamilton has the ability to lend itself to inclusion in a master plan that would help ensure that surrounding business benefit by close integration with the casino complex and careful physical planning. In such a situation the casino could act in a fashion similar to a department store anchor in a shopping mall development.

Bermuda can set an example on how the addition of casino gaming can both enhance the recreational opportunities of casino gaming without disrupting the lives of individual citizens nor mar the positive image of Bermuda.

Social Costs

Even if the appropriate initiatives are implemented, there are likely to be some additional social and related cost to Bermuda if gaming were to be enacted. However, based upon our analysis and examination of the issues, The Innovation Group concludes that the additional identified social costs both in terms of services (law enforcement, fire protection and health/social costs) are more than mitigated by the tax revenues, job creation and capital investment that is likely to occur with the advent of casino gaming.

Based on the estimated incidence of problem gambling, the additional staff required will include certified gambling counselors, Psychologist (experienced with addressing pathological gamblers), additional addiction counselors and a social worker. The estimated costs of these positions are shown in the table below.

Estimated Staffing costs to Mitigate Problem Gambling

Staffing	Approximate Salary
Psychologist	\$115,000
Certified Gambling Counselors (3 @ \$75,000 each)	\$225,000
Addiction Counselors (2 @ \$70,000 each)	\$140,000
Social Worker	\$85,000
Total	\$565,000

Source: Preston Swan, Acting Director of Quality and Risk Management on the Bermuda Hospitals Board

In addition, an increase in building costs which could range from \$200,000 to \$400,000 as additional space will be needed for staff, equipment and miscellaneous items.

The conclusion is generally that the revenues provided by commercial casinos cover the costs for problem gambling services and do not burden local governments. Given the preliminary figures estimated to mitigate potential issues due to the addition of casino gaming in Bermuda, it appears that the same would hold true in Bermuda.

Gambling Help Line Costs

Most US states contract the Louisiana Association on Compulsive Gambling (LACG) to man a hotline for problem gamblers seeking help. Discussion with the LACG suggests that they would be happy to discuss contracting with Bermuda to answer their helpline. It is to be expected that the cost would be substantially less than those for other jurisdictions given the population differentials although this would be offset by possible increased call charges. However, in the absence of a defined contract an estimate of \$50,000 annually would not seem unreasonable.

Traffic, Fire & Police Costs

As part of the Social Impact Analysis, The Innovation Group examined the potential for other costs to the Government of Bermuda. These included the following:

Traffic

In many instances, we found that issues dealt mainly with site-specific congestion. However, in most instances, individual casinos contributed to road construction projects to improve access to the casino. In Bermuda, where tourists are not allowed to rent cars and vehicle ownership is restricted, we anticipate that any traffic related issues will be site specific and would have to be planned for when the actual development sites are known. Therefore we recommend that a comprehensive transportation plan must be contemplated for specific sites. In addition, transportation issues need to be factored into the site selection process.

Fire Department Costs

No increases in fire or emergency medical services are foreseen of a significant nature.

Police Costs

The Bermuda Police Service would likely need to purchase a new squad car approximately every three years. It is also estimated that Bermuda would need to hire additional staff for 24 hour policing assuming a single major casino in Downtown Hamilton. The total policing costs annually are estimated at \$1.02 million.

Total Costs Associated with the Introduction of Gaming to Bermuda

The following table presents the sum total of costs associated with the introduction of gaming to Bermuda on an annual basis estimated at \$4.6 million of which 2.2 million is related to the regulation of gaming and the remainder, \$2.4 million associated with mitigation issues.

Sum of Other Costs Associated with Gaming

	Employment	Expenses	Total Salaries and Benefits	Total
Regulatory Policing Costs	23	\$466,050 \$54,000 for Squad car every three years	\$1,702,400 \$1,000,000	\$2,168,450 \$1,020,000
Mitigation Programs	2	\$360,000	\$140,000	\$500,000
Problem Gambling Treatment Costs		\$200,000-\$400,000-Additional	\$565,000	
Problem Gambling Hotline	7	office space \$50,000 annually		\$865,000 \$50,000
Total	32	\$1,196,050	\$3,407,400	\$4,603,450

These cost are typically offset by a licensing fees, gaming taxes and a special levy for problem gambling issues, all paid by the casino operators.

DISCLAIMER

Certain information included in this report contains forward-looking estimates, projections and/or statements. The Innovation Group has based these projections, estimates and/or statements on our current expectations about future events. These forward-looking items include statements that reflect our existing beliefs and knowledge regarding the operating environment, existing trends, existing plans, objectives, goals, expectations, anticipations, results of operations, future performance and business plans.

Further, statements that include the words "may," "could," "should," "would," "believe," "expect," "anticipate," "estimate," "intend," "plan," "project," or other words or expressions of similar meaning have been utilized. These statements reflect our judgment on the date they are made and we undertake no duty to update such statements in the future.

Although we believe that the expectations in these reports are reasonable, any or all of the estimates or projections in this report may prove to be incorrect. To the extent possible, we have attempted to verify and confirm estimates and assumptions used in this analysis. However, some assumptions inevitably will not materialize as a result of inaccurate assumptions or as a consequence of known or unknown risks and uncertainties and unanticipated events and circumstances, which may occur. Consequently, actual results achieved during the period covered by our analysis will vary from our estimates and the variations may be material. As such, The Innovation Group accepts no liability in relation to the estimates provided herein.

THE REPORT
OF
THE TASK FORCE
ON
GAMING

Task Force on Gaming

Mr. Premier and Members of the Cabinet,

It has been our honour and privilege to serve as members of the Task Force on Gaming appointed by the Premier on the 4th day of February of this year.

OUR TASKS

In accordance with the terms of our appointment, we have worked closely with the international gaming consulting firm, The Innovation Group, who were engaged by the Government in the latter part of last year to carry out a feasibility and economic and social impact study of gaming and its various aspects insofar as they relate to Bermuda.

We have arranged for and hosted three public forums on the subject, one in the west end on the 21st of April 2009, one in the City of Hamilton on the 22nd of April 2009 and the third in the town of St. Georges on the 23rd of April 2009.

We have now also received, studied and analyzed the enclosed report of The Innovation Group which runs to over 600 pages and which we are now pleased to present to the Cabinet with our observations and recommendations.

INTRODUCTION

Our task has been an interesting and at times challenging one.

None of us had any particular knowledge of the subject of gaming before we commenced, carried out and now have completed our role in an as objective manner as possible.

We now possess considerably more knowledge on the subject of gaming and more particularly on its likely impact on Bermuda than before we started. In this regard we utilized the input of the members of The Innovation Group Team (along with their attached final report), the written submissions from the public and the comments made at the public forums coupled with and our own research. All such sources of information have been most helpful and enlightening.

We viewed it as our fundamental task the ascertainment of whether or not, in our opinion, gaming as a whole would be an appropriate route for Bermuda to follow at this time in its history given all the circumstances that Bermuda and Bermudians currently find themselves in.

After much deliberation and consideration of the subject, we have concluded that the question could be distilled down to the following components:-

“Are the rewards that gaming may bring to Bermuda worth the risks that Bermuda would take by proceeding with gaming?”

Or put more succinctly: - "Would the introduction of gaming help Bermuda more than it hurts?" In order to answer this question we must first look at the situation that Bermuda finds itself in today.

Bermuda's Economic History - "Wherever the Fates May Take Us"

The economic history of Bermuda is an interesting one. Bermuda's motto "Quo Fata Ferunt" established almost 400 years ago could not have been more prophetic given the economic history of our small island that was to follow.

This motto recognized that given our small size, our distance from the main continents of the world and our small population, we would find ourselves more dictated to than dictating in determining our economic path.

At first agriculture and pearl diving was seen to be Bermuda's most likely economic future.

Tobacco did not do well in Bermuda, so we turned to the sea with privateering, salt-raking and ship building becoming our principle economic activity. We made the best of other people's wars and took advantage of our geographic location. Our small cedar sailing ships were the envy of the world.

With the advent of the steam engine, however sailing ships became redundant and the ship building industry quickly came to an end.

Steam ships brought with them new economic opportunities. Our agricultural crops and our Bermuda Easter Lilies could now be shipped to the ports of the north east of the United States much faster and given our subtropical climate we became the market garden for the U.S. mainland.

