

MEMORANDUM

April 5, 2011

TO: Mayor Robertson and Councillors

COPY TO: P. Ballem, City Manager
S.A. Johnston, Deputy City Manager
M. Coulson, City Clerk
M. Welman, Director of Corporate Communications
W. Stewart Assistant Director, Corporate Communications
B. Toderian, Director of Planning
B. Prosken, Acting Managing Director of Social Development
F. Connell, Director of Legal Services
P. Judd, General Manager of Engineering Services

FROM: D. McLellan, General Manager of Community Services

SUBJECT: CD-1 Rezoning - 777 Pacific Boulevard (Hotel/Entertainment/Casino Complex)
Overview of Revenue Projections for a Redeveloped Edgewater Casino

At Council's regular meeting of January 18, 2011, the above referenced rezoning application was referred to Public Hearing.

1. Purpose

At the public hearing session on March 8, 2011, Council requested that staff provide additional information regarding revenue projections for a redeveloped Edgewater Casino (with 1500 slots and 150 tables).

This memo summarizes projections that have been done by experts commissioned by Paragon Gaming LLC and the BC Lottery Corporation (BCLC). Information in this memo is drawn from the following two reports, which have been provided to City staff with confidential information omitted:

- September 2009 report, *Review of Market Potential for the Redeveloped Edgewater Casino* by HLT Advisory, and
- 2010 report, *Paragon BC Place Hotel and Casino Incremental Gaming Revenue Analysis*, by Gaming Market Advisors (GMA).

- It is noted that the HLT report references two reports commissioned by Paragon Gaming authored by Meczka Marketing/Research/Consulting (MMRC), that were part of Paragon’s initial submission to BC Pavilion Corporation (PavCo). City staff have not reviewed these reports.

Additional information was obtained from the following HLT Advisory report:

- April 2010 report, *2010 Survey of the Canadian Gaming Industry*, available at the HLT Advisory web site.

In this memo, staff only evaluate the key assumptions underlying these expert projections, and do not undertake any analysis to forecast casino revenues.

Appendix A offers for Council’s convenience, general background on gaming previously provided.

2. Overview of Incremental Revenue Projections

The Edgewater Casino currently generates approximately \$120 million in annual revenues, which in turn generates approximately \$6 million per year for the City of Vancouver.

Based on the work done by HLT Advisory and Gaming Market Advisors, it is projected that an expanded Edgewater Casino could generate between \$231 million to \$390 million per year, which in turn would generate approximately \$11 million to \$17 million per year for the City of Vancouver. This represents an increase of revenues to the City of between \$5 million to \$11 million per year.

The following table summarizes the projected net incremental revenues to the City of Vancouver associated with an expansion to the Edgewater Casino.

TABLE 1. EDGEWATER CASINO, CURRENT AND PROJECTED REVENUES (\$ MILLIONS)

	CURRENT REVENUES	LOW REVENUE PROJECTIONS	MEDIUM REVENUE PROJECTIONS	HIGH REVENUE PROJECTIONS
Gross Revenues	\$120	\$231	\$356	\$390
City of Vancouver's Share	\$6.3	\$11	\$17	\$?
Edgewater % of Regional Market	12%	17%	25%	26%
Market Share Assumption Source	HLT study	HLT study	GMA study	GMA study
% COV Share of Gross Revenues	5.3%	4.8%	4.7%	??%
Incremental Gross Revenues	-	\$111	\$236	\$270

Notes to Table

- Assumptions re: key drivers for increased gross revenues:
 - Regional population growth averages 8.5% between 2009 and 2014.
 - Local and day trip players increase gambling by 88%.
 - Casino has 1,200 parking stalls.

- Attract additional tourist visits.
 - Casino attracts additional players from downtown hotels, traffic from BC Place and Rogers Arena events and non-resident Asian players.
 - New marketing and incentive programs in place, including casino credit, wire transfers, dead chips marketing, regional third party marketing initiatives.
2. Market share assumptions are for 2014 onward. The Regional Market for Medium and High Revenue projections assumes the addition of incremental activities to the market, as contained in the GMA study.
 3. The Estimates for the City of Vancouver's share of Edgewater's revenues is provided by the BC Lottery Corporation; it is noted that the City's percentage share of total gross revenues will vary somewhat depending on the amounts dedicated to operational costs (Casino Operator and BCLC).

