



IN CAMERA

ADMINISTRATIVE REPORT

Report Date: September 26, 2014
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Meeting Date: October 15, 2014

TO: Vancouver City Council

FROM: General Manager of Real Estate and Facilities Management, in consultation with the General Manager of Community Services

SUBJECT: Extension of the Term of the Hastings Park Operating Agreement (Hastings Racecourse)

IN CAMERA RATIONALE

This report is recommended for consideration by Council on the In Camera agenda as it relates to Section 165.2(1) of the *Vancouver Charter*: (e) the acquisition, disposition or expropriation of land or improvements, if the Council considers that disclosure could reasonably be expected to harm the interests of the city; (k) negotiations and related discussions respecting the proposed provision of an activity, work or facility that are at their preliminary stages and that, in the view of the Council, could reasonably be expected to harm the interests of the city if they were held in public.

RECOMMENDATION

- A. THAT Council approve a two (2) year extension to the Extended Term of the existing Hastings Park Operating Agreement dated November 10, 2007, as amended by the Amending Agreement dated October 23, 2012 (collectively the "Amended Operating Agreement") amongst the City, Hastings Entertainment Inc. ("HEI") and Great Canadian Gaming Corporation ("GCGC"), on terms and conditions set out in this report and otherwise all to the satisfaction of the City Manager and Director of Legal Services, and authorize the Director of Legal Services to execute the necessary legal documents on behalf of the City.
- B. THAT no legal rights or obligations shall arise or be created until all legal documentation is fully executed on terms and conditions to the satisfaction of the General Managers of Real Estate and Facilities Management and Community Services, the City Manager and the Director of Legal Services.

REPORT SUMMARY

This report seeks Council approval for a two (2) year extension to the Amended Operating Agreement amongst the City, HEI and GCGC (together HEI and GCGC are defined as the "Operator") on terms and conditions set out in this report, and otherwise all to the satisfaction of the General Managers of Real Estate and Facilities Management and Community Services, the City Manager and the Director of Legal Services.

In February 2014, a multi-year funding arrangement amongst horse racing industry participants was announced by the British Columbia Horse Racing Industry Management Committee ("BCHRIMC"), which will expire at the end of 2016. The Committee is chaired by the ADM of the Gaming Policy and Enforcement Branch of the Province of BC. The recommendation to approve a two (2) year extension of the Amended Operating Agreement will provide greater certainty for the racecourse Operator, and the horse racing industry for the purpose of planning of the 2015 and 2016 racing seasons. Furthermore, the extension to the Amended Operating Agreement will ensure that the revenues and public benefits secured through the Amended Operating Agreement will remain in place until at least November 2016 when the proposed term will expire. The City will also continue to work with the Operator during this term to determine how the horse racing industry can sustain its operations going forward, given the difficulties faced by this industry as a result of reduced consumer demand and the expiry in 2016 of the aforementioned multi-year funding arrangement.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

On July 14, 2004, Council approved an application by HEI for the introduction of slot machines at Hastings Racecourse and directed staff to report back with the terms and conditions of an Operating Agreement.

On May 12, 2005, Council approved the Key Agreement Terms of the Operating Agreement between HEI and the City.

On October 4, 2005, Council approved the 2901 East Hastings (Hastings Racecourse) - Public benefits and other matters.

On July 25, 2012, Council approved a two (2) year extension to the existing Term of the Hastings Park Operating Agreement amongst HEI, GCGC and the City.

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

The General Manager of Real Estate and Facilities Management and the General Manager of Community Services recommend approval of the forgoing.

REPORT

Background/Context

HEI is a wholly owned subsidiary of Great Canadian Gaming Corporation (GCGC) which is based in Richmond, BC and has horse racing and gaming operations across Canada. GCGC operates the two major horse racing venues in BC, namely Hastings Racecourse in Vancouver and Fraser Downs Racetrack in Surrey. In 2004, GCGC acquired the HEI business, including the Hastings Racecourse operating licence for \$31.7 million.

The horse racing industry has been in decline for many years in British Columbia and the introduction of slot machines was seen as a means to revitalize the horseracing business at Hastings Racecourse. In July 2004, Council approved an application by HEI for the introduction of slot machines at Hastings Racecourse and directed staff to report back with the terms and conditions of an Operating Agreement.

