

# LATE DISTRIBUTION FOR COUNCIL - MAY 30, 2006

# A14



## CITY OF VANCOUVER

### ADMINISTRATIVE REPORT

Report Date: May 24, 2006  
Author: Rob Jenkins  
Phone No.: 604.873.7082  
RTS No.: 06006  
VanRIMS No.: 11-3500-10  
Meeting Date: May 30, 2006

TO: Vancouver City Council

FROM: Director of Current Planning in Consultation with the Directors of Social Planning, Legal Services and Development Services

SUBJECT: Edgewater Casino (at the Plaza of Nations) - Extension of Time-Limited Permits for Casino-Class 2 Use

#### RECOMMENDATION

THAT Council advise the Development Permit Board that based on the merits of the Paragon Gaming Inc. proposal, it supports the Board's consideration of an extension to the time-limited development permits for the Edgewater Casino (DE408507 and DE40862), from the current expiry date of December 3, 2008 to the earlier of:

- a) relocation of the casino operation to a premises other than the Plaza of Nations; and
- b) July 31, 2013,

and requests the Development Permit Board consider this matter by June 9, 2006; and

THAT if the Development Permit Board approves the extension, any consequential adjustments in the legal relations between the City and Edgewater Casino Inc. that the Director of Legal Services considers advisable shall be made by her on behalf of the City.

#### CITY MANAGER'S COMMENTS

The City Manager RECOMMENDS approval of the foregoing.

## COUNCIL POLICY

Following a Public Hearing on January 20 and 21, 2004, Council approved in principle the application by Patrick Cotter Architect Inc. to amend CD-1 By-law No. 7592 for 750 Pacific Boulevard (Plaza of Nations) to permit a Casino - Class 2, this being a casino that includes slot machines. One of the conditions for approval is that the casino would operate at this site for a period no greater than four years from initial occupancy.

False Creek North Official Development Plan identifies the Plaza of Nations complex as a commercial precinct.

False Creek North: Land Use Policy (2005)

- (1) Special Event, Festival and Entertainment Functions - Commercial, entertainment, retail, hotel and tourist facilities are considered to be compatible uses at the Plaza of Nations; and
- (2) The Enterprise Hall (Edgewater Casino) is identified as a Legacy Building.

## PURPOSE

This report seeks Council support for an extension to the time-limited development permits for the Edgewater Casino at the Plaza of Nations (760 Pacific Boulevard).

The Temporary Casino Use Covenant (BW315817) applicable to the Plaza of Nations site requires that any application for a time extension of the Casino use be referred to City Council for consideration.

## BACKGROUND

Council approved an amendment to the CD-1 zoning on the Plaza of Nations site in 2004, to permit a Casino - Class 2 including slot machines. The Edgewater Casino subsequently opened on February 4, 2005.

Edgewater Casino Inc. (Edgewater), the Service Provider (casino operator) for the Edgewater Casino at the Plaza of Nations has been unable to operate on a profitable basis. Paragon Gaming Inc. (Paragon) entered into a contract to purchase all the issued and outstanding shares of Edgewater from its current shareholders. Subject to a number of conditions, including approval by the BC Lottery Corporation (BCLC) and the BC Gaming Policy and Enforcement Branch (GPEB), Paragon will, through this share purchase, become the new Service Provider to the BC Lottery Corporation for the Edgewater Casino. On May 2<sup>nd</sup> 2006, the Supreme Court of British Columbia granted initial creditor protection to Edgewater to June 9, 2006, at which time Paragon expects to be able to advise the Court whether or not it will complete the purchase of the Edgewater shares.

A key factor in its decision whether or not to complete the share purchase is the City's extension of development permits DE408507 and DE40862. Paragon is seeking to obtain from the City an amendment to Development Permit DE408507 to extend the term of the current approved Casino - Class 2 use in Building "C" at the Plaza of Nations (BC Enterprise Building) and a similar amendment to Development Permit DE40862 to extend the term of the use of

138 parking spaces below Building "B" at the Plaza of Nations, for the exclusive use of the Casino. These development permits, issued on December 3, 2004, permit the Casino - Class 2 use and related parking for the Casino for a limited period of time expiring December 3, 2008. This date was chosen to allow the Casino operator sufficient time to secure a permanent site and facility in or near the downtown, an agreed long-term objective of both the operator and the City. It was not Council's intent that the Casino use be temporary, just the location.

