

<b>TO:</b>	<b>CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON MAY 28, 2013</b>
<b>FROM:</b>	<b>CATHY SAUNDERS CITY CLERK</b>
<b>SUBJECT:</b>	<b>OLG CHARITABLE BINGO AND GAMING REVITALIZATION INITIATIVE (E-BINGO) - MUNICIPALITY AGREEMENT</b>

### RECOMMENDATION

That, on the recommendation of the City Clerk direction BE GIVEN with respect to how the Municipal Council wishes to proceed regarding the Charitable Gaming Centre Municipality Agreement/E-Bingo.

### PREVIOUS REPORTS PERTINENT TO THIS MATTER

None.

### BACKGROUND

The purpose of this report is to provide Committee and Council with a synopsis of the Ontario Lottery and Gaming Corporation (OLG) Electronic Bingo (E-Bingo) initiative and discuss entering into an E-Bingo contract with the (OLG) as part of the conversion of Forest City Bingo Country at 1106 Dearness Drive into an E-Bingo facility.

In Canada, gaming activities are controlled through the *Criminal Code*. The *Criminal Code* dictates that all gaming is illegal with two exceptions under Section 207. Section 207 1a) allows provincial governments to conduct gaming activities and Section 207 1b) allows charitable and/or not-for-profit organizations to conduct certain types of gaming events (eg. raffles, bingos, break open tickets) only when operating under the authority of a licence or authorization. The licenses or authorization referred to in Section 207 are issued by the Province through the Alcohol and Gaming Commission of Ontario, via, for the most part, through municipalities.

A large percentage of charitable gaming revenues in the province come from bingos. However, it should be noted these revenues have decreased significantly in recent years. In the City of London, bingo revenues were for \$69,340 in 2012, down from \$114,979 in 2006. This is revenue derived from licensing charity bingos from the two bingo halls in London. In 2010 the OLG developed a "Charitable Bingo and Gaming Revitalization Initiative" using technology to evolve traditional paper-based bingo games and modernize the play experience. The OLG advises that the strategic objectives of the Initiative are:

- to preserve and enhance charitable gaming revenue by providing the means for local charities to generate revenues on their own without having to rely on government social assistance;
- to sustain operations in commercial operator sites to support employment in local communities; make investment in infrastructure at local sites;
- to ensure a role and develop a viable, long-term local financial model for municipalities;
- to deliver a new entertainment experience and product that meets player satisfaction and market demand; and
- to achieve cost recovery at a minimum for OLG.

The OLG, in partnership with the Commercial Charitable Gaming Association (CGAO), representing bingo hall interests, and the Ontario Charitable Gaming Association (OCGA), representing charities interests, have reached an agreement on the elements of a new E-Bingo Gaming Initiative to be launched province-wide. E-Bingo pilot projects were introduced in several municipalities, and the OLG is now expanding the program throughout the province. The pilot cities operating E-Bingo are Barrie, Kingston, Sudbury, Peterborough, and Windsor. Forest City Bingo Country has been selected by the OLG as one of the new sites for E-Bingo expansion. The City of London is required to sign a Charitable

Gaming Centre Municipality Agreement (CGCMA) before the hall will be permitted to operate bingo-themed paper and electronic games.

In order for the E-Bingo initiative to move forward, the City of London, the Dearness Drive Bingo Association (the entity representing charities at Forest City Bingo Country) and Bingo Country (the Bingo Hall Owners) must enter into separate, contractual agreements with the OLG. The contracts, which are standard across each group, call for an initial term of eight (8) years and two subsequent terms of four (4) years each. The maximum length of the contracts, as proposed, is sixteen (16) years. The only party that can terminate these contracts is the OLG.

For bingo halls converted to the E-Bingo model, the OLG assumes authority for the management and conduct of bingo events as required under Section 207 1a) of the *Criminal Code*. Under this scenario, the OLG has all authority for all decisions made with respect to eligibility of charitable organizations to conduct E-Bingo and the type of games played. The City will not have discretion in gaming options offered at the facility. Since the pilot project was introduced in the first seven municipalities, the gaming options and products offered at the sites have changed substantially. The first initial sites had paper bingo, E-Bingo, and Play on Demand. The new sites have increased their product to include Break Open Ticket Dispensers, electronic Break Open Tickets, Play on Demand and E-Instants, E-Shutterboard, Rapid Draw Bingo and traditional lottery products (scratch tickets, etc.). There are now 21 municipalities that have approved the standard agreement.