3. How Gaming Revenues are Allocated

Gaming revenues generated with the City of Vancouver are allocated among the casino operator, the BCLC, the provincial government and the City of Vancouver, according to the following guidelines.

- *Casino operators* receive a fixed share of the casino's "net win," defined as the gross revenues remaining after players are paid out their wins. The casino operator receives 25% of their slot machine net win, and 40% of their tables' net win. Operators pay casino operating expenses out of this revenue. An additional 3% is added to both the operator's slots share and tables share, as a facility development commission. In the case of Edgewater Casino this translates into 36% of the gross revenue.
- *BC Lottery Corporation* receives approximately 12.5% of all casinos' net win (this varies somewhat among casinos) to cover their operating costs. The BC Lottery Corporation owns the gambling equipment (i.e. slot machines).
- *The Province of BC* receives all remaining net win, once the casino operators and BCLC have been paid their portions. In the case of Edgewater, this translates into 51.5% of the gross revenue.
- *The City of Vancouver* receives 10% of the amount collected by the Province of BC from local casinos; this translates to approximately 4% to 5% of the casino's gross revenues.

4. 2009 HLT Advisory and 2010 Gaming Market Advisors Projections

The 2009 HLT Advisory report analyses the revenue potential from among the local market for an expanded Edgewater Casino, considering the entire Lower Mainland as well as the rural areas of Abbotsford and Mission.

The 2010 GMA report builds on HLT's work to forecast revenues incremental to those projected by HLT Advisory, associated with revenue potential from outside the local day-trip gaming market, namely incremental gaming revenue associated with:

- events at BC Place and Rogers Arena,
- Asian visitors in the context of Canada's Approved Destination Status in China,
- part-time Asian residents who maintain residences in Vancouver and in Asia,
- guests staying at the adjoining two hotels,
- re-evaluating the gaming revenue potential derived from the downtown visitor market (e.g., lodgers staying at downtown hotels and visitors to the Vancouver Convention Centre),
- changes to BCLC policies (e.g., introduction of casino credit)¹ and
- additional marketing programs (e.g., international wire transfers, dead chip marketing program, regional third party agents).²

These studies project incremental annual gross revenues for the Edgewater Casino ranging from \$111 million to \$270 million per year by 2014.

Table 2 summarises the assumed sources of the incremental revenues for an expanded Edgewater Casino, according to these two studies, and the section following provides some detail on each of the key assumptions underlying these projections.

**TABLE 2. EXPANDED EDGEWATER CASINO,
ASSUMED SOURCES OF INCREMENTAL REVENUES, HIGH PROJECTIONS**

	APPROXIMATE INCREMENTAL ANNUAL REVENUES BY 2014 (\$ MILLIONS)
Local Market	\$100
Tourist Market	\$18
Special Events & Part-Time Residents	\$97
Changes to Policies, Incentives and Marketing	\$61
Total Projected Incremental Revenues	\$276

¹ Casino credit is already offered in Ontario casinos, Las Vegas, and other jurisdictions.

² Dead chip marketing is when table game players get additional chips if they purchase a certain amount, and they have to wager all of the chips at least once. Regional third party agents are those who could solicit customers from other provinces.

5. Key Assumptions Underlying Incremental Revenue Projections

The key assumptions underlying HLT Advisory's and GMA's projections are population growth, growth in tourist-visits, market share of local market, and market share of tourist market, each discussed below.

A. Lower Mainland Population Growth

- Population growth assumed to be 8.5% between 2009 and 2014 for the whole region. There are some areas where the population growth rate will be higher, including downtown Vancouver where population growth for that period is anticipated to be at 11%.