The extension requested is until July 31<sup>st</sup>, 2013. A Temporary Casino Use Covenant (BW315817) applicable to the Plaza of Nations site, requires that any application for extension be referred to City Council for consideration. This report is scheduled for the May 30, 2006 meeting of Council. With Council's advice, the extension to the development applications will be considered by the Development Permit Board at its meeting scheduled for June 5, 2006. Public delegations can address the matter at that time, before a decision is made by the Board.

## DISCUSSION

At the time of the Edgewater Casino opening on February 4, 2005, the BCLC annual revenue projections for this casino were approximately \$125 million, but only \$73 million of gross revenues were actually generated during the first year of operations. This level of revenue makes it difficult for the Service Provider to pay for the ongoing operating costs out of their share of the gross revenues. Therefore, the Service Provider has not been able to pursue the long-term objective of securing a relocated permanent facility.

Paragon's application requests the extension "...to allow a seven year term of operation through July 2013 so as to:

- (1) secure financing required to acquire and reposition the Edgewater Casino; and,
- (2) identify, secure, entitle, finance, construct and open a permanent casino based mixed-use destination project in the City of Vancouver....

Paragon's first priority will be the stabilizing and repositioning of the Edgewater so as to generate the benefits all stakeholders originally envisioned."

It is noted that a seven year maximum extension from now to July 2013 represents a four and one-half year extension from the existing approved expiry date of December 3, 2008.

The property owner, Canadian Metropolitan Properties Corp., and the casino Service Provider, Edgewater Casino Inc., have confirmed in writing that they are aware of and authorize the application by Paragon.

**Stabilization and repositioning plan** (see Appendix A for a full description) - Paragon advises that in the short run, with BCLC, GPEB, and City approval to proceed, they will complete the acquisition and commence a program of physical improvements and service enhancements permitted in 2004 but never completed. They further note that these improvements will significantly improve customer service and, importantly, the customer experience at the Edgewater Casino, including dining, entertainment, and community benefit improvements. Paragon is not seeking to increase the total gaming use already approved (up to 60 gaming tables and 600 slots).

**Process to secure a permanent facility** - Paragon notes that since the 2004 permit approvals no progress was made in identifying a permanent site and it is no longer possible to complete that process and open a permanent facility by December 3, 2008. Upon completion of the above-noted stabilization and repositioning of the Edgewater Casino, Paragon would commence a five- to seven-year comprehensive process to develop a concept, identify and secure a site, entitle, design, finance, construct, and operate a permanent facility in Vancouver in collaboration with BCLC and the City of Vancouver. A detailed description and schedule is provided in Appendix A. Paragon concludes it will take five to seven years to complete the process.

**City Public Benefits** - City economic development policy supports employment opportunities for local residents. The Casino provides significant direct employment in the order of 600 jobs as well as indirect employment and economic and social benefits including a local hiring program, the funding of a social responsibility fund, and enhanced community access to the Plaza of Nations performance space. The public benefits related to the local hiring program and the social responsibility fund resulted from the 2004 CD-1 rezoning and are secured through legal agreements. The community access to the outdoor performance space at Plaza of Nations has been secured through a separate legal agreement with the owner of the Lands. It is not proposed that these agreements change. If the Casino can survive, these agreements would continue to apply with the noted public benefits accruing.

The Casino also generates significant and necessary revenues for the City. (See Financial Implications section, following.)

**New Bingo Facility** - A key factor in Council's 2004 support for allowing the proposed casino at this location was the proponents' commitment to build, as part of the permanent facility, a new adjacent or free standing bingo facility to benefit Vancouver-based bingo charities. This commitment was confirmed through a memorandum of understanding between the two parties (not by way of an agreement directly involving the City).