In May 2005, Council approved the Key Agreement Terms of the Operating Agreement between HEI and the City, and in October 2005, Council approved the Hastings Racecourse public benefits offering from HEI.

On November 1, 2007, the City, HEI and GCGC entered into the Hastings Park Operating Agreement (the "Initial Operating Agreement"). The Initial Operating Agreement was for a five (5) year term expiring November 2012, with the conditional right to enter into a 15 year renewal term subject to the Operator satisfying certain renewal term conditions to the satisfaction of the City Manager.

These renewal term conditions included agreeing to a number of capital expenditure obligations during the renewal term, including: (1) construction of a 500 stall underground parkade in the first year of the renewal term; (2) relocating the horse barns; and (3) performing infrastructure upgrades. However, in November 2011, the Operator advised the City that given the continuing deterioration in revenues and loss on operations, they would not be prepared to exercise the renewal term option due to the significant future capital expenditure obligations such renewal would trigger. Therefore, the Operator's legal obligation to construct the underground parkade and make the other capital expenditures to the racetrack and surrounding site are no longer in effect, and any such obligations would need to be the subject of a new agreement agreed to by the parties at some time in the future.

Instead of renewing the Initial Operating Agreement, the Operator proposed extending the term of the Initial Operating Agreement for two (2) years to allow for a strategic review by the BCHRIMC as outlined below. On July 25, 2012, Council approved a two (2) year extension to the initial term of the Hastings Park Operating Agreement between the Operator and the City, which will expire next month (November 2014).

British Columbia Horse Racing Industry Management Committee (BCHRIMC)

The provincial government's Minister of Housing and Social Development created the BCHRIMC in 2010. The committee is made up of BC horse racing industry organizations. A memorandum of agreement ("MOU") between the BCHRIMC and the horse racing industry organizations was entered into on February 1, 2010. The MOU

acknowledged that the industry was in significant financial difficulty and that the principal organizations operating in the industry wished to have horse racing managed in the best interests of the industry as a whole. Accordingly, the BCHRIMC was established for this purpose. Industry organizations would still continue to make operational decisions consistent with their mandated responsibilities, but those decisions would be made within the broad business and fiscal framework established by the BCHRIMC.

The BCHRIMC is chaired by Douglas Scott, Assistant Deputy Minister, Gaming Policy and Enforcement Branch ("GPEB"), and committee members include representatives from the Operator, the Horsemen's Benevolent and Protective Society, and the Canadian Thoroughbred Horse Society.

The BCHRIMC Horse Racing Industry Review, Long Term Strategic Plan and Business Model

In May 2012, City of Vancouver staff met with representatives of the Operator, British Columbia Lottery Corporation, and the Chair of the BCHRIMC (Douglas Scott). Staff were advised that the BCHRIMC had been mandated to build a long term strategic plan, based on input from various stakeholders including host municipalities, horseracing associations, breeders, owners, trainers, racecourse employees, the Operator who operates BC's two main racecourses (Hastings Racecourse and Fraser Downs Racetrack), and the provincial government. The intention of the strategic review was to develop a sustainable business model for the BC Horse Racing Industry.

A draft report "Revitalizing Horse Racing in British Columbia" was published and circulated to the industry as a consultation tool in April 2013, with the intention of a final report later in 2013. However, no final report has been published to date.

In February 2014, a multi-year funding deal was announced by the BCHRIMC amongst horse racing industry participants. The funding agreement expires at the end of 2016.

This deal is a revenue sharing model, approved by the Province, between the racecourse Operator and the Thoroughbred Horse Racing Industry, which distributes a portion of the annual slot revenues generated at racetracks back to the horse racing industry.

Hastings Park Operating Agreement, Capital Expenditure Obligations, and Public Benefits

The current Amended Operating Agreement secures the following annual fees, capital expenditure obligations and public benefits for the City:

(a) Annual Fees

Annual fees payable to the City under the terms of the Amended Operating Agreement include an annual Operating Fee of \$1,000,000 (subject to annual CPI adjustment), an annual Community Legacy Fund Fee of \$100,000 (subject to annual CPI adjustment) and an annual Hastings Park Greening Fee of \$500,000. Total annual fees from the

Amended Operating Agreement are \$1.6 million, subject to an applicable annual CPI adjustment.

