

Charitable Bingo and Gaming Revitalization Initiative

Date:	May 2, 2012
To:	Government Management Committee
From:	City Clerk
Wards:	All
Reference Number:	

SUMMARY

The purpose of this report is to obtain Council direction on whether the City should enter into an agreement with the Ontario Lottery and Gaming Corporation (OLG) to permit electronic bingo and other games in Toronto bingo halls, the proceeds of which will be used for charitable purposes.

The OLG has introduced the Charitable Bingo and Gaming Revitalization Initiative (the Initiative) aimed at preserving and enhancing the bingo industry and sustaining revenues for local charities. The Initiative allows for the transformation of Ontario bingo halls into charitable gaming centres through the introduction of a new interactive environment with electronic gaming products provided by the OLG. Hall operators, charities and the City would need to enter into a multi-year agreement (8 years with 2 automatic 4 year renewals) with the OLG for the provision of services.

If Council agrees to participate in the Initiative, the hall operators will also need to submit a formal zoning review application to determine whether such use is permitted.

RECOMMENDATIONS

The City Clerk recommends that the Government Management Committee:

1. Decide whether to recommend to City Council that the City enter into an agreement with the Ontario Lottery and Gaming Corporation (OLG) related to the Charitable Bingo and Gaming Revitalization Initiative and, if so, recommend that:

- a. City Council permit Toronto bingo halls to participate in the Ontario Lottery and Gaming Corporation's Charitable Bingo and Gaming Revitalization Initiative in order to offer electronic bingo and other electronic games in bingo halls.
- b. City Council authorize the City Clerk to enter into the necessary agreements with the Ontario Lottery and Gaming Corporation in a form substantially as set out in Appendix "H" to this report and in a form satisfactory to the City Solicitor.
- c. City Council authorize the City Clerk and the Deputy City Manager and Chief Financial Officer to execute the Charitable Gaming Centre Municipality Agreements on behalf of the City of Toronto.
- d. City Council authorize and direct the appropriate City Officials to take the necessary action to give effect to Council's decision.

Financial Impact

It is difficult to accurately estimate the impact of the Initiative on bingo licensing revenues as it will depend upon the degree to which the Initiative can increase the customer base and revenue streams.

To date, two of the six Toronto bingo halls, Delta Bingo St. Clair and Dolphin Bingo, have expressed interest in participating in the Initiative. In 2011, the City received a total of \$633,105 in bingo licensing revenues from 123 local charities conducting bingo events at these halls. Based on the new OLG Financial Commission Model and using 2011 figures as the basis, participation by the two halls in the Initiative could decrease the City's annual licensing revenue by \$341,000.

While the OLG anticipates that this Initiative will attract new players and increase revenues for the charities and hall operators, it forecasts an annual revenue loss of about \$70,000 for the City.

Should Council agree to participate in the Initiative, and based on a late fall implementation, the partial year loss for 2012 could be \$55,000.

The operator of Delta Bingo has expressed concern that should Council choose not to participate in this Initiative he would need to consider the viability of remaining open. Any bingo hall closure would not only negatively impact City revenues, but also the revenues of the charitable organizations involved and their ability to deliver their programs and services to the community.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

ISSUE BACKGROUND

The bingo industry has been in a rapid decline across Ontario for many years. A decade ago there were more than 6,000 charities raising funds at 230 halls provincially; today there are just under 3,000 charities fundraising in 65 halls. Since 1997, the City of Toronto has seen a reduction in bingo halls from 23 to 6, impacting over 280 charities.

To address this issue the Alcohol and Gaming Commission of Ontario (AGCO) introduced the Bingo Revenue Model aimed at sustaining profitability through cost-sharing arrangements. All six Toronto halls currently operate under this model. Although this model has stabilized revenues for charities and the municipality, it has not provided for any growth in the bingo industry. Appendix "A" identifies the decline in revenues for both the charities and the City.

In 2005, the OLG began talks with hall operators and charity associations to introduce an electronic gaming strategy to renew interest and attract new players to the game. Six bingo halls in five municipalities were selected to participate in a pilot project - Barrie, Sudbury, Kingston, Peterborough and Windsor. The OLG advised that the pilot sites demonstrated an initial 9.5% growth with only one new product line. The OLG anticipates that with the introduction of additional product lines and a product refresh strategy, revenue growth will surpass that of the pilot.