Such steamships also afforded an opportunity for the well healed of the United States to discover Bermuda as their own private playground particularly in the winter months when our weather is far more accommodating than theirs.

In the course of the 6 years of the Second World War, all that changed. We went into the war with an economy that was 80% agricultural and with no airport and no cars. We came out of it with an airport and a road system that could accommodate the automobile. Unfortunately for the farmer however, during the course of the war, America had discovered other sources for its produce and Bermuda was no longer relevant in this regard. Farming no longer had a major role to play in our economic activity and Bermuda moved on.

With the advent of an airport, Bermuda was now a major tourist destination. Twenty years after the close of the war, tourism had replaced farming as our major economic activity.

In the latter part of the 1960s and early 1970s two new, big, and by that period's standards, mega hotels were built - The Southampton Princess in Southampton and the Holiday Inn in St. Georges. A number of other smaller properties either opened or expanded and the cruise ship business increased to the point where the majority of Bermudians' income was derived directly or indirectly from tourism.

Fortunately during this period, certain men of commerce also recognized the role that Bermuda could play in international business. Companies established themselves and some, if not all, of their global business in Bermuda.

For a period of time these two industries grew side by side and in fact complimented each other. The airlift and the facilities that served the tourists also benefitted the international business man who after work would take off his suit and become a tourist for part of his stay in Bermuda. As times moved on the role that these two industries played in our economy changed. As the World opened up, tourists found so many more places to go and see.

International Business found Bermuda was the place to be particularly when it came to the establishment of insurance/reinsurance companies and insurance related businesses. With the occurrence of certain global disasters the insurance industry went from strength to strength. As a result more people were needed by the industry resulting in more offices, more buildings, more accommodation, and more cars. The demand created by this expansion led to dramatic increases across the board in the costs of both working and living in Bermuda.

The international business man was not as concerned about the cost of his airfare as was the tourist; as a result, airfares to and from Bermuda became some of the highest in the world. Whilst this clearly benefitted the airlines serving Bermuda, the comparable costs of flying to Bermuda resulted in a number of other destinations becoming more attractive such that over the last 20 years the Bermuda tourist industry has contracted considerably.

With this contraction, hotels' and guest houses' occupancy levels have declined, in many cases beyond the point of economic sustainability, and many have closed. Today we have less than 50% of the beds we once had.

International Business has been an economic empowerer for Bermuda to the point where as a people we have enjoyed one of the highest per capita incomes in the world. Over the last 30 years our workforce has migrated from the fields, from the construction site, from the hotels and from the classrooms into the office building. We have enjoyed an amazing 30 year economic boom. This economic strengthening however has also stressed our infrastructure and our society. The cost of living and working in Bermuda is one of the highest in the world.

The 21st century has, however, presented Bermuda and its economy with new challenges. In 2001 with the terrorist attack on the World Trade Center on the 11th of September, global tourism suffered a major blow that it has still not recovered from. Last year the world was hit by a global economic crisis the likes of which had not been seen since the Great Depression of the 1920s and 1930s.

Bermuda has not been immune from the fallout from this crisis. On the International Business front several of our pillar companies including American International and XL Insurance Company have suffered economic blows that threaten their very existence. Staff have been laid off and some companies have closed down or moved abroad. Some predict that we have yet to see the full adverse effects of the Global financial crisis.

Bermuda's place in the international offshore sector has been threatened by other competitors who have come into the market following the Bermuda example. These new entries together with Bermuda have been attacked and threatened by international regulatory bodies and in particular certain sections of the US and European legislative bodies now threaten to take action which could very well adversely affect the economic well being of our International Business Sector.

In the area of Tourism, the most obvious and immediate effect of the global financial crisis has been a rapid and dramatic drop in visitor arrivals which clearly unduly effects the financial viability for those properties that remain open, and the income of those Bermudians who still depend on Tourism for their livelihood. Perhaps more challenging, is the effect that it has had on the capital investment that was expected in Bermuda's new hospitality structure. This is a significant problem insofar as Bermuda is concerned, given the fact that it is recognized that even before the advent of the economic crisis, Bermuda's position in the Tourism arena was seen as declining due to a lack of reinvestments and a product which was seen as aged and out of date.

The Premier, only a year ago, coined the phrase "Our Platinum Period" as he had expected to see hundreds of millions of new dollars invested in new properties and in the renovation of existing ones. The expected projects included a planned \$400 million project at the Southampton Beach Resort and a similar sized project at Coral Beach and Horizons. Both of these projects were financed by Lehman Brothers and such financing died suddenly with the collapse of Lehman Brothers on the 15th of September 2008.

We have seen only two new properties open, the new Newstead Belmont Hills Resort and Spa, and the new Tucker's Point Hotel and even these properties face significant challenges in sustaining themselves in the tough economic conditions that currently prevail.

The result is that all of the proposed new properties now lie dormant in the ground and will remain so until they can secure financing. Our research indicates that Bermuda is not alone in this position and that in the Caribbean alone there currently exists millions of square feet of unfinished projects. These were projects that did have financing and were well advanced on the proposed Bermuda projects, however with the global economic collapse and the failure of the financial institutions such as Lehman Brothers, they also now lie dormant and in a deteriorating state.

The construction industry has been seen as the economic engine of Bermuda over the last 30 years. It has been seen as the conduit by which international investments in both hotels and office buildings flows into our general economy and into the pockets of working class Bermudians. We have seen a number of large office buildings built in the last 20 years and there are a few now nearing completion. Unfortunately post completion of these projects, the construction company's books of business are empty.

We are now facing economic challenges for Bermuda the likes of which we have not seen since the 1930s and then again in the Second World War. Bermuda now needs new economic opportunities to strengthen its existing activities. That brings us to gaming. It is our understanding that even before the global economic crisis commenced that Government realized

that it was time to review gaming as a whole and to examine gaming as a future option for Bermuda's economy.

If there has been any adverse reaction to the engagement of The Innovation Group and indeed to the appointment of our Task Force it has been of a limited nature and has included the question:-

"Why consider gaming for Bermuda at all?"

Those who ask this question suggest that Bermuda has done well enough without gaming, so why consider it now. We believe that the changes in our economic fortunes as set out above and the challenges that now threaten us justify this examination at this time.

THE CURRENT CLIMATE AND APPETITE FOR GAMING

We had been led to believe and expected that we would have received far more objection and opposition to gaming for Bermuda than we have actually received. In this regard, we received 14 written submissions, all of which are set out in full in the appendix to this report. Of the 14 submissions, only 2 are against gaming for Bermuda.

We held three public forums. We were somewhat disappointed at the numbers of the members of the public that turned out for these forums which were well advertised in the press and the media. At the forums we had an average attendance of 45 people each evening of which less than 5 indicated that they were opposed to the concept of gaming for Bermuda.

We had also been led to believe and expected that we would have received significant opposition from Bermuda's various church groups. Such was not forthcoming. Why is this? First and foremost, we now believe that the previously perceived public opposition to gaming in Bermuda was largely a myth.

We believe that in recent years that there has been a relaxation in the public's attitude towards gaming generally.

With Bermuda's population being one of the most travelled in the world, Bermudians come into constant contact with gaming in the various destinations to which they travel and the cruise ships on which they cruise. We see international poker matches on our televisions. We have internet gaming on our computers and we have lotteries almost everywhere that we travel. As such, gaming and gambling has internationally become mainstream and main street and thus have received a far greater degree of public acceptance in recent years. It is therefore our perception, derived from our experiences conducting the duties of this Task Force, that the majority of the Bermudian public today is not opposed to gaming.

Further, the Innovation Group's report corroborates our perception where it sets out that studies conducted in the United States have concluded that 80% of Americans feel that gaming is an acceptable form of entertainment for themselves and others. The Gambling Review Report produced in the United Kingdom in 2001, cited evidence establishing that in the United

Kingdom 72% of the population had taken part in some gambling activity within the preceding year and that over half had gambled in the preceding week.

At the same time, however, there is recognition that gaming can in the case of certain individuals be harmful and indeed addictive and that measures need to be taken to protect the vulnerable should Bermuda determine to proceed with gaming.

THE INNOVATION REPORT

We are pleased to attach herewith the final report of the Innovation Group which we have read, received and analyzed.

The eight sections of the report can be summarized as follows:-

Section 1: Executive Summary

Sets out an executive summary which covers the full ambit of the report, the matters that were considered and the conclusions that were reached.