Council directed that all revenue, except the Community Legacy Fund Fee, generated from the Amended Operating Agreement be allocated to the Hasting Park Reserve. This fund forms part of the capital funding for the Hastings Park/PNE Master Plan. The \$100,000 Community Legacy Fund Fee is payable into a separate Hastings Social Responsibility Reserve (see Section (c) below).

(b) Capital Expenditures

The total capital expenditure investment by the Operator during the initial term was approximately \$40 million, including significant upgrades to the grandstand building, construction and operation of a 44 space childcare facility, and site infrastructure upgrades.

(c) Public Benefits

As described in Section (a) above, the Amended Operating Agreement includes a Community Legacy Fund Agreement which requires: (1) an annual fee payable by the Operator of \$100,000 (subject to annual CPI adjustment); (2) the completed construction and the current operation of a 44 space childcare; (3) a groom school; (4) funding for a learning centre; (5) local hiring; (6) access to infield; (7) annual community consultation; and (8) community days at the racecourse.

To ensure that the amenities and public benefits are delivered, the Operator is required to submit annual reports on the various amenities and public benefits. The Operator provides annual reports for the childcare, local hiring, the learning centre, the groom school, community days, access to infield, and the annual community consultation. Staff review the annual reports to ensure that they are satisfactory.

Municipal Revenues

In addition to the annual fees described above, the City receives a 10% share of net gaming revenues from the Provincial Government as the host municipality. In 2013/2014 fiscal year, the City received approximately \$1.07 million in revenues as the host municipality from slots revenues at Hastings Racecourse.

Jobs related to Hastings Racecourse

The Operator directly employs approximately 350 full and part-time employees at Hastings Racecourse. The Operator has advised that during the racing season, approximately 600 additional people are employed by the Horse Racing Industry at Hastings Racecourse.

The Introduction of Slots and Hastings Racecourse Financial Performance

Slots operations commenced in 2007. Slot machine revenues have been significantly below what was originally anticipated by the Operator, and revenues per slot machine per day (the "Net Win") have generally been in the \$100-\$105 range in recent years

Hastings Racecourse slots revenues continued to decline in 2012 (\$99 per day per slot machine), 2013 (\$95 per day per slot machine) and 2014 (\$91 per day per slot machine). In comparison, provincially, slots revenues have been stable or rising in the last two to three years. (<http://corporate.bcllc.com/who-we-are/corporate-reports.html>)

Hastings Racecourse has also experienced declining horse racing revenues since 2007 despite the introduction of slot machines. As a result of this revenue performance, the Operator has suffered net losses on Hastings Racecourse operations (including slots operations) since the commencement of slots in 2007. A summary of net losses on operations is shown in the table below:

Year	Net Earnings / (Loss) on Operations
2007	(\$939,533)
2008	(\$6,461,421)
2009	(\$4,189,139)
2010	(\$5,514,376)
2011	(\$4,575,016)
2012	(\$989,000)
2013	(\$959,000)

*Source - GCGC unaudited financial statement

In 2011, the BCHRIMC made changes to the allocation formula for the annual slots revenues payable to track operators, and thoroughbred and standardbred owners associations for the 2012 racing season. This resulted in a \$2.75 million reduction in the Operator's allocation as racecourse operator, further negatively impacting the Hastings Racecourse's financial performance.

In the 2012/2013 period, slots and racetrack revenues declined 5% and 11%, respectively, and the Operator reported decreased revenues in the first half of 2014 compared to the first half of 2013 as a result of on-going industry-wide decline in horse racing wagering and fewer live racing days compared to the prior year.

Live Race Days

Under the terms of the Amended Operating Agreement, there is a requirement for a minimum of 71 race days (the "Minimum Live Racing Days") and 691 live races (the "Minimum Live Races") in each racing season.

In 2012, the Operator requested that the Minimum Live Racing Days and Minimum Live Races in each racing season be amended to reflect the recommendations of the BCHRIMC. The Operator advised that there was an insufficient number of race horses available to run the number of races during the season required by the Initial Operating Agreement. This resulted in the average number of horses running in each race to fall below historical norms. In the past, there have been over 800 horses available, but that had fallen into the 600 to 700 horse range in recent years. This had a negative effect on the amount of bets on the races and accordingly, the revenue earned by the Operator. This also had an impact on the prize money paid to the owners of the winning horses, which impacts the quality of horses that owners will bring to the racecourse to compete.