The financial difficulties of Edgewater Casino Inc. have meant this commitment has not been pursued. However, Paragon and the bingo charities have agreed on a new plan to realize this commitment (see Appendix B, letters from Paragon and the Community Gaming Management Association [representing the bingo charities] confirming the agreed arrangement).

**Future development and other applications** - Paragon, as part of its stabilization and repositioning plan has also discussed with senior staff, on a preliminary basis, a number of changes it is contemplating to the Edgewater Casino. These include, for example, changes to the pedestrian and vehicular access, signage, landscaping, an addition to the exterior of the building to contain a restaurant, and interior changes to provide a lounge/bar area. The applicant has deferred submission of development applications related to these matters until after the key matter of the extension of the time limits is addressed.

## FINANCIAL IMPLICATIONS

Prior to the approval of the Casino in 2004, it was estimated that a fully operational casino at this location would generate approximately \$6.5 million a year for the City. In 2005, being the first year of operation, the Operating Budget had only included \$5.0 million of revenues.

However, given the changing regional gaming market conditions and the delay in opening the Casino, only \$3.4 million revenues were realized by the City in 2005. For 2006, a total of \$4.0 million has been assumed in the Operating Budget based on the last quarter results for 2005. The projection appears to be reasonable given the receipt of \$985,000 in the first quarter of 2006.

Without the continued operation of the Casino, there is a budget risk due to the loss of revenues to the City. Further, the extension of the development permits to 2013 would allow the operator to find an alternate location that in the long run would most likely increase revenue contributions to the City.

## CONCLUSION

Extending the temporary time limit for the Edgewater Casino would enable the new proponent, Paragon Casino Inc. to improve the economic viability of the Casino, and in turn provide Paragon enough time to meet a commitment to the City to find a relocated permanent facility in Vancouver. The eventual relocation to a new facility at a new location would require a public hearing prior to a Council decision.

There would also be a number of other public benefits which would result from the extension which include continued and potentially increased direct and indirect jobs, continued and potentially increased revenue to the City, and the delivery of benefits related to the Casino's social responsibility and job creation program agreements. In addition, extension of the time limit will assist the Casino in pursuing its commitment to build a bingo facility to benefit Vancouver's bingo charities.

\* \* \* \* \*

**1. PROJECT DESCRIPTION:** The Project is the amendment of Development Permit DE 408507 extending the term of current approved Casino-Class 2 use in Building "C" until the earlier of either:

- a. the transference of the existing COSA to a permanent casino site at a location acceptable to both the City of Vancouver ("City") and British Columbia Lottery Corporation ("BCLC"); or
- b. July 15, 2013.

**2. APPLICANT:** Paragon Gaming, Inc. ("Paragon") is a U.S. based gaming company with offices in Las Vegas, Nevada. Paragon has its Canadian offices in Edmonton, Alberta, where it currently has two casino-based mixed-use projects in development. Paragon has entered into a contract to purchase all the issued and outstanding shares of Edgewater Casino, Inc. from its current shareholders. Subject to approval by the BCLC and to Paragon successfully completing all registration and disclosure requirements of the British Columbia Gaming Policy and Enforcement Branch ("GPEB"), Paragon will "step into" Edgewater Casino Inc.'s position and become the new Service Provider to the BCLC for the Edgewater Casino pursuant to the existing Casino Operating Service Agreement ("COSA"). As a condition of closing the transaction, Paragon must secure from the City the permit extension described in para. 1 above.

**3. BACKGROUND:** Paragon has formally requested the City indicate the process by which Development Permit DE 408507, which was issued December 3, 2004 and governs the term of the Casino use "*for a limited period of time expiring December 3, 2008, unless extended in writing by the Director of Planning*", can be amended to allow a seven year term of operation through July, 2013 so as to (1) secure financing required to acquire and reposition the Edgewater Casino; and (2) identify, secure, entitle, finance, construct and open a permanent casino-based mixed-use destination project in the City of Vancouver. It must be acknowledged that Paragon's first priority will be the stabilizing and repositioning of the Edgewater so as to generate the benefits all stakeholders originally envisioned. Paragon will confer with both BCLC and City as to the commencement of the process to develop the permanent casino.