## FINANCIAL CONSIDERATIONS

The OLG has developed a revenue model for sharing the proceeds of E-Bingo gaming. The following chart demonstrates how cash sales would be distributed among the OLG, the Bingo Hall, the Charity, and the City of London:

<b>Revenue / Cash Sales</b>	<b>100%</b>
<b>Prize Payout</b>	<b>70%</b>
<b>Net Win</b>	<b>30%</b>
<b>Marketing Fund Allocation from Net Win</b>	
Site Marketing	5%
Province Marketing	2%
<b>Total</b>	<b>2.1%</b>
<b>Adjusted Net Win</b>	<b>27.9%</b>
<b>Stakeholder Commission from Monthly Adjusted Net Win</b>	
<b>Charity Share (10% of ALL non gaming revenue streams)</b>	
Operator	
On first \$250k	53%
On next \$150k	37%
Above \$400k	42%
<b>Operator Share (Blended Avg)</b>	<b>47%</b>
<b>Municipality Share</b>	<b>3%</b>
<b>OLG Share (plus OLG pays Food &amp; Beverage portion to Charity)</b>	<b>25%</b>

The following example looks at how \$100 in Gross Sales would be distributed amongst E-Bingo partners using the revenue model established by the OLG.

Gross Sales (Bingo and gaming related products)		<b>\$ 100.00</b>
less Prize Payout (target)		<b>\$ 70.00</b>
<b>Net Win (Sales less Prizes)</b>		<b>\$ 30.00</b>
less Advertising		
On Site (at hall)	5% (of net win)	
Province Marketing (used by OLG)	2% (of net win)	<b>\$ 2.10</b>
<b>Adjusted Net Win</b>		<b>\$ 27.90</b>
For distribution to charities, operator, City and OLG		
<b>Distribution of Adjusted Net Win:</b>		
(27.9% of Gross Sales)		
<b>Revenue to Charities**</b>		<b>\$ 6.98</b>
<b>Revenue to Operator (blended)</b>		<b>\$ 13.10</b>
<b>Revenue to Municipality</b>		<b>\$ 0.84</b>
<b>Revenue to OLG</b>		<b>\$ 6.98</b>
		<b>\$ 27.90</b>

\*\* OLG will add 10% of their share of non-gaming revenues (net) to the monthly disbursement to charities (eg. sale of foods, etc)

The OLG has provided the City with information showing projected revenues after conversion to E-Bingo, which is attached as Appendix 'A' to this report. Staff is of the opinion that OLG projections are optimistic and should be weighed in consideration of all factors presented.

## IMPLICATIONS OF E-BINGO IN LONDON

Staff have met with the Bingo Hall Owners, Charity Association, and the OLG on different occasions. There have been a number of concerns raised with the Charitable Gaming Centre Municipality Agreement (Appendix 'B') from the City's perspective. These concerns have been raised with several other municipalities when presented with the Agreement. To date, the OLG has not permitted amendments to the Agreement throughout the province and it remains standard and unchanged. Following is a summary of the concerns staff has with respect to the agreement:

### Selection of Games

In Schedule A of the CGCMA, the OLG has listed the specific games that will be initially conducted, but has also included a clause that will permit them to add games at any time in the future without consulting the municipality. This could mean the potential introduction of slot machines, video lottery terminals, etc. on site within the Bingo Hall.

### No Exit Policy

Section 2.01(a) reads that the Agreement will run for eight (8) years, with two consecutive automatic four (4) year renewal periods totalling sixteen (16) years. If, for any reason, the OLG decides to cancel the Agreement it may provide no less than a sixty day notice of non-renewal. The City of London has not been granted a similar authority. Section 2.02 of the Agreement allows for termination in favour non-performance for the OLG if the City is in default. The Agreement is not reciprocal, in that the City can not terminate if the OLG is in default.

