

# MEETING - Backgrounder

Meeting Date: September 28, 2015

Cliff: 345743

## MEETING:

Minister meeting with BCLC Chair, Bud Smith.

## ISSUE:

BCLC 2016/17 Priorities

## KEY FACTS REGARDING THE ISSUE:

- The Minister will be meeting with the BCLC Board Chair, Bud Smith, regarding BCLC priorities and the recommendations provided in the BCLC Crown Review. Bud Smith has served as a Board Member since May 2012, and was named chair in August 2013.

## Gaming Policy and Enforcement Branch (GPEB)

### Anti-Money Laundering (AML)

- RCMP on-going investigation of trans-national organized crime, an aspect of which relates to suspicious cash transactions in BC gaming facilities.
- Following GPEB GM, John Mazure's August 7, 2015 letter requesting an enhancement to BCLC's AML regime in BC gaming facilities – a follow-up letter from the Minister to the Board Chair can be anticipated. The Minister's letter will provide specific direction on BCLC's anti-money laundering efforts and government's concern on the prevalence of suspicious cash transactions and a concern about the source of funds in specific gaming facilities.
- GPEB will engage an independent third-party contractor to review BCLC's AML and Compliance strategy, to examine and assess ongoing practices and provide recommendations for improvement.
- BCLC has mentioned a credit and overdraft scheme for high-value patrons in gaming facilities – this suggestion should be presented to GPEB as a fulsome business case.
- River Rock Casino chip swap – the proposal to conduct a chip swap in early Sep to early October to address an outstanding shortage of 1,878 RRRCR \$5000 chips in inventory with a total dollar value of \$9.39 million. GPEB's enquiry into this initiative and request for information was initially met with resistance by BCLC. The chip swap has been delayed pending the ongoing police investigation.

### Advice and Recommended response:

- **BCLC should be sensitive to the ongoing RCMP investigation of suspicious cash in gaming facilities and should immediately notify and discuss with GPEB any future proposed initiatives that may impact or seen to impact the ongoing RCMP investigation.**

### BCLC Expression of Interest to Municipal Governments

- The Crown review undertaken by Internal Audit and Advisory Services in October 2014 recommended that BCLC develop:

- criteria to distinguish between a relocation, substantial change, and establishment of a new gaming facility; and
- a procurement process for service providers consistent with government procurement best practices.
- BCLC advises it will begin a newly proposed local government consultation process and will ask local governments, including First Nations, in Greater Victoria to express their interest in hosting a gaming facility. BCLC advises it will send this proposal out on October 1, 2015 (See Appendix A).
- GPEB analysis of BCLC's procurement process has determined that it is not sufficiently developed as to be consistent with government procurement policy. It is felt that the launch of the Expression of Interest is premature and does not take into consideration the procurement and cost containment work underway between BCLC and the Ministry of Finance EFO.
- Current service providers have had monopolistic access to significant and lucrative revenue streams for nearly 20 years, raising the issue of government's role in the marketplace (through BCLC).
- The current point in time is unique in that current service provider contracts are expiring, allowing for an opportunity to test the market through a procurement process without doing any injustice to existing contracts.
- The market for provision of casino services has not been tested for nearly 20 years - it is possible that a competitive market process for all service provider contracts could yield a superior return to government.
- At present, BCLC has unfettered authority to move, change or substantially change gaming facilities by way of section 18 of the GCA, and the 2005 directive from the Minister of Public Safety and Solicitor General granting this authority.
- In order to develop a new process, the 2005 directive could be rescinded, and a Ministerial order could be issued granting BCLC the authority to move, change, or establish gaming facilities subject to a procurement scheme acceptable to the minister, and therefore consistent with procurement policy and practice. Alternatively, the existing directive requires BCLC to act in accordance with provincial policy. The opportunity exists for the minister to provide specific guidance in relation to provincial procurement policy.