Currently, the Amended Operating Agreement permits the City Manager at her discretion to amend the number of race days, taking into consideration the recommendations of the BCHRIMC and GPEB. The BCHRIMC has subsequently recommended reducing the number of race days and live races. Since 2012, the number of race days and live races are as follows:

2012 - 67 Race days, 533 races

2013 - 63 Race days, 522 races

2014 - 55 Race days*, 380 races*

* Note: this is the projected total as the current racing season is not scheduled to end until mid-October.

Current Status of Hastings Park Operating Agreement

The Amended Operating Agreement expires on November 9, 2014. Discussions have been ongoing with the Operator regarding the terms and conditions of a further two (2) year extension to coincide with the multi-year funding deal, agreed with industry participants, which expires at the end of 2016.

Strategic Analysis

The review by the BCHRIMC of the horse racing industry led to the publishing of a draft report - "Revitalizing Horse Racing in British Columbia" - in April 2013. Subsequently, a multi-year funding deal was agreed to between the industry participants in February 2014, which will expire at end of 2016. This is a provincially approved revenue sharing agreement between the racecourse Operator and the Thoroughbred Horse Racing Industry.

The Amended Operating Agreement expires on November 9, 2014. The Operator, horse owners and horse breeders require some certainty for the immediate future before making business decisions for the 2015 and 2016 racing seasons. Therefore, to provide greater certainty for the Operator and the Horse Racing Industry around the planning of the 2015 and 2016 racing seasons, it is proposed in Recommendation A to grant a further extension of the Amended Operating Agreement until November 2016, to coincide with the expiry of the multi-year funding agreement between the horse racing industry participants.

The Operator will continue operating the Hastings Racecourse on the same terms and conditions of the existing Amended Operating Agreement during the proposed two year extension term. However, the BCHRIMC may, given their mandate under the MOU, make recommendations on the minimum number of race days and live races during the 2015 and 2016 racing seasons for Hastings Racecourse, having regard to the business model evolved from the strategic review and the funding agreement. In order to allow for this potential change in the minimum number of race days and live races, the City Manager shall continue to have the authority to amend, from time to time, the Minimum Live Racing Days and Minimum Live Races requirements under the Amended Operating Agreement. The City Manager could, at her discretion, make these changes at any time, from time to time, taking into consideration any recommendations that might be made by the provincial regulatory authority responsible for horse racing events.

Entering into a further extension of the Amended Operating Agreement will also allow the City to continue to receive the operating revenues paid by the Operator to the City pursuant to the Amended Operating Agreement for a further two (2) years. These monies will continue to be allocated to the Hastings Park Reserve and the Hastings Social Responsibility Reserve, and the Operator will continue to provide the operating funding for the childcare facility operated by Kiwassa Neighbourhood House and other public benefits. Furthermore, the City will continue to receive its 10% share of the host municipality net gaming revenues under the *Gaming Control Act*, which was approximately \$1.07 million in 2013.

The Operator is likely to approach the City to negotiate a new longer term operating agreement at some time during the proposed two year extension. It is anticipated that such terms would be reflective of the new business model recommended by the BCHRIMC and the funding arrangement agreed with horse racing industry participants. Staff will, at that time, report back to Council and seek Council direction regarding the terms proposed by the Operator for such an operating agreement.

Implications/Related Issues/Risk (if applicable)

Financial

All annual fees payable by the Operator during any extension of the Amended Operating Agreement will continue at the same rate as currently payable, subject to any applicable annual CPI adjustment.

Annual fees payable to the City under the terms of the Amended Operating Agreement include an annual Operating Fee of \$1,000,000 (subject to annual CPI adjustment), a Community Legacy Fund Fee of \$100,000 (subject to annual CPI adjustment) and an annual Hastings Park Greening Fee of \$500,000. Total annual fees from the Amended Operating Agreement are \$1.6 million, subject to an applicable annual CPI adjustment.

HEI's obligation to fund and operate the 44 space childcare facility will continue during any extension of the Amended Operating Agreement.

CONCLUSION

The recommendation to approve a two (2) year extension of the Amended Operating Agreement will provide greater certainty for the racecourse Operator and the Horse Racing Industry around the planning for the 2015 and 2016 racing seasons. In addition, the proposed extension will ensure that the revenues and public benefits secured through the Amended Operating Agreement will remain in place until at least November 2016.

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Subject Property