Section 2: Lottery

Provides a more detailed analysis and assessment of a lottery for Bermuda.

Section 3: Internet Gaming

Provides a more detailed analysis and assessment of allowing internet wagering to be based in Bermuda but operated globally.

Section 4: Tax & Regulatory Options

This sets out in more detail a review of the tax and regulatory policies employed in other jurisdictions and the outcomes that are derived from each approach. It also discussed the implications for Bermuda.

Section 5: Current Gaming Market

Sets out in more detail an assessment of the current gaming market with particular emphasis on the establishment of a casino or casinos in Bermuda and the gaming revenues that would be generated under a number of development scenarios.

Section 6: Social Impact

Sets out in more detail the results of the social impact study performed by The Innovation Group using data derived from Bermuda and relating it to actual experiences in other jurisdictions. It includes with an analysis of the risks that may well be encountered by allowing gaming in Bermuda and recommends how to counter, deal with, and diminish such risks.

Section 7: Economic Impact

Sets out in more detail the results of the economic impact studies conducted by The Innovation Group once again using data derived from Bermuda sources and comparing it with economic models from other jurisdictions where gaming has been introduced.

Section 8: Innovations Comments & Conclusions

Sets out The Innovation Group's comments as they relate to the questions, observations and feedback gathered by The Innovation Group and members of the Task Force while attending the public forums held on the 21st, 22nd, and 23rd of April 2009.

GAMING FOR BERMUDA – YES OR NO?

We have perceived as our primary task the passing onto Cabinet our recommendations as to whether or not Cabinet should give favourable consideration to the legalization of gaming in one form or the other for Bermuda.

Having met with the Innovation Group on a number of occasions, having received and read their report, having attended the public forums and received the public's written submissions, we are collectively of the view that in the current economic conditions, the expected economic rewards of the introduction of a Casino Gaming environment to Bermuda far outweigh the perceived risk of adverse social impacts.

Having come to this conclusion, we have determined as a secondary role, to give to the Cabinet our views and recommendations on what we refer to as the "who, what, where and when of gaming for Bermuda."

TYPES OF GAMING

Turning first to "what" type of gaming:

(a) Casinos

All of the considerations of this subject have at their forefront, the establishment of a Casino or Casinos in Bermuda particularly from the perspective of the rejuvenation of our Tourism industry and our Tourism product.

To quote from the conclusions reached by the Innovation Group:

"While casino style gaming may not be viewed as a panacea to the current Bermuda tourism challenges, the country is losing out on opportunities by not having casino gaming. Casino gaming is an industry which is now prevalent thorough out the United States and the Caribbean and has become socially acceptable by many adults, and is expected to remain strong in the near and intermediate future as many U.S. adults get older"....

...."the evidence is clear from other jurisdictions that given the right legislative policies, tax structures and operating environment, casino gaming can be a catalyst for additional tourism development. In order for Bermuda to effectively compete in the tourism arena in the region, it needs to attract additional capital investments. Gaming can be the

catalyst that allows new projects to occur as gaming enhances the potential profits and consequently can work in attracting the financing new projects need."

We agree with this assessment and indeed would add that just as Bermuda needs to compete with other jurisdictions to attract tourists, international developers and operators alike who would build and operate the appropriate facilities to attract such tourists to our Island, these developers must also compete in the international financial markets for the financing to commence, proceed with and complete such projects. In the very challenging financial climate that now exists in such markets, any advantage that can tip the scales in the developers favour is sought. It is our understanding that casino type gaming is seen as such an advantage and by corollary the lack of casino type gaming is perceived as a disadvantage.

(b) Lottery

The Innovation Report points out that a lottery, per se, will not attract more tourists to Bermuda. We accept this however, we do believe that should Government determine to proceed with a lottery, that the revenue that could be derived from a lottery could be applied either in whole or in part to the enhancement of tourism related projects.

Against this however, given Bermuda's small size and relatively small population, a Bermuda lottery would not be able to compete with well known lotteries in the US and Europe.

The size of the prizes would be significantly less however, the chances of winning would be proportionately greater.

The costs of administration of a lottery in relative terms, having regard to the likely revenue to be received would in our view make the establishment of a local lottery less of an obvious revenue returning option. We are also of the view that the revenue assessment contained in the Innovation report may be overly optimistic.

(c) Internet Gaming

Internet gaming as set out in the Innovation report, has become a rapidly growing segment of the gaming industry.

As we understand it, should Bermuda consider allowing internet gaming from its shores, current models would result in the establishment in Bermuda of a server base for gaming, which would allow members of the gaming public, all over the world to play on their personal computers. This is not to say, however, that large numbers of individuals would be employed in Bermuda for the purposes of operating the system. Practice shows that in many cases, whilst the internet gaming site is based in a respectable and responsible jurisdiction to attract users, that its operations are outsourced to lower cost jurisdictions in the Third World.

In our view, internet gaming would not enhance Bermuda's image internationally and the only perceived benefit that we could see for Bermuda by allowing internet gaming from within our shores, would be the potential revenue that Bermuda may derive from taxing the undertaking and the few new jobs that may be created in Bermuda. Against this however, as is expressed in the

Innovation Report, this area of the gaming industry has attracted the reputation for “*corruption, scams, money laundering, and the like.*” None of these activities are in Bermuda’s interest nor should Bermuda be interested in them.

As The Innovation Group points out “*The perception of illegal activity occurring within Bermuda’s borders could serve to deter business in the financial sector from locating or maintaining their office in Bermuda.*” We are also aware that the Government of the United States, Bermuda’s largest, closest and most significant trading partner, takes an extremely dim view of offshore internet gaming. At a time when favorable consideration of Bermuda and in particular its International Business sector by the United States is of paramount importance to Bermuda, we do not believe that Internet Gaming is an aspect of the gaming industry that Bermuda should pursue.

(d) Ambient Gaming

This is the name that The Innovation Group and the gaming industry applies to the operation of gaming machines of the type operated in Bermuda prior to the enactment of the *Prohibition of Gaming Machines Act 2001* and the *Prohibition of Gaming Machines Amendment Act 2004*. We note that a significant proportion of written submissions made to us, as more particularly set out in full in the appendix of this report as well as the oral submissions made at the forums, were devoted to this subject and were submitted in writing or presented orally by those who had formerly owned or operated such machines. It is our understanding that such machines were popular and that the operation of such machines was very lucrative to those involved.

Should Government determine to allow gaming in Bermuda in one form or another consideration will need to be given to allowing and therefore regulating the operation of such machines.

We do not believe that the operation of such machines will in any way enhance Bermuda’s tourist products or its attraction to tourists or the attractiveness to Bermuda to the outside world. We perceive this as a local product for locals. On the other hand, Government will face an ongoing argument from those formerly involved in the industry that if Bermuda can have casino gaming then these individuals should be allowed to operate such machines again.

We do not support the reintroduction of ambient machines, as we see it and as we are advised by The Innovation Group as more elaborated on in their report, the risks of social harm that will most likely occur by the reintroduction of ambient machines to Bermuda as outweighing any benefit that Bermuda would derive from such reintroduction. We have also been advised by The Innovation Group that ambient gaming is far more associated with problem gaming than is the case with casino gaming.

It should also be pointed out that if ambient gaming were to be reintroduced the profitability of such machines would be significantly less given the fact that they would no longer be “the only game in town” and would be competing against other forms of gaming including casino gaming. It would also be anticipated that their revenues would be taxed.

On the other hand, we would be remiss if we did not point out that there is a social argument that the revenue derived from the operation of such machines may well make the operation of many

of Bermuda's social and sports clubs more financially viable as they have experience declining revenue and increased costs in recent years.

Given the likely numbers and dispersion of the machines if allowed and the establishments in which they would be operated their existence would significantly increase the costs of the regulation of gaming in Bermuda generally.

(e) Other Forms of Gaming:

As will be pointed out in our section under regulation, we are of the view that all aspects of gaming in Bermuda should come under one omnibus piece of legislation.

The gaming laws of Bermuda today have not been codified or put into one act as was the case with, for example, *the Criminal Code* or *the Bermuda Immigration and Protection Act* or *the Companies Act*. They are found in a number of pieces of legislation.

We further recommend that the other forms of gaming that presently take place in Bermuda should come under one single regulatory regime and this would include the regulation of off track betting, football pools, sports betting, poker games, Crown and Anchor, bingo, and raffles etc.