B. Market Size and Market Share, Local Market

- Assumes Edgewater's share of the local market grows from 12% currently to between 17% and 26% by 2014 and beyond.
- Assumes local day-trip players are expected to increase gambling from \$113 million per year to \$213 million per year by 2014 (incremental \$100 million, an 88% increase).
- In their recent national survey of the Canadian gaming industry (*2010 Survey of the Canadian Gaming Industry*), HLT Advisory reported that only a small share of industry representatives in British Columbia expressed the view that there was room in the local market for more casinos. Of the representatives from the Provincial Lottery Corporation, casino operators, regulators and equipment manufacturers, 86% of B.C. respondents indicated that casino supply was just right or exceeded demand, and only 14% said that demand exceeds supply. Staff notes that this collective view stands in contrast to the ambitious increases in market size assumed by HLT and GMA.

C. Market Size and Market Share, Tourist Market

- Assumed growth in overnight tourist-visits to region from 8.5 million to 8.8 million by 2014 (3.5% increase). Assumes an expanded Edgewater Casino will attract 118,122 visitors from downtown hotels.
- Currently, approximately 5.25% of adult tourists staying in a hotel visit a Lower Mainland casino when in the Vancouver region, which translates into 196,869 people per year. As most tourists stay in downtown hotels, it is assumed that the Edgewater Casino will attract 60% of this specific tourist market.
- These assumptions account for incremental revenues of \$18 million per year.

D. Special Events, Market and Incentive Programs, Part-Time Residents

- Expect incremental gambling revenues of approximately \$97 million per year associated with conventions, special events at BC Place and Rogers Arena, and part-time Asian residents.

- Expect additional incremental gambling revenue potential of approximately \$61 million per year associated with changes to BCLC policies and additional marketing programs such as casino credit, international wire transfers, dead chip marketing program, regional third party agents.

E. Casino Configuration

- Assumes Edgewater Casino has 900 more slot machines and 75 more tables over current numbers.
- Edgewater casino is expected to be incorporated into the BC Place redevelopment, and to have approximately 1,200 parking stalls.

6. Evaluation of Key Assumptions and Conclusion

While this memo provides an overview of the key assumptions driving revenue projections for an expanded Edgewater Casino, City staff is not in a position to evaluate the validity of the authors' assumptions. The BC Lottery Corporation has informed the City of Vancouver that they have not independently verified GMA's assumptions and projections for additional gaming revenues.

Upon reviewing some of the details of the business model proposed for a new redeveloped Edgewater Casino, particularly those contained in the HLT report, City staff recognize that there is a potential for additional revenues arising from this facility. This statement is based on the following considerations:

- Residents in the Vancouver area have the highest resident gambling market potential of any other municipality (estimated by HLT Advisory at \$324 millions annually, from a regional resident market of \$1.1 billion).
- Population growth for the next several years is anticipated to be higher in the area surrounding the Edgewater casino (as compared to the rest of the Lower Mainland), and therefore increasing the number of nearby potential casino players.
- The number of overnight visitors to the region has declined in the last two years. However, there is an expectation that overnight visitors to Vancouver (and the province) may increase as the economy recovers from the downturn in 2008/09. A recent B.C. Stats publication (Tourism Sector Monitor - August 2010), however, cautions that "while the current economic situation is a marked improvement on conditions observed in 2009, uncertainty about the future remains."
- Currently, the existing Edgewater Casino only captures a fraction of the local day-trip gaming market; it is reasonable to assume that an enhanced Edgewater Casino facility co-located with BC Place and with improved parking facilities, would attract a greater share of the local day-trip gambling market.