In May 2011, the OLG announced the launch of the Charitable Bingo and Gaming Revitalization Initiative province-wide. The OLG believes that without modernization, bingo halls will cease to operate, negatively impacting the charities they support, hall operators and municipalities.

Two of the six bingo halls in Toronto have expressed interest in participating in the Initiative and have been selected by the OLG for the Phase 1 implementation. The remaining four halls have decided to take a "wait and see approach" before making a decision on whether or not to participate. Council's approval is required in order for Toronto bingo halls and charities to participate in the Initiative.

COMMENTS

Intent of the Initiative

The Charitable Bingo and Gaming Revitalization Initiative is a collaborative effort between the Ontario Lottery and Gaming Commission (OLG), the Commercial Gaming Association of Ontario (CGAO) and the Ontario Charitable Gaming Association (OCGA) to transform the declining bingo industry. Under the Initiative, participating bingo halls would be transformed into charitable gaming centres to provide a more favourable entertainment experience for current and future customers. The gaming centres will feature electronic games designed to complement, not replace, the current paper games. The introduction of new products and technologies is intended to make gaming centres

more competitive within the existing gaming industry and appeal to a broader demographic.

The OLG has stated that the industry-wide revitalization of charitable gaming is intended to:

- preserve and enhance charitable bingo revenues;
- sustain commercial operator financial health while maintaining integrity, accountability and balancing risk with reward;
- maintain an important role for municipalities; and
- allow OLG to achieve cost recovery as a minimum.

It is important to note that the OLG in their letter dated March 16, 2012 confirmed that slot machines will not be included in this Initiative. The letter also provides a summary of the charitable games to be made available in participating centres. See Appendix "B".

Regulatory Provisions

Implementation of this Initiative will mean a transition in the regulatory framework from Section 207(1)(b) to 207(1)(a) of the *Criminal Code* for participating halls. Under the current framework (paper bingo), charities are responsible for the conduct and management of the bingo event. Under section 207(1)(a), the conduct and management accountability will belong solely to the OLG as only the government of a province is permitted to conduct and manage electronic games. The chart provided as Appendix "C" provides a comparison of the current AGCO regulatory framework and the new OLG framework.

Roles and Responsibility of Stakeholders

To facilitate this regulatory change, the OLG requires each stakeholder to enter into a standard agreement for the provision of services. The roles of the stakeholders are outlined in Appendix "D".

Under the Initiative, the City's role will remain relatively the same, that is:

- continue to determine eligibility of charities;
- continue to approve and monitor "use of proceeds";
- issue permits instead of licences to eligible charities;
- ensure monthly reports are received and validate distribution of funds to charities;
- monitor and ensure compliance with the Permit requirements; and
- investigate and notify OLG of any breaches of the requirements.

Charities will continue to have a visible and meaningful role with significantly reduced administrative reporting responsibilities and will have no responsibility or liability for cash handling during games. Charities will also no longer be responsible for paying licence fees.

The hall operators will be required to invest a substantial amount of capital to renovate and ready their facilities to support the technology and equipment to be provided by the

OLG. On an ongoing basis, hall operators will be responsible for providing the facilities, daily operations, management, site marketing and staffing.

Financial Commission Model

The OLG, in consultation with the OCGA and CGAO, also developed a Financial Commission Model which provides for the "adjusted net win" revenues to be split amongst all stakeholders. Charities would receive 25% and hall operators would receive 47%.

The City would receive quarterly electronic payments from the OLG in the amount of 3% of the "adjusted net win" as opposed to the current licensing fee of \$165.00 per bingo event paid directly by the charity.

The OLG would receive 25% of the "adjusted net win". The OLG has advised that this figure is necessary in order to recover its costs for:

- all the necessary hardware related to site set up including a hardware refresh and replacement strategy;
- software development for new games to be continuously introduced;
- telecommunications and related maintenance required to support the centres;
- cost of the bingo paper (previously paid by the charities);
- IT help desk; and
- other operating expenses associated to maintaining and overseeing the sites.

A detailed description of the model is attached as Appendix "E".