It may well be that other forms of gaming will come to the fore in the future and it would be our recommendation that the regulation of such future forms of gaming would also be covered by the one enactment, which may for such purpose require amendments from time to time.

LOCATION OF CASINOS

In the consideration of the establishment of casino gaming in Bermuda, we have given much thought to the possible number and locations of such casinos. Members of The Innovation Group team have spent much time in reviewing the options that currently exist in Bermuda and have compared them with other jurisdictions and their experiences.

The results of their work are set out at some length in section 5 of their report. Having reviewed the same we would recommend a hybrid model which would allow for one stand alone casino together with the ability of Bermuda's larger hotels both existing and to be built to apply for and receive licenses to operate casinos on their properties.

Such a combination would allow for the development of a World class casino on a selected site as well as offer the opportunity for Hotel properties of sufficient size to develop and operate casinos on their properties and thereby derive a proportion of the revenue from such operations to assist with the profitability of such establishments and consequently their ability to secure capital in today's environment.

Insofar as a location for the stand alone casino is concerned, we did give consideration to a site within the Dockyard owned by the West End Development Corporation. That area has in recent years undergone significant infrastructure improvement which now supports several panamax

cruise ships each carrying over 3,500 passengers. Therefore there is the potential customer base of 10,000 people (passengers and crew) resident on site throughout the summer months. Such a casino would also significantly enhance the nighttime leisure activities available in the Dockyard.

It would also be accessible for Bermudians and other visitors by road and perhaps more particularly serviced by our high speed ferries from both Hamilton and St. Georges.

After much thought and deliberation we have determined, however, that having regard to the fact that the site is not centrally located and that the cruise ships are only in Dockyard in any significant presence from April until mid-October, or roughly six months a year, that the site would not be the most appropriate.

We have come to the conclusion that a suitable site within the City of Hamilton makes the most sense for the siting of a casino which would be operated on an annual basis. Such a siting would be central and therefore offer the most accessibility to all of our visitors and residents alike. It would also serve to assist in the rejuvenation of nightlife in the city and act as a catalyst for the establishment of new restaurants, nightclubs etc. We believe that the most suitable site within the city would be somewhere on the City of Hamilton waterfront.

CASINO OPERATORS

Insofar as operators of casinos are concerned, clearly in the case of those hotels which choose to operate a casino within their property that will be a decision for them although the operators will clearly need to be vetted and approved by such regulatory bodies as established.

There are strong arguments that well known international operators will do much to enhance the operations and will attract more business to Bermuda by their reputation and marketing activities. It will also enable the operator to introduce reciprocal benefits between the Bermuda casino and other casinos located elsewhere.

In the case of the stand alone casino, whilst we did receive submissions from locals that consideration should not be given to allow such a casino to be operated by an international offshore entity, we do believe that it is in Bermuda's interest for this to be seen as sophisticated an operation as possible and as is expected of anything based in Bermuda. We therefore would recommend that Bermuda go through an RFP process such that the best in the world can compete for the ability to operate such a facility.

In this regard, we note that Singapore went through such an exercise when it allowed the pursuit of casino gaming sites within its shores.

We are also of the view that the casino should be privately owned and operated. If developed and operated on Government or Quango land then it would be our view that the operator would lease the site and Government's revenue would be derived from collection of the rent for the site which may include a portion of the net profits derived from the operations of the Casino.

WHO CAN GAMBLE?

This question came up repeatedly in the forums and in our deliberations, we believe, as a result of the example set by the Bahamas Government several decades ago, whereby Bahamians were prevented from gaming in Bahamian casinos. We do not believe that such a model would be found acceptable by Bermudians as a whole, albeit that it would serve to protect those Bermudians who it has been submitted would be at risk should gaming in Bermuda be introduced.

We believe that if gaming is introduced, that it should be made subject to similar restrictions to those that presently exist in our liquor licensing laws insofar as minors would be prevented from attending or participating in the activities of the casinos.

We are, however, of the view that Bermuda as a whole is a very sophisticated, well educated society. We are well travelled and as such Bermudians are frequently exposed to gaming operations. In addition, as we have pointed out, any Bermudian today can gamble merely by going to a personal PC and going online. The world we find ourselves in today is dramatically different from that in which the Bahamas found itself 30 years ago. In this regard, it is of note that we understand that a committee has recently been established in the Bahamas to comprehensively review that country's gaming laws and make recommendations by the end of August. It may well be that such committee makes recommendations that such laws should be amended. We would therefore recommend, that if it is determined to allow gaming in Bermuda, that no restrictions be placed on Bermudian participation.

WHEN?

For the reasons set out above, we believe that there are strong and compelling economic reasons to consider allowing gaming in Bermuda as quickly as the regulatory framework can be put in place.

There is no question that Bermuda needs to be able to attract hotel developers to Bermuda and to enable those developers who are already here to proceed with their development plans at the earliest opportunity.

In order to do so, such developers need the funding necessary to proceed.

We have been persuaded that the international financial institutions that will provide such financing look to casino gaming as an essential component for the business model of a 21st century resort development.

As we understand it, the inability to include such a component in our resort developments today is seen as a significant impediment to the provision of the financing necessary to pursue such developments.

OPERATING HOURS

Whilst we have been informed that in certain jurisdictions casinos operate on a 24 hour a day, 365 days a year basis, we do not believe that such a model is appropriate or suitable for Bermuda given the size of our population, the number of visitors to Bermuda and our Bermudian sensibilities.

We recommend that the opening hours for casinos would mirror those currently existing for bars and nightclubs under our liquor licensing laws.

THE TAX & LEGISLATIVE REGIME

Whilst at the time we were appointed the World had already been engulfed in a global financial crisis, at that time Bermuda had only found itself somewhere in the shadows of the dark economic clouds caused by such crisis.

Now it is felt that we clearly face tough economic times ahead. In February, we saw the presentation of the first deficit budget for Bermuda in living memory.

In the circumstances, whilst we did not initially perceive as part of our primary role the assessment of revenue potential for the Government derived from the introduction of gaming, over the life of the inquiry, the relative importance of the revenue aspects of gaming have increased. Indeed, members of The Innovation Group Team have informed us that in the vast majority of jurisdictions in which gaming has been introduced, the primary reason for doing so has been directly related to increasing government or municipality revenue.

We have however, been advised that a delicate balance must be drawn such that the ideal tax regime is one which does provide a reasonable amount of government revenue whilst not discouraging investors and lenders.

The Innovation Report provides a substantial amount of qualitative and quantitative information on this subject. The recommendations are that a tax band in the range of 10-15% of gross revenue would be appropriate and achieve the desired end of raising revenue whilst not being seen as a disincentive to investment.

We would recommend that initially Government not go beyond the 10% ceiling whilst considering an initial rate at even a lower level for a limited period of time so as to encourage the initial investment required to create the desired level of amenity. For similar reasons we would not recommend the imposition of significant up front licensing fees. We would also recommend that such up front license fees should take in to consideration the size of the establishment we further recommend that graduated license fees be considered.

THE APPLICATION OF REVENUE RECEIVED

We would recommend that the revenue received be earmarked for the following purposes:-

- a) The funding of the establishment and continuance of a Gaming Board and its regulatory function which The Innovation Group advised should cost in the range of \$2.2 million annually.
- b) The funding of specific and targeted social services to provide for any potential negative social impact associated with the development of gaming.
- c) Government based marketing of Bermuda targeted towards those who would find the existence of gaming in Bermuda an attraction.

DEALING WITH THE POTENTIAL ADVERSE IMPACTS OF THE INTRODUCTION OF GAMING

It has been suggested to us that if Bermuda is to introduce gaming it would be getting into the game too late and that we have already missed the boat. Whilst clearly given the extent to which gaming has been introduced in other jurisdictions the economic benefit to Bermuda of the introduction of casino gambling will not be as dramatic as was seen in jurisdictions who introduced it early on, for the reasons set out above it is believed that it will still be favourable. One advantage, however, of coming into the game late is the fact that any adverse impacts can be assessed from the experiences of other jurisdictions, recognized in advance and planned for.

The Innovation Group Report provides a significant amount of information on the subject derived from studies done in other jurisdictions.

Based on that information, Bermuda is well placed to establish in advance a “safety net” of services to assist those potentially in need.