### Agreement is Non-Negotiable

The OLG wishes to introduce a Standard Agreement throughout the province and is not willing to modify the Agreement to address common concerns of municipalities.

### Municipality's Role

The City of London is fortunate that the new model would not decrease revenue derived from lottery licensing, unlike other municipalities involved in the initiative. It should be noted that the role of the municipality, in section 5, is very detailed and onerous on municipalities. There are specific provisions to not allow municipalities to charge administrative expenses for these activities.

### Liability

Section 8 releases the OLG of any liability and there is no mutual release of liability for the municipality.

Benefits of the E-Bingo Initiative:

- Charities should expect to see their revenues remain stable or increase slightly under the new model. This result was derived by applying 2011 Forest City Bingo gaming revenues, as reported to the City and AGCO, against the new model provided by the OLG.
- In the new model, charities are no longer responsible for managing and conducting bingo events, providing three bona-fide members at each event, and handling cash and gaming products at the hall. With the E-Bingo model, they are to provide two bona-fide members to promote their charity during the sessions.
- The City of London is expected to see a slight increase in our licensing revenues with respect to bingos. This is not the case for most municipalities adopting E-Bingo. This is in large part due to our licence fee for bingos remaining comparatively low at \$90.00 per session.
- Continued bingo operations at Forest City Bingo Hall in future years. The Bingo Hall Operator and Charity Association are in favour of implementing this initiative.

Challenges of the E-Bingo Initiative:

- This is a long term commitment for Council. It is a potential sixteen (16) year commitment. As stated earlier, there is an initial eight (8) year term, with two consecutive automatic four (4) year renewal periods, which cannot be cancelled by Council.
- Once E-Bingo is in place, administration will have two different bingo gaming models to manage. This will be cumbersome and require an upgrade to the current database used by staff to track and issue lottery licenses as well as manage eligible charities. In addition, current staffing levels in the City Clerk's Office may need to be increased to incorporate the additional permitting and reporting requirements of the OLG.
- There is a significant loss of municipal authority with respect to ensuring charities comply with OLG eligibility guidelines, policy and reporting guidelines, noting that "OLG reserves the right to reverse, in whole or in part, any decision made by the municipality with respect to the cancellation, revocation, termination or suspension of any Permit".
- Similarly, the City will not have control over the games offered in the E-Bingo halls as the authority will lie solely with the OLG. This could mean an expansion of electronic gaming in the future (eg. slot machines, Video Lottery Terminals or similar electronic devices).
- Future impact on the bingo hall and charities that are not interested in participating with E-Bingo, is also an issue that needs to be considered.

<b>CONCLUSION</b>
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Both the Operator and the Charity Association of Forest City Bingo Hall have indicated an interest in moving forward with electronic Bingo at their facility. Their letters of interest are attached to this report for your review. In order for E-Bingo to occur, it will be necessary for the Charity Association, Bingo Hall Operator and the City to enter into separate agreements with the OLG. Should Council wish to support this initiative, the following recommendation should be passed:

“That a public participation meeting BE HELD by the Corporate Services Committee with respect to the potential introduction of an E-Bingo site within the City of London, with notice be circulated to Charity Associations, charities, Bingo Hall Operators, and the OLG in order to seek stakeholder input in determining if the City of London should proceed with entering into a Charitable Gaming Centre Municipality Agreement for Forest City Bingo.”

<b>PREPARED BY:</b>	<b>RECOMMENDED BY:</b>
<b>SARAH AXFORD MANAGER, LICENSING AND ELECTIONS</b>	<b>CATHY SAUNDERS CITY CLERK</b>

#### Attachments

- Appendix 'A'** – OLG Market Analysis Charitable Bingo and Gaming Revitalization Initiative for London
- Appendix 'B'** – Charitable Gaming Centre Municipality Agreement
- Appendix 'C'** – Letter of Interest from Dearness Drive Charity Association
- Appendix 'D'** – Letter of Interest from Bingo Country – Hall Owner
- Appendix 'E'** – Letter from First Street Bingo