**4. FINANCING TERM REQUIREMENT:** The acquisition cost of the Edgewater Casino and the cost of renovations originally permitted but not completed by the present owners are being financed through a combination of equity investment and senior debt. The senior debt is being funded by institutional lenders from Canada and the United States through the purchase of high-yield bonds. The structure of the bonds will be a 5, 7 or 10 year maturity, depending on the negotiation with the lenders. Maturities of seven or ten years are typical, based on (1) the turnaround nature of the asset; (2) allowance of an acceptable period of time to ramp up business operations and generate cash flow; and (3) allowance for debt refinancing at stabilized operations.

Upon approval by the BCLC to act as the Service Provider for the Edgewater Casino, Paragon will complete the acquisition and commence a program of physical improvements and service enhancements permitted in 2004 but never completed. These improvements will significantly improve customer service and, importantly, the customer experience at the Edgewater Casino, including dining, entertainment, and community benefit improvements. Paragon is not seeking an increase in the total gaming use already approved for the Temporary Site under the existing Casino-Class 2 zoning.

**5. PERMANENT FACILITY DEVELOPMENT REQUIREMENT:** The temporary casino use in Building "C" was approved as an interim use until a permanent location for a casino in the City was (1) agreed to by all stakeholders and (2) developed and made operational by the Service Provider. Since the original Development Permit approval, no apparent progress has been made on identifying a permanent site.

Upon completing the stabilization and repositioning of the Edgewater Casino, Paragon will commence a five to seven year comprehensive process to identify, secure, entitle, design, finance, construct, and operate a permanent casino facility in Vancouver. That process will be a fully integrated tri-partite collaboration of BCLC, City of Vancouver, and Paragon:

- a. **Project Conceptualization (4 – 6 months):** Paragon will consult with its Vancouver consultants and advisors to determine the permanent project programming elements. This phase will include preliminary market demand analysis for various core program components including casino, hotel, conference, dining and entertainment facilities and potential mixed-use program components including residential, commercial office and retail facilities. The last step of Project Conceptualization will include program space analyses, site requirements, concept project drawings, and preliminary financial proforma including a determination of site cost parameters.
- b. **Identify and Secure Site (6 – 10 months):** Paragon will present its Project Concept to the City, BCLC, and GPEB to identify all issues that may affect site selection, and proceed with a traditional site search process. Upon the identification of a qualifying site ("Site") Paragon will negotiate a Purchase Sale Agreement or Ground Lease Agreement and commence Site due diligence, which will include, but not be limited to:
  - legal survey and title review;
  - appraisal;

- environmental assessment;
  - entitlement review;
  - infrastructure support;
  - preliminary hydrological;
  - preliminary geotechnical;
  - transportation analyses; and
  - adjacent land use issues.
- c. Entitlement Process (16 – 20 months) Upon securing the Site, Paragon will commence securing entitlements including all required City and Provincial approvals required to develop and operate the Project. At the City level, this would include all required environmental review, potential site rezoning (including any Public Hearings required) and securing of all Development Permits. At the Provincial level, this would include all BCLC and GPEB approvals, as well as any other special Provincial approvals which might then be required.
- d. Design and Construction Documentation (10 – 12 months): Upon securing all approvals, Paragon will release the design team of architects, engineers and consultants to generate the construction documents for the Project. Depending on the approved scope and scale of the Project and Site conditions, this phase of the process will take 12 – 15 months.
- e. Finance (6 – 8 months): The Project will be financed through a combination of equity and senior debt. Equity funding will progress through a series of benchmark events including completion of City approvals, Provincial approvals (casino licensing), and project cost verification at completion of successive stages of construction documents. Senior debt will fund upon securing all approvals and licenses, completion of lender's due diligence and establishment of a contractually enforceable Gross Maximum Price (GMP) and Guaranteed Completion Date (GCD) for the Project's construction.
- f. Construction (18 – 28 months): Construction duration will depend on numerous factors including:
- program scope and scale;
  - existing site conditions;
  - necessity for remediation of hazardous materials;
  - necessity for foundation remediation (pilings);



- development of off site infrastructure;
- availability of labour and materials; and
- extent of pre-opening program.