Delta Bingo St. Clair located at 1799 St. Clair Avenue West (Ward 17) and Dolphin Bingo located at 1911 Eglinton Avenue East (Ward 35), as well as their respective charity associations, notified the City of their interest to participate in this Initiative, copies of which are attached as Appendix "F". The OLG has selected both halls to participate in Phase 1, with an implementation date in the fall of 2012. This date is dependent on a number of factors including approval by Council, signed agreements by all stakeholders, Planning approval and construction timetables and readiness of the facilities.

The OLG is projecting a 20% increase in site "net win" in the first full year of operation for Delta Bingo St. Clair and Dolphin Bingo. They also anticipate that the net benefits to charities will increase by approximately 38% over the next 5 years and that the revenue of the combined hall charity associations of the two facilities will increase by \$6.3 million over 5 years, or roughly \$1.3 million per year. Attached as Appendix "G" are the OLG's projected revenues over the next five years.

The OLG projections are based on the following:

- that a new entertainment experience will attract new players;
- that this new experience will come as a result of a broader range of products, a steady refresh of these new products and enhanced advertising and promotion;
- key lessons learned from the OLG's pilot sites; and

- data gathered from other Canadian jurisdictions operating a similar program.

Staff's initial analysis projects an annual reduction in the City's bingo revenue of approximately \$341,000. The chart below outlines the revenue received in 2011 and the projected revenue loss based on the new model. These figures are based on the assumption that the current number of bingo hall sessions, attendance and revenues remain at 2011 levels.

Bingo Hall	Net Gaming Revenue	No. of Events	2011 City Revenue	Projected Revenue under OLG Model	Projected Revenue Loss
Delta St. Clair	\$5,172,596	2,177	\$359,205	\$155,178	(\$204,027)
Dolphin	\$4,571,629	1,660	\$273,900	\$137,149	(\$136,751)
TOTALS	\$9,744,225	3,837	\$633,105	\$292,327	(\$340,778)

The OLG has advised that municipal revenues may increase if the Initiative proves to be a popular entertainment option and the customer base grows accordingly. However, the OLG is projecting an annual revenue decrease for Toronto of about \$70,000 based on their anticipated growth as shown in Appendix "G".

Standard Agreement with OLG

A copy of the Charitable Gaming Centre Municipality Agreement which the City will need to sign if Council wishes to make electronic gaming available in these bingo halls is attached as Appendix "H". The agreement is for a period of eight (8) years with two (2) automatic four (4) year renewal periods.

City staff along with representatives from nine other municipalities met with the OLG on February 13, 2012 to address a number concerns with respect to the standard agreement, including:

- length of the term of the agreement;
- ability for the municipality to terminate the agreement;
- mutual liability and/or indemnification clause;
- guarantee of municipal revenues; and
- confirmation that slot machines would not be part of the Initiative.

The OLG advised that this is a standard agreement for all municipalities and there is no option for individual municipality customization. A complete list of the requests submitted to the OLG along with the response is attached as Appendix "I".

To date, 9 of the 12 municipalities in the Phase 1 implementation have agreed to participate in the Initiative – Barrie, Kingston, Mississauga, Penetanguishine, Oakville, Peterborough, Pickering, Richmond Hill and Sudbury. Should Council opt not to

participate while surrounding municipalities have, there is a risk that this may impact the customer base and revenues of Toronto bingo halls.

Zoning Review Required

Staff have consulted with Toronto Buildings to determine whether the introduction of electronic games complies with the use definitions in the applicable zoning by-law. Buildings staff have advised that a formal zoning review application will need to be submitted by the hall operators to determine whether such use would be permitted. Both hall operators have been notified of this requirement.

Staff of the Legal Services Division were also consulted during the preparation of this report.

CONTACT

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SIGNATURE

Ulli S. Watkiss, City Clerk

ATTACHMENTS

Attachment "A" – Declining Charity and Bingo Licensing Revenues
Attachment "B" – OLG Letter dated March 16, 2006
Attachment "C" – Comparison of Regulatory Framework
Attachment "D" – Roles and Responsibilities of Stakeholders
Attachment "E" – OLG Financial Commission Model
Attachment "F" – Letters of Support from Hall Operators and Charity Associations
Attachment "G" – OLG Projected Revenues Over Next Five Years
Attachment "H" – Sample of OLG Charitable Gaming Centre Municipality Agreement
Attachment "I" – Excerpt from OLG's letter dated February 29, 2012 - Response to Requested Changes to Charitable Gaming Centre Municipality Standard Agreement