Recommendation and/or Consideration

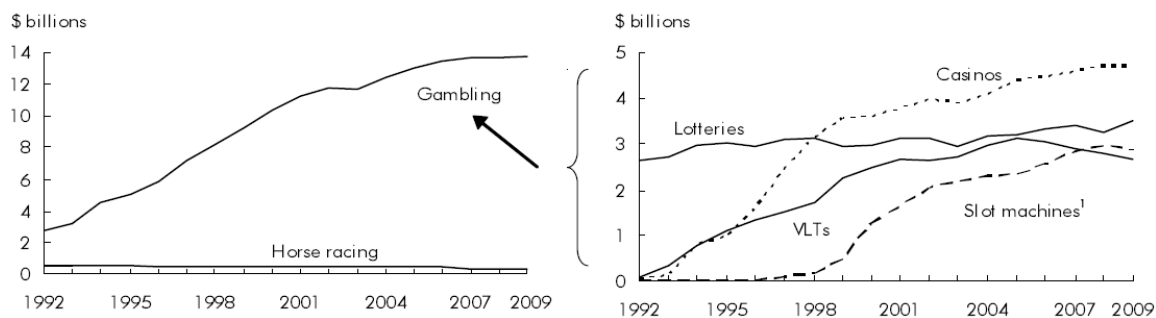
That Council receive this information for consideration.

David McLellan
General Manager
Community Services Group

BACKGROUND INFORMATION

Growth of gambling revenues in Canada

Total revenue from all wagers on all government-controlled gambling in Canada, has been growing steadily in the last 17 years, from \$2.73 billion in 1992 to \$14 billion in 2009, as the following chart indicates:



Most of the growth has taken place in casinos and gambling machines outside casinos (VLTs and slots at racetracks and bingo halls). Source: Statistics Canada Catalogue no. 75-001-X

This growth has meant that gambling revenues represent close to 5% of provincial government revenues (5.6% in B.C.). The following table describes the growth of net provincial gambling revenues since 1992:

	Net Income of Provincial Governments (1) - millions			Revenue per capita (adults) - from Gross		
	1992	2002	2009	1992	2002	2008
Canada (All Provinces)	1,680	6,325	6,747	130	480	520
Newfoundland/Labrador	42	106	103	190	484	480
P.E.I.	7	18	16	210	318	385
Nova Scotia	72	197	144	180	505	420
New Brunswick	49	111	137	210	329	365
Quebec	472	1,454	1,419	130	464	440
Ontario	529	2,108	1,716	105	530	465
Manitoba	105	269	305	185	575	690
Saskatchewan	39	278	343	85	612	830
Alberta	125	1,098	1,479	120	641	790
British Columbia	239	685	1,078	155	353	540

(1) Net Provincial Gambling Revenues are produced by government controlled gambling such as lotteries, casinos and VLTs, and are calculated from gross revenues after operating and other expenses have been removed. Source: Statistics Canada Catalogue no. 75-001-X, and Canadian Gambling Digest (2002 and 2009). (2) Revenue per capita is calculated from gross revenues (Gross Gambling Revenues in Canada were \$14 billion in 2009).

Not all provinces have the same array of gambling opportunities. For example, most provinces, with the exception of Ontario and British Columbia, have networks of Video Lottery Terminals (VLTs) at Bars and Lounges, and three provinces don't have casinos (NB, PEI, and NL).

Casino Gambling in British Columbia

In British Columbia, most of the growth in gambling activity has taken place in Metro Vancouver, where there are six casinos, two racetracks with casino-type of gambling, and five bingo halls (one with slots).

During 2008 and 2009, the six casinos and the two racetracks with casino gaming in the Lower Mainland, generated \$1 billion in gross revenues (before expenses). The individual revenues for each facility are listed below:

Facility Revenues	2008 (millions)	2009 (millions)
Boulevard, Coquitlam - 1003 slots, 68 tables	\$174.0	\$161.2
Cascades, Langley - 811 slots, 28 tables	\$115.2	\$119.0
Edgewater, Vancouver - 520 slots, 75 tables	\$120.4	\$117.8
Fraser Downs, Surrey - 461 slots, 11 tables	\$54.7	\$51.0
Grand Villa, Burnaby - 1002 slots, 49 tables	\$172.8	\$186.7
Hastings, Vancouver - 596 slots	\$18.0	\$22.7
River Rock, Richmond - 985 slots, 113 tables	\$233.0	\$225.4
Starlight, New Westminster - 864 slots, 54 tables	\$116.3	\$112.6

Source: BCLC Annual Reports

In addition to the casinos and racetracks listed above, there are three bingo facilities with slots (Abbotsford, Mission and Langley), plus five additional bingo halls within the study area, which in 2009 generated an additional \$62 million in revenue.