The specificity of such services are more fully set out in the Innovation Report and we would strongly recommend that if Bermuda is to adopt a gaming model that such model incorporate in advance world class, state of the art, social services consummate with our size to deal with any negative side effects of the introduction of gaming.

THE LEGISLATIVE REGIME

The current legislation in Bermuda controlling gaming could well be described as a hodgepodge of provisions contained in various pieces of legislation and particular enactments that have been brought into effect over the years to deal with various aspects of gaming.

The gaming laws in Bermuda have not been codified or consolidated into one act as is the case for example with the *Criminal Code*, the *Bermuda Immigration and Protection Act* or the *Companies Act*. They are found in a number of pieces of legislation including the following:

- 1) *The Lotteries Act 1944*
- 2) *The Betting Act 1975*

- 3) *The Betting (Amount of Guarantee) Regulations Act 1975*
- 4) *The Betting Duty (Rates) Act 1975*
- 5) *The Prohibition of Importation of Gaming Equipment 1999*
- 6) *The Prohibition of Gaming Machines Act 2001*
- 7) *The Prohibition of Gaming Machines Amendment Act 2004*
- 8) *The Criminal Code Act 1907-2006 Consolidation*
 - *Section 155: Keeping common gaming house*
 - *Section 156: Acting as a keeper of brothel or gaming house*
- 9) *The Tenth Schedule to the Companies Act 2981*
- 10) *S.9 of the Summary Offences Act 1926*
- 11) *S.18 of the Government Omnibus Regulations 1952*
- 12) *Sections 9 and 40 of the Liquor Licensing Act 1974*

By way of summary, these acts provide as follows:-

- The *Lotteries Act* effectively deals with raffles
- The *Betting Act* and associated Regulations cover off-track betting and betting on sports events though licensed betting premises
- The *Prohibition of Importation of Gaming Equipment Act* and *The Prohibition of Gaming Machines Acts* deals primarily with the prohibition of slot machines and gambling machines of a similar nature (including ambient gaming)
- The *Summary Offences Act 1926* prevents the playing of a game of chance in any public street, highway or thoroughfare.
- *Section 18* of the *Government Omnibus Regulations 1952* prohibits the playing of any game of chance or skill for money on a bus
- Insofar as the *Criminal Code* is concerned, there are several offences set out in the Act, which would be relevant to a casino or the holding of an organized gaming event.
- The relevant provisions of *The Criminal Code* are as follows:-

(1) *Any person –*

- (a) *Who keeps for gain any place to which persons resort for the purpose of playing at any game of chance; or*
- (b) *Who keeps any place which is kept or used for playing therein at any game of chance, or any game of mixed chance and skill, and in which –*
 - (i) *A bank is kept by one or more of the players exclusively of the others;*
 - (ii) *Any game is played the chances of which are not alike favourable to all the players, including the banker or other persons by whom the game is managed, or against whom the other players stake, play or bet,*
 - (iii) *Is said to keep a common gaming house*

(2) *Any person who keeps a common gaming house is guilty of a misdemeanor, and is liable on conviction by a court of summary jurisdiction to imprisonment for twelve months and on conviction on indictment to imprisonment for two years.*

Section 156 goes on to say:

“Any person who appears, acts or behaves as master or mistress, or as the person having the care or management of such house, room, set of rooms or place, as is mentioned in sections 154 and 155 is to be taken to be the keeper thereof, whether he is or is not the real keeper.”

Insofar as *The Liquor Licensing Act of 1974* is concerned under the provisions of *Section 40 of The Liquor Licensing Act 1975*, any licensed person who permits the playing of an unlawful game on his licensed premises, commits an offence.

An "unlawful game" is defined as not including:-

- (1) *A game of chance played by dice by persons on licensed club premises solely for the purpose of determining which of those persons shall be responsible for the purchase of intoxicating liquor for consumption by persons on the premises at the time the game is played; or*
- (2) *A lottery which is deemed not to be an unlawful lottery under the Lotteries Act of 1944;*
- (3) *Bingo or the game known as Cinema Races; or*
- (4) *The game known as Crown and Anchor if played on the premises of any licensed club in accordance with the conditions of a permit issued by the Commissioner of Police.*

It is on the basis of this provision that Crown and Anchor is effectively licensed to be played at Cup Match and County cricket matches during the Eastern and Western county competition in the summer.

We are firmly of the view that if it is determined that Bermuda should proceed with gaming, and in particular the introduction of casino gaming, that the time is appropriate for the introduction of a comprehensive piece of legislation that would control all aspects of gaming in these islands.

We would suggest that the legislation would have the following attributes:

- (1) While the legislation would need to be as comprehensive as possible we would recommend that it also be as simple and understandable as possible.
- (2) It would ensure that gaming be crime-free and honest.
- (3) That it would make provisions to ensure that players knew what to expect and are not exploited or cheated.
- (4) That it would have built in protections for children and vulnerable persons.
- (5) The legislation would be as flexible as possible so as to be able to respond to future technical developments in gaming and to enable adjustments to be made to regulations that are found to be necessary as a result of actual experiences.
- (6) The establishment of a Bermuda Gaming Board which would be responsible for the regulation and licensing of all gaming in Bermuda.
- (7) Establish a graduated licensing system that would recognize and license the various forms of gaming that either currently exist or would be introduced into Bermuda.

CONCLUSION

Premier and Members of Cabinet, it has been our honour and privilege to carry out this review and to make recommendations to you on the current state of, and the future of gaming in Bermuda. We trust that our report and that of The Innovation Group will be helpful and useful to you in your consideration of the subject. If we can be of further assistance we remain at your disposal.

In closing, we would like to thank The Innovation Group and in particular its president Steve Szapor and members of his team, Paul Girvan and Matt Landry for all of their help and


assistance and in particular for the insight that they were able to give us into the modern world of gaming.


We would also like to thank those members of the public who sent in written submissions or who came out to the public forums and participated in the public debate on the issue of gaming in Bermuda.

These submissions both written and oral have been of tremendous assistance to us.

Finally we would like to thank the Assistant Director of Tourism, Mrs. Jasmine Smith, for all the hard and efficient work she has put in in coordinating our activities, taking the minutes of our meetings, reviewing and organizing the written submissions, organizing the public forums and generally making our jobs so much easier.

Signed:


Wendell Malcolm Hollis
Chairman


Ed Trippe


Norman Musterlair


Deena Harvey


Marc Daniels

Dated: 20th July 2009

A CASE STUDY: THE NOVA SCOTIA EXPERIENCE

The Canadian province of Nova Scotia has adopted a novel approach to gaming. To expound upon the Province's approach to the activity, the Cabinet received a presentation from Ms. Margaret McGee on 1st December 2009. So impressive was the information that Cabinet received it was resolved that bipartisan exposure to this case study would greatly enhance the debate on the issues.

Accordingly, Ms. McGee returned to Bermuda and presented the story of Nova Scotia's experience to the Progressive Labour Party Parliamentary Caucus as well as those of the United Bermuda Party and the Bermuda Democratic Alliance.

The Nova Scotia Gaming Corporation ("NSGC") is cited as a world leader in responsible gaming and commits to leading "a balanced, socially responsible gambling industry that is safe, regulated and accountable."

Readers are invited to note that in 2008/09 \$153 million in general revenue was provided to the Provincial Government for its programmes and services. These funds helped to build better roads, schools, hospitals and communities.

The NSGC is a Crown Corporation governed by the provincial Gaming Control Act. The Nova Scotia government and ultimately the people of Nova Scotia are the shareholders and owners of the Province's gaming industry.

The NSGC's role is to ensure the gaming industry is as socially responsible as possible, while generating reasonable profits. The Provincial Government makes policy decisions about how the industry will be operated in Nova Scotia and the NSGC is responsible to implement those decisions.

A Social Responsibility Charter has been adopted by the NSGC. It follows this overview in its entirety and is commended for the review of the public in considering this Green Paper.





SOCIAL RESPONSIBILITY **CHARTER**

Message from the CEO

The citizens of Nova Scotia are our valued customers, our dedicated employees, our neighbors and families, our suppliers, our business partners and our shareholders. The Nova Scotia Gaming Corporation is a public corporation that holds the responsibility to manage legalized gambling in a manner that earns the trust and respect of all of these citizens. This can never be taken for granted.