Accordingly, the estimated time frame to open a permanent casino in Vancouver at an alternate site from the present temporary site ranges from approximately 60 to 84 months from commencement, or five to seven years. We understand that is not inconsistent with the current development time of major mixed-use projects in Vancouver.

**6. APPLICATION INFORMATION:** If you request any additional information or have questions regarding this application, please contact:

John Cahill, Vice President of Planning  
Paragon Gaming, Inc.

[jcahill@paragonventure.com](mailto:jcahill@paragonventure.com)

Cell: (805) 452-2154

Canada Office: Paragon  
10072 Jasper Avenue  
3<sup>rd</sup> Floor  
Edmonton, Alberta T5J 1V8  
(780) 498-5501

10072 Jasper Avenue  
3rd Floor  
Edmonton, Alb T5J 1V8  
Canada  
780/498-5501 Phone  
780/498-5540 Fax

May 23, 2006

**Mount Pleasant Starship Community  
Charitable Organization**  
3<sup>rd</sup> Floor, 2655 Main Street  
Vancouver, BC  
V5T 3E7

**Attention: Wendy Thompson**

Dear Wendy:

**Re: Edgewater Casino -  
Memorandum of Understanding, dated July 9, 2003 ("MOU")**

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Further to our recent discussions, I confirm that Paragon Gaming Inc. is in the process of acquiring the shares of Edgewater Casino Inc. As part of that process, Paragon is seeking an extension of the development permit for the existing location of the Edgewater Casino. As reported to Planet Bingo, the City of Vancouver and BCLC, Paragon has concluded that the process to relocate to a permanent location will take longer than had been anticipated by the parties who signed the MOU in July, 2003. Accordingly, for that reason and in order to provide an adequate term within which project financing can be secured, Paragon has requested the development permit be extended through June 2013. During that period, Paragon will reposition the existing facility to make it the premier gaming/entertainment destination in Vancouver, and, working with all stakeholders, manage the process to identify, acquire, entitle, and develop a permanent casino/mixed-use facility.

As part of the acquisition of Edgewater Casino Inc., Paragon is committed to working cooperatively and in good faith with Planet Bingo to implement a mutually feasible resolution to the matters raised in the MOU. In order to assist Paragon in meeting this commitment, Paragon requests that Planet Bingo and its affiliated charities communicate to Vancouver City Council its support for the requested development permit extension, without which we can not proceed. We look forward to working with you on this important project.

Yours truly,

PARAGON GAMING INC.

Per:

  
JOHN CAHILL  
JAA/tlh

{055243/0039 00009834.DOC.}

*Community Gaming Management Association*  
2655 Main Street  
Vancouver, BC  
V5T 3E7  
604-879-3683

Emailed to:  
Mr. Rob Jenkins  
Assistant Director – Current Planning  
City of Vancouver  
2675 Yukon Street  
Vancouver, BC  
V5Y 3P9

Dear Mr. Jenkins:

Re: Edgewater Casino – Application for an extension of development permit

We have had preliminary discussions with Paragon Gaming Inc. regarding the application for an extension of the development permit for the existing location of Edgewater Casino. Our discussions have centered around the Memorandum of Understanding we have with the existing operators and ourselves regarding a future facility opportunity for Community Gaming Management Association.

Subject to the approval of our Board of Directors, on behalf of our operations and the charitable organizations we serve, we support this application for an extension to the development permit. We are confident Paragon and ourselves will be able to work together to implement a mutually feasible resolution for the future home of a new Community Gaming Center now known as Planet Bingo, Today we are responsible for providing close to six million dollars a year to the 86 charitable organizations affiliated with our operation and we are committed to continue to fund these important community programs and services. In the interim, we expect no change to the Bistro Bingo operation currently at the Edgewater Casino.

This is an exciting opportunity to build a new era of gaming and entertainment in our City and we look forward to being part of this successful venture.

Yours truly,

Wendy Thompson  
Executive Director/General Manager

CC: Mario Lee – Social Planning  
John Cahill – Paragon Gaming Inc.  
Marsha Walden – BC Lottery Corporation  
Robert Grant – VP -CGMA