#### Advice and Recommended response:

- **Recommend that BCLC delay its Expression of Interest proposal to the Greater Victoria region on October 1, 2015, and to continue to work with the Ministry of Finance's EFO to develop a fulsome procurement process that aligns with government policy.**

#### Host Local Government Payments to the City of Vancouver

- The previous Minister Responsible for Gaming provided direction to GPEB to not impact the City of Vancouver's host local government payments. The re-development of the Edgewater Casino and higher service provider commissions results in a negative impact to host local government (HLG) revenue to the City of Vancouver.
- BCLC and GPEB have developed the following proposal to address City of Vancouver's HLG payment.
  - *Option 1* – Status quo - Do nothing and do not impact HLG payments to the City of Vancouver (potential \$8M negative impact to government revenue over the lifecycle of the Edgewater project).
  - *Option 2* – stop adjusting the City of Vancouver's HLG payment in Q4 fiscal 2018 (Dec 2017) and forgo accumulated overpayment of \$2.6 million. This option requires negotiation with the City of Vancouver and agreement by them.
  - *Option 3* - stop adjusting the City of Vancouver's HLG payment in Q4 fiscal 2018 (Dec 2017) and collect on the overpayment of \$2.6 million - This option requires negotiation with the City of Vancouver and agreement by them.
  - *Option 4* – advise Vancouver the HLG adjustments will discontinue and recover the

- overpayment of \$1.6 million (value accumulated to date)
- Option Three is recommended.

### **BCLC 2016/2017 Mandate Letter**

- Drafting of the 2016/17 Mandate Letter to BCLC is currently underway. Early drafts have been shared between GPEB and the Lottery Corporation and the Branch anticipates having an ADM approved draft ready for Crown Agencies Resource Office (CARO) by October 6, 2015.
- Specific directions to BCLC being proposed in the 2016/17 Mandate letter include:
  - BCLC will optimize financial performance and focus on cost containment and the current commission structure;
  - BCLC will complete the implementation of all recommendation in the IAAS Crown review by March 31, 2017;
  - GPEB and BCLC will continue to apply the objectives and principles developed as an outcome of the 2015/16 Mandate Letter in order to inform and guide respective roles and responsibilities;
  - As part of the province's AML strategy, BCLC will increase efforts to develop and promote the use of cash alternatives, with standards that address source of funds concerns by enhancing its due diligence and compliance programs;
  - BCLC will continue to implement the action items that pertain to the Corporation in the *Plan on Public Health and Gambling*;
  - BCLC will develop a formalized quarterly reporting function to inform the General Manager of planned BCLC business activities; and
  - BCLC will notify and consult appropriate GPEB divisions when new business agreements, or significantly altered business agreements, have regulatory requirements.
- There has been some disagreement between GPEB and BCLC on the final two priority items; GPEB and BCLC staff are working to develop a mutually agreeable draft.

### **Advice and Recommended response:**

- **GPEB and BCLC staff are currently working to develop a mutually agreeable draft of the Mandate Letter.**

### **Corporate Financial and Facilities Services Branch**

#### **BCLC Financial Update**

- Q2 financial results will not be available until October 30, 2015 once approved by BCLC's Board. In the interim, BCLC representations based on Q1 financial results are positive. BCLC is confident that net income amounts approved by Treasury Board in January 2015 (\$1,216.0M in 15/16, \$1,242.8M in 16/17, and \$1,260.1M in 17/18) will be achieved.
- For the 3 months ending June 30, 2015, gaming revenue was \$40.3M greater than budget and \$23.9M greater than 2014/15 Q1 results. As at August 31, 2015, revenues continue to exceed expectations by \$41M net of outstanding grant distributions, largely due to higher play volumes associated with large lottery jackpots.
- Based on Q1 results, the comprehensive cost ratio is 41.3% (versus the approved rate of 43.3%). This favourable variance can be attributed to recent changes in the revenue mix from high-limit table revenues with a relatively lower profit margin to lottery revenues with a relatively higher profit margin. However, the ratio is expected to change due to the following pending adjustments:
  1. Accounting treatment of Encore Rewards Program - Correcting entries once confirmed by KPMG would increase revenues and expenditures. Although the ratio will be impacted, BCLC does not anticipate that the change will be significant.