To earn and maintain their trust and respect, we must practice due diligence as the stewards of the gaming industry in our Province. Nova Scotians have the right to expect the highest ethical standards, unwavering integrity, and social and fiscal accountability from the Nova Scotia Gaming Corporation, as well as from our operating partners, Atlantic Lottery Corporation and Great Canadian Gaming Corporation.

Oliver Wendell Holmes said, "The great thing in this world is not so much where we stand, but in what direction we are moving." Today we stand as a corporation dedicated to the pursuit of responsible gambling knowledge and expertise in order to support the on-going development of programs that encourage the responsible use of our products. By formalizing our commitments to community support, environmental stewardship and transparency, we also stand as a corporation committed to social responsibility in the broadest sense

We are proud of the contributions our organization delivers to the Province. Adopting a Social Responsibility Charter will help ensure we continue to move in the right direction and enable the people we care about to understand us better.

The Nova Scotia Gaming Corporation will continue to earn the trust and respect of Nova Scotians by being socially progressive, delivering on our commitments, and always moving in the right direction.

Yours very truly,

A handwritten signature in blue ink, appearing to read "m. mullally".

Marie T. Mullally, C.A.
President & CEO

Introduction

The *Criminal Code of Canada* gives provincial governments the authority to manage and conduct gambling within the Provinces. The Nova Scotia Gaming Corporation (NSGC) is the crown corporation charged with that responsibility in Nova Scotia. Revenue from gaming in Nova Scotia provides funding which supports initiatives that are important to our citizens. Finding the right balance between the economic benefits of gaming and the long term well-being of our communities and our citizens is NSGC's most important priority.

NSGC is a progressive organization. We recognize the need to develop and sponsor programs that encourage responsible gambling and ensure that Nova Scotians only gamble for entertainment and fun. Every single Nova Scotian who chooses to gamble occasionally is our customer. Our customers are also the citizens of our communities and we care greatly about both.

When even one Nova Scotian experiences a gambling problem, the impacts can be devastating. To reduce the prevalence of problem gambling and to help players make informed decisions, the Nova Scotia government, together with key stakeholders, including NSGC, launched a process to develop a Gaming Strategy that would set a new course for gaming in Nova Scotia. This process began in 2003 and included extensive consultation with stakeholders and the public. The result was *A Better Balance: Nova Scotia's First Gaming Strategy*, which was introduced in April 2005.

The guiding principles of the Gaming Strategy include a number of important priorities for the government and the gaming industry:

- ➔ Protect and benefit Nova Scotians
- ➔ Put social responsibility first
- ➔ Make revenue a secondary priority
- ➔ Help those who need it and prevent problems wherever possible
- ➔ Extend the benefits to the people in communities
- ➔ Make evidence-based decisions
- ➔ Ensure integrity and security
- ➔ Give Nova Scotians the facts

NSGC contributes to the health and well-being of our Province and its citizens in a number of notable ways. The economic benefits to the Province are considerable. \$174 million dollars was paid to the Province in 2005-06 to support social programs, healthcare and education. In the course of doing business, the gaming industry also helps support the provincial economy through jobs and wages for more than 1,000 Nova Scotians. As well, revenue totaling almost \$53.5 million in commissions was collectively paid to the 1,600 retail establishments that NSGC supports.

While these economic benefits are substantial, managing the business of gaming in a socially responsible manner is paramount. To that end, and in keeping with the commitments set out in the Gaming Strategy, NSGC is adopting a Social Responsibility Charter. The Charter sets out our social responsibility commitments and an accompanying action plan will outline the new initiatives that will be undertaken each year.

Our Five Pillars of *Social Responsibility*

Inherent in the concept of social responsibility, regardless of the business or industry, is one fundamental principal: companies should contribute to the communities where they do business in a way that delivers net positive benefits. This requires conducting business with sensitivity to all and understanding how what we do impacts others.

Gambling has become a widely-enjoyed entertainment option for adults in most parts of the world. In Canada and in Nova Scotia, games of chance take many forms including lottery tickets and bingo, casino games such as Blackjack, poker and slot machines, and video lottery games available in bars and pubs. More than 89% of Nova Scotia's adult population gamble each year.

When the concept of social responsibility is applied to this industry, the first social consideration that comes forward typically arises from issues related to problem gambling and the notion of gambling responsibly. It is incumbent on the gaming industry to concentrate on giving players the tools to make informed decisions, so we can help to prevent the next generation of problem gamblers. The cornerstone of NSGC's social responsibility commitment is and always will be responsible gambling and prevention programming.

To be effective, the concept of social responsibility must be integrated into existing corporate structures and processes.

S O C I A L R E S P O N S I B I L I T Y C H A R T E R

Every aspect of business and every new program must ensure the principle of net positive benefits will be met. This may often require innovative solutions to challenges inherent in the gaming industry. And it will involve the collaboration and commitment of key industry stakeholders.

Our operators, Atlantic Lottery Corporation and Great Canadian Gaming Corporation, are also committed to expanding our social responsibility reach. They played an important part in the development of this Charter and their participation in its continued evolution is essential.

Five pillars form the framework of our Social Responsibility Charter. By ensuring the right programs are undertaken within these pillars, NSGC will move our social responsibility commitment from the page to the pavement.

Our Five Pillars of Social Responsibility are:

1. Responsible Gambling
2. Integrity and Security
3. Citizens and Communities
4. Corporate Governance
5. Stakeholder Relationships

1

Responsible *Gambling*

Responsible gambling is about the industry that delivers the games and the people who play them. Effective programs must approach the issues from both sides. NSGC is a world leader in responsible gambling research and program development and will continue to focus unwavering attention on one of the most important aspects of social responsibility in the gaming industry.

Our Responsible Gambling Commitments

Progressive programs are our responsible gambling

hallmark. We find and deliver the best program options available to promote and encourage responsible gambling. We always focus extra attention on providing the right information to high-risk groups in an effort to prevent problems before they begin.

Scientific research helps turn good programs today into

better programs tomorrow. We fund independent applied research that is relevant and informative in order to drive decision-making and build better programs. We test innovative solutions to enhance and promote responsible gambling.

Information and awareness campaigns help players make informed decisions.

It is important that the right information be available to Nova Scotians, empowering them to make informed decisions on game participation if they choose to play.

NSGC is committed to ensuring the highest standards and industry-best practices are in place.

Industry workers are well-trained and armed with the tools needed to promote responsible play and identify high-risk behaviours. They know what their roles and responsibilities are in promoting responsible play. They know what programs are available to help customers with gambling-related problems and the best way to offer that information.

We provide funding for treatment and intervention

programs. These programs provide assistance for those affected by problem gambling and the funding provided helps to ensure services meet or exceed the demand.

2

Integrity and *Security*

If someone gambles, they should know that the odds of winning always favour the house. And if they decide to take that chance, they have a right to expect the game to be fair and honest. And if a player wins, they should be able to trust that they will be paid what they are owed. Games must be secure and free from the possibility of tampering. Players should have the opportunity to know how the game works and the odds of winning and losing before they play.

Our Integrity and Security Commitments

Our games are fair and honest. New game development always includes independent testing and verification of game integrity.

The odds of winning are always accessible to the public. The Responsible Gambling Resource Centres at Casino Nova Scotia and point-of-sale materials for ticket and video lottery readily provides this critical information for players.

Privacy rights and protection of personal information is of the utmost importance. NSGC and its operators protect any and all personal information that may be gathered in the course of doing business. We are committed to full compliance with Nova Scotia's *Freedom of Information and Protection of Privacy* (FOIPOP) Act.

3

Citizens and *Communities*

Balancing the economic benefits of gaming and the long term well-being of our communities and our citizens is a key priority for NSGC. We cannot do that without the input of our citizens and community leaders. The public, our customers, our employees and our business partners all play an important part in keeping us informed and in-touch with the values of our communities.

Our Citizens and Communities Commitments

We get involved and we listen. Knowing our public is how we learn about and reflect community values. We treat others with respect and we value their viewpoints.

We always consider the best interests of Nova Scotians. We take individual and community needs into account when making decisions and we listen to what Nova Scotians have to say.

Providing economic benefits to our Province extends to our purchasing practices. We buy locally whenever it is feasible.

We value our customers. We seek their input on issues related to our games, the entertainment value and ways we can increase the enjoyment of the games we provide.