2. Pension Adjustment - The Ministry is awaiting further details with regard to errors made by the previous actuary on BCLC's pension plan. Impact on operating costs and the cost ratio is unknown at this time.
- Compared to the January 15 submission, the Q1 forecast for general operating costs remains at \$131.6M for the next 3 years. The Ministry requested a detailed breakdown of general operating costs and BCLC staff would not provide this information without Board approval. Q1 projections for amortization, gaming support costs, and other incidental expenditures also remain unchanged relative to the January 2015 submission.
  - The Ministry was unable to assess BCLC's FTE utilization. BCLC staff were also unwilling to provide this information without Board approval.
  - The Ministry has suggested to BCLC staff that they obtain Board approval for FTE utilization data and the detailed expenditure breakdown on a quarterly basis.

### **Commission Review, Maximization of Net Income, and Cost Containment Framework**

- In response to the January 2015 decision letter from Treasury Board, and in collaboration with BCLC, the Ministry has retained Ernst and Young (E&Y) to provide recommendations on a comprehensive cost ratio framework. A report-back to Treasury Board on the results is due by September 2015.
- At a joint Ministry/BCLC Steering Committee meeting on September 25, 2015, a high-level conceptual model of the cost ratio framework was presented by E&Y. Limited progress has been made on the framework. BCLC has advised that the framework with specific performance measures, baselines, and targets will not be completed and approved by the BCLC Board before October 30<sup>th</sup>. The Ministry has asked BCLC to confirm when the report-back to Treasury Board would be achievable.
- As per the Crown Review recommendation, BCLC and the Ministry should review service provider commissions for gaming facilities to ensure an appropriate and effective structure. PBC has been engaged to assist the Ministry. BCLC has separately engaged HLT Advisory. HLT's report was presented to all parties and the Ministry is attempting to validate the recommendations, and will leverage HLT's findings where possible. Targeting completion and report-back to the Minister by November 30, 2015.
- The Ministry has engaged E&Y to develop a cost containment framework for BCLC, in collaboration with BCLC. Preliminary report from E&Y expected by October 31st. BN for Minister's consideration to follow in November.
- Per Treasury Board direction, BCLC and the Ministry are working on strategies to increase net income. Immediate focus is on the mechanics of BCLC's new business intake proposals. In the future, BCLC will consider E&Y's offer to consult with their gaming experts pending the results of the current engagement.

### **BCLC – Report backs - Status**

- Casino and Business Optimization Report-backs to Treasury Board - The report-back dates were previously extended by the Minister to November 30, 2014 and February 28, 2015 for the casino and business optimization proposals, respectively. In light of the crown review recommendations, a briefing note requesting the Minister's approval for a further extension to November 30, 2015 is pending.
- PlayNow Risk Register Report-back to Treasury Board Vice-Chair - Creation of a PlayNow subsidiary recommended subject to the Ministry's ability to further validate BCLC's analysis of the risks associated with the subsidiary's operation in other jurisdictions. Target completion by calendar year-end.
- In light of the Crown review released in December 2014 and Treasury Board direction received in January 2015, the report-backs for PlayNow, Casino Optimization, and Business Optimization have been deferred. The Ministry is targeting to bring these items forward before calendar year-

end once reviews of the cost ratio framework, cost containment framework, commission structure, and net income strategies have been completed.

	Program Area Contact Gaming Policy and Enforcement Branch	Program Area Contact Corporate Services Division
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# Information Bulletin

## BCLC seeks Greater Victoria local governments' interest in hosting a gaming facility

**Vancouver, B.C., October 1, 2015** – BCLC is asking local governments, including First Nations, in Greater Victoria to express their interest in hosting a gaming facility.