We value our employees. We recognize them as citizens of the Province and encourage them to make contributions to the communities in which they live.

We believe good corporate citizenship starts in the community. NSGC supports communities in Nova Scotia through corporate sponsorships and community events.

We care about protecting our environment for future generations. We are committed to finding ways to conduct our business in an environmentally-sensitive manner.



Corporate Governance

As a crown corporation we are responsible and accountable to our shareholders for all of our actions. The way we conduct business is held to the highest ethical standards and we are responsible to the government and people of Nova Scotia.

Our Corporate Governance Commitments

We are open and transparent. We “walk the talk” by delivering on our promises. We tell Nova Scotians “where the money comes from and where it goes.”

We know that good governance is the “start line” for corporate social responsibility. Under our Board of Directors, we are committed to operating according to best practices in corporate governance.

Gaming in Nova Scotia operates in a well-regulated environment. NSGC meets and/or exceeds all statutory requirements.

The basis for good policy starts with having all the facts. NSGC’s role is to act as the gaming expert for the Province.

New games must meet our standards or they will not be introduced. NSGC will not approve the introduction of any new game in Nova Scotia unless it meets rigorous social responsibility requirements.

Empowering our employees makes good sense. Our employees are our best ambassadors. Our Code of Conduct policy gives them the tools they need to do their work to the highest ethical standards.

5

Stakeholder *Relationships*

Our business is conducted with the help and involvement of a large number of operational partners. We respect and learn from their experiences and viewpoints. Working together provides the best opportunities to advance our social responsibility agenda.

Our Stakeholder Relationships Commitments

Being a good corporate citizen means building relationships and two-way learning opportunities.

We actively engage stakeholders, business partners, municipalities, social service agencies, community organizations and individuals to advance understanding and problem-solve issues of mutual interest.

We seek collaborative solutions to common concerns.

We respect the expertise, experience and knowledge our business and community partners share with us. We encourage information exchanges with all gaming stakeholders. The best solutions are in shared action.

We welcome feedback and value our stakeholders' opinions. When embarking on a new major initiative we consult with our key stakeholders before launch or completion to ensure the end result reflects a wide range of interests.

Conclusion

This Social Responsibility Charter is the foundation of our commitment to Nova Scotians and our Province. Every year, we will report to the public on our progress in each of the Five Pillars of our Charter through a Social Responsibility Report. As we move in what we are convinced is the right direction, we will continue to build on our commitments with new programs and initiatives. We will share our action plans and we will report yearly on how well we are accomplishing our goals.

The great Canadian Tommy Douglas offered this sage advice, "Courage, my friends; 'tis not too late to build a better world." Our goal is to operate with courage and always move in the right direction. We hold ourselves accountable to you, the people of Nova Scotia.

To view NSGC's Social Responsibility Action Plan visit:

www.nsgc.ca



Mixed Sources

Product group from well-managed
forests, controlled sources and
recycled wood or fiber
www.fsc.org Cert no. SW-COC-1885
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A REGIONAL OVERVIEW

A. Saint Kitts & Nevis

Bermuda and the Federation of Saint Kitts and Nevis are inextricably linked. Three in every five Bermudian families can claim some ancestry from St. Kitts in particular.

With the kind permission of Mr. Jan Dash Esq., L.E.C., TEP of Liburd and Dash Attorneys at Law, Charlestown, Nevis, there follows a comprehensive overview of gaming in St. Kitts and Nevis.

**Saint Kitts and Nevis – A Regulatory Overview
2 January, 2008. In an effort to diversify its developing economy, Saint Kitts and Nevis has enacted a modern and comprehensive gambling legislation.**

1. Background

The Islands of Saint Kitts and Nevis are located in the Caribbean Sea, two miles apart from each other and approximately 250 miles southeast of Puerto Rico. The islands were

colonized by the British in the 1620s, who introduced African slavery and a sugar cane based economy. In 1983, Saint Kitts and Nevis received its Independence from Britain and is now officially known as the Federation of Saint Kitts and Nevis (the

“Federation”). Under the current Constitutional arrangement between the Islands, both Nevis and the Federation are each allowed to enact their own laws.

The twin pillars of the Federation’s economy are tourism and offshore financial services. A popular vacation destination, approximately 350,000 people flock annually to Saint Kitts and Nevis to enjoy its sun, sands and shores. Nevis and the Federation each have their own financial services legislation, and they each have laws which encourage the establishment of banks, mutual funds, captive insurance companies, corporations, trusts and the registration of ships. The sugar cane industry which was the mainstay of the economy for centuries was closed by the Federation’s Government in 2005 after decades of losses.

The Federation uses the Eastern Caribbean Dollar (“EC\$”) which is shared with several other islands and territories throughout the Caribbean. The Eastern Caribbean Dollar has been pegged to the United States Dollar (“US\$”) at a

rate of EC\$2.70 to US\$1.00 since 1976. The US\$ is also widely accepted throughout the Federation.

The population of the Federation is approximately 42,000, with 10,000 living on Nevis and the balance living on Saint Kitts. Persons from Nevis are known as “Nevisians” and persons from Saint Kitts are known as “Kittitians”. The overwhelming majority of population is of Afro-Caribbean descent, the remainder is comprised of retirees from around the World and workers in the financial services industry. English is both the official and spoken language of the Federation. The Federation has a reported literacy rate of 96%, which is the highest in the Western Hemisphere.

Saint Kitts was one of the hosts of the 2007 Cricket World Cup and is the home of the Eastern Caribbean Central Bank and the Eastern Caribbean Securities Exchange. Nevis is the birthplace of Alexander Hamilton, a signatory to America’s Declaration of Independence and the face on the US\$10.00. The Island is also the home to the Four Seasons Nevis, the only five-star hotel in the Caribbean.

2. Regulatory Environment

The political structure for the Federation is based on the Westminster Parliamentary system; however, Nevis has a certain level of autonomy as it has its own laws, Parliament and Premier. Depending on the venue of a dispute, adjudications would be resolved in the High Courts of either St. Kitts or Nevis. Any appeals from decisions of the High Courts would be taken to the Eastern Caribbean Supreme Court in St. Lucia, with final appeals to the Privy Council in London. Neither the Federation nor Nevis is currently a signatory to the Caribbean Court of Justice in Trinidad.

3. Legislation

The law which allows gambling to be carried on from and within the Federation is the Betting and Gaming (Control) Act, 1999 (the “Act”). The Act authorises the business of “... physical gaming, computer internet gaming, horse and greyhound betting or sports book betting...”.

Under the Act, physical gaming is defined as a, “... game in which a player is physically present in ...[a] casino and wagers on a sporting event or ...game of chance”. Internet gaming is defined as a game in which, “a player gives ... valuable consideration ... to enter the game... by means of an electronic or telecommunication device [and] a prize...”.

can be won under the rules of the game...". Sports book betting is "betting done exclusively by telephone".

To be issued a gaming license under the Act, an applicant must submit a business proposal along with an application to the Ministry of Industry, Commerce and Consumer Affairs (the "Ministry").

If the applicant is a natural person, the application must be accompanied by a police report, copy of passport and a sworn declaration that they are not the owner of a bank. If the applicant is a corporation, a company must first be incorporated and registered under The Companies Act, 1996. The application must include a police report about the officers and shareholders and a sworn statement that none of the officers and shareholders is an owner of a bank.

All applications must include character and bank references and a processing fee of US\$2,000.00 for any natural person, shareholder or officer. After the application, business proposal and fees have been submitted, the Ministry reserves the right to request further information. After approval has been granted by the Ministry and a license has been issued, a concession fee is due. A gaming tax must also be paid on an annual basis. The current concession fee is US\$80,000.00 and the annual gaming tax is US\$40,000.00. Every licensee is required to maintain a daily record of the monies collected and the type of gambling from which this income was earned.

The Act provides that a license to carry on the business of physical gaming will only be granted if the applicant owns or manages a hotel of at least 200 rooms. The applicant must have a gaming room within the hotel which gives tourists the freedom to use its facilities. The applicant must also prove that neither they, nor any officer or shareholder if it is a corporate applicant, have been convicted of a crime of moral turpitude in any country.

Any licensee that engages in sports book betting or internet gaming must establish accounts with a bank within Saint Kitts which is licensed under the Banking Act, 1991, to process player transactions. The maximum service fee that a licensee can charge a player is the greater of US\$20.00 or five percent of an individual transaction. The Ministry must also approve all of the content of any advertising placed on the entity's website.