A Government of British Columbia Internal Audit and Advisory Services Review of BCLC recommended BCLC develop a clear set of criteria for gaming facility procurement. As part of its response, BCLC has updated the process for local government notification and will implement it for the first time to gauge interest from local governments in this region.

The new process ensures all local governments located in a region identified as having market demand receive a letter from BCLC asking them to express their interest in being considered to host a casino or community gaming facility. Local governments will be asked to respond in writing indicating whether or not they are interested in being considered to host a facility.

BCLC will review responses and select which local government(s) it will contact as a potential Host Local Government(s). This does not constitute a commitment by BCLC to develop a gaming facility in a given community. It is intended to be a transparent, initial step in the process.

BCLC respects the authority of local governments to choose whether they want a gaming facility and will only consider pursuing development in communities where host local governments have indicated an interest. Any facility proposals put forward will require the local government to seek and consider adequate community input and other consultation requirements.

Local governments that host a casino or community gaming centre receive a 10 per cent share of the Province's net gaming income generated by those facilities. This past year, the Town of View Royal received more than \$4 million in gaming revenue from the View Royal Casino. This money was used to fund library services and other community programs.

### Quick facts:

- Greater Victoria currently has one casino and two bingo facilities: View Royal Casino, Playtime Victoria (on Burnside Road in the District of Saanich) and Bingo Bingo in Esquimalt.
- A recent BCLC market assessment indicates there is an opportunity for a new gaming facility in the region. BCLC's market assessments look at existing play, population trends, traffic patterns, tourism and other factors. When the assessment indicates there is potential for a facility in an area, BCLC is required, under the *Gaming Control Act*, to notify the local government if a new facility will be proposed.
- In 2014/15, the Province distributed \$95.6 million in gaming revenue to local governments that host casinos and/or community gaming centres.
- Gaming facilities in B.C. can include a variety of games: live and electronic table games, such as blackjack and roulette; slot machines and bingo. The type of facility and combination of games is tailored to suit each market and community.

**Learn more:**

BCLC is a provincial Crown corporation offering socially responsible gambling entertainment while generating more than \$1 billion in net income each year to benefit provincial and community programs across B.C. Learn more at <http://www.bclc.com/>.

You can also follow the latest BCLC news -

- On Twitter at: <https://twitter.com/BCLC>
- On Facebook at: <https://www.facebook.com/bclc30?fref=ts>

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**For more information:**

BCLC Media Relations



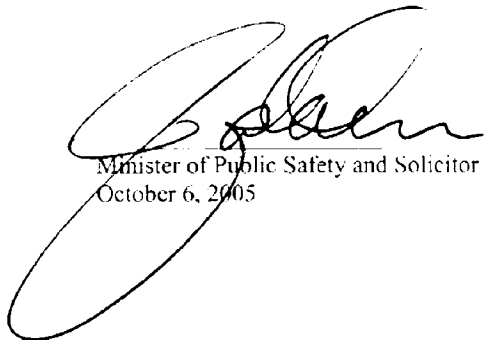
## Appendix B



Minister of Public Safety and Solicitor General  
Directive to the British Columbia Lottery Corporation  
Section 6, Gaming Control Act

This directive, issued pursuant to section 18 of the Gaming Control Act, authorizes the British Columbia Lottery Corporation in its discretion to:

- a) Locate and relocate gaming facilities for business reasons, in accordance with provincial policy, the Gaming Control Act, and the Gaming Control Regulation, as they may be amended from time to time; and
- b) Substantially change the type or extent of lottery schemes in gaming facilities in order to best meet marketplace demand, in accordance with provincial policy, the Gaming Control Act, and the Gaming Control Regulation, as they may be amended from time to time.



Minister of Public Safety and Solicitor General  
October 6, 2005