Under the Act, no licensee is allowed to provide credit. All internet gaming players must deposit sufficient monies

with their account to cover all wagers. All physical gaming players must have sufficient funds on hand or on deposit with the licensee.

If there are any non-Kittitians or non-Nevisians who would work for the licensee, work permits must be approved by the Ministry of National Security for such persons. Unless employed by or working for a licensee, or acting on behalf of the Ministry, Kittitians and Nevisians are not permitted to enter licensed gaming premises. No employee of a licensee, regardless of citizenship; shall be permitted to play in a game conducted by their employer. Online access to the website of any licensee must be blocked from all residents of the Federation. All licensees must ensure that any person who participates in a game must be at least 18 years of age.

Any change in the shareholding or Directorate of an entity must be immediately reported to the Ministry. All licensees shall submit audited financial statements to the Ministry on an annual basis.

4. Recent Developments

The gambling industry in the Federation is almost completely in Saint Kitts. Both of the hotels which are physical gaming licensees, Jack Tar Village and the Saint Kitts Marriott are located in Frigate Bay. There are currently seventeen licensees which engage in internet gaming and sports book betting and they are also all on Saint Kitts. There is a horse and greyhound racing track called Beaumont Park Race Track currently under construction in Dieppe Bay, Saint Kitts. There is also a horseracing track called Indian Castle Race Track in Gingerland, Nevis but it is only open on holidays.

The gambling industry in Saint Kitts is heavily dependent on the patronage of US residents and tourists. Internet gaming is used primarily by US residents, and tourists from around the World are the ones who engage in physical gaming. Internet gaming was hurt by the enactment of the Unlawful Internet Gambling Enforcement Act of 2006, by the US federal government. This law prohibits American credit card companies and financial institutions from sending payments to online gaming sites located outside of the US. Only one online gaming site registered in Saint Kitts accepts American players.

Contributed by Jan Dash, Esq., L.E.C., TEP
Liburd and Dash, Attorneys-at-Law
Charlestown, Nevis

B. Jamaica

The sporting prowess of Jamaican athletes has attracted international attention. The development of sport is a national priority and as such it and other activities promoting Jamaican culture and health are funded significantly by the Culture, Health, Arts, Sports and Education Fund or CHASE.

The Culture, Health, Arts, Sports and Education Fund CHASE was incorporated on November 25, 2002 and began its operations in January 2003. It was registered under the Companies Act to receive, distribute, administer and manage the monetary contributions from the lottery companies pursuant to Section 59G of the betting Gaming and Lotteries Act, in connection with:

Sports Development
Early Childhood Education
Health
Arts and Culture

The company became a reality based on the concept of 'taxes foregone' that would have normally gone to the consolidated fund. The approach had as its precedent the establishment of the Sports Development Foundation (SDF) to receive a percentage of the proceeds earned by the first licensee permitted to conduct a lottery, the Jamaica Lottery Company.

Prior to the establishment of CHASE, the Sports Development Foundation (SDF), reported to the National Council on Sports and the Minister of Sports. This relationship continues though funds for the SDF are now routed through CHASE.

A special Advisory Committee was established to exercise general management and control of the funds made available for Early Childhood Education by the lottery companies. The Committee has representatives from the Ministry of Education, Jamaica Lottery Company, Supreme Ventures and three independent members.

A Trust Fund known as the Health Support Fund within the Ministry of Health was established to receive and administer the contributions made to health. Requests for equipment, etc. were submitted to the Board of Trustees and evaluated by a sub-committee of the Board. The Board of Trustees made the final decision as to which projects were to be funded.

The rationale for the establishment of the CHASE Fund hinges on the assumption of greater efficiencies to be realized from a central administration.

The funds of the CHASE Fund are to be allocated in the following proportions:

Sports Development - 40%
Early Childhood Education - 25%
Health - 20%
Arts and Culture - 15%

In relation to Sports Development, the Fund will disburse monetary contributions to the Sports Development Foundation (SDF) for the benefit of various sporting interventions.

The CHASE Fund is Managed by an twelve (12) member Board supported by a Chief Executive Officer and staff.

The CHASE Fund will administer and manage the allocations to satisfy the following objectives:

- Improvement of libraries, archives and documentation facilities
- Implementation of programmes to expose and encourage the people of Jamaica, especially the young, to utilize facilities such as libraries, archives, and documentation.
- Establishment, funding and implementation of programmes for the development of talents and skills in the youth of Jamaica in the areas of the Arts and Culture
- Utilization of cultural activities in the conveying of development objectives
- Acquisition, restoration, maintenance or use of historic sites and monuments
- Establishment of opportunities for cultural displays and exhibitions to facilitate the show-casing of Jamaican culture
- Provision of opportunities for more people to attend and participate in artistic activities
- To assist in the creation and preservation of documentary film footage on Jamaica's history
- Support of local museums

The CHASE Fund will administer and manage the allocations to satisfy the following objectives:

- Implementation of programmes for the development of healthy lifestyles in Jamaica; and to assist and promote with grants or otherwise the development and improvement of health facilities in Jamaica.
- Building, upgrading, restoring and equipping health facilities, children's homes, palliative and drug rehabilitation centres, AIDS hospices and shelters for the homeless.
- Training of personnel to administer and operate health facilities, children's homes, palliative and drug rehabilitation centres, AIDS hospices and shelters for the homeless.
- Upgrading of health care facilities and provision of additional services for the delivery of health care to the mentally challenged.
- Collaboration with the private sector in the delivery of health care.
- Assisting in the development of programmes to facilitate the design of plans and strategies for the prevention of drug abuse among children.
- Supporting programmes designed for community involvement so as to bring about a decrease in the incidence of drug abuse and its adverse effect on the community.
- Development and implementation of programmes for cancer prevention, detection, treatment and care.

Sports create opportunities through which talented Jamaicans are being nurtured for national and international competition. CHASE is deeply committed to providing financial support for the development of the nation's athletes, and providing world-class athletic facilities, working through the Sports Development Foundation.

Funds go towards:

- Support for programmes that develop dynamic leadership qualities in youth
- Focussing on sports development as part of the process of national building
- Promotion and encouragement of the development of talent and skill in sports that will uplift the social and economic development of the Jamaican people

The CHASE Fund will administer and manage the allocations to satisfy the following objectives:

- Health screening of children in early childhood institutions
- Building, upgrading and equipping of early childhood resource centres (including furniture and learning materials)
- Support for development/manufacture of early childhood materials to enhance the cognitive development of children.
- Improvement of the nutritional status of pupils in Basic and Infant schools; or Infant schools and Infant departments within Primary and All Age schools.
- Support the early childhood training programmes both pre service and in-service.
- Provision of scholarships for specialists training in Early Childhood Education
- Support for local and regional Early Childhood conferences and public education activities.
- Institutional strengthening of the National Early Childhood Programme

Special provisions to extend resource centre facilities in communities which cannot access parish based centre facilities.

Assist communities and charitable and non-profit organizations in providing out-of-school-hours child care.

Expand the use of radio and television programmes to enrich and support the curriculum.

Support research for the development of early Childhood Education Programmes.

IMPORTANT CONSIDERATIONS

To assist the public in considering this Green Paper, the following issues are suggested for discussion and the responses to them may form part of any submission.

1. Should some form of casino gaming be permitted in Bermuda?
2. When, if at all, should casino gaming , national lottery and video lottery terminals be introduced to Bermuda?
3. Who should operate casinos and who should be allowed to gamble in them?
4. If gaming will be taxed should that revenue be specifically allocated within the range of government services? If so to what areas?
5. What safeguards should be considered to encourage responsible gaming?

RESPONDING TO THIS GREEN PAPER

The Government welcomes comments on the proposals in this Green Paper. Members of the public, organizations and interested persons should submit their views in writing to the Cabinet Office, 105 Front Street (ref: Gaming for Bermuda) or by email to greenpaper@gov.bm

Submissions should be received on or before **30th April 2010**. Full account of the views expressed will be taken as the policy on gaming for Bermuda is developed.

NEXT STEPS

With or without additional forms of gaming, an omnibus piece of legislation regulating gaming will be tabled in the Third Term of this 2009/10 legislative session.

Such a Bill will be tabled in time to permit debate on it in July 2010.



NOTES





