



City of Richmond

Report to Committee

To: General Purposes Committee
From: Jerry Chong, CA
 Director, Finance
Re: Gaming Revenue Update

Date: February 12, 2015
File: 03-0905-01/2015-Vol
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Staff Recommendation

1. That the proposed gaming revenue allocation model as presented in the staff report titled, Gaming Revenue Update, from the Director of Finance be endorsed effective January 1, 2016; and
2. That a Council Community Initiatives account be established, and \$3.0M of the existing Gaming Revenue Provision be transferred to this account; and
3. That \$12.0M of the existing Gaming Revenue Provision be transferred to the Capital Reserve (Revolving Fund) for future capital work; and
4. That the 2016 Operating Budget decrease by \$1.4M to remove tax funded grants and increase by \$1.4M for transfer to the Capital Reserve (Revolving Fund) for a net impact of zero to the Operating Budget; and
5. That a Grant Provision account be established for the unspent grant funds to accumulate for future distribution; and
6. That item 2 of the Long Term Financial Management Strategy Policy 3707 be amended as follows:

“Gaming revenues are designated for the capital reserves, the major capital community facility replacement program, the grants program, the Council Community Initiatives account, and towards the cost of policing relating to gaming activities.”

Jerry Chong, CA
 Director, Finance
 (604-276-4064)

REPORT CONCURRENCE	
CONCURRENCE OF GENERAL MANAGER 	
REVIEWED BY STAFF REPORT / AGENDA REVIEW SUBCOMMITTEE	INITIALS: DW
APPROVED BY CAO 	

Staff Report

Origin

This report responds to the referral from the October 6, 2014 General Purposes Committee meeting:

That the policy for the expenditure of Casino Funding be referred to staff for review.

The Province shares gaming revenue with local governments that host casinos and community gaming centres in British Columbia. The City receives ten per cent of the net casino gaming revenue from community casinos and community gaming. The City's agreement with the Province for the receipt of a portion of the net casino revenues specifies that the funds may be used for ***"...any purpose that would be of public benefit to the Host community and within the lawful authority of the Host."***

The purpose of this report is to provide an update to Council on gaming revenues, assess the allocation of gaming revenues, and to update item 2 of the Long Term Financial Management Strategy (LTFMS) Policy 3707 relating to the designated use of these funds.

This report is structured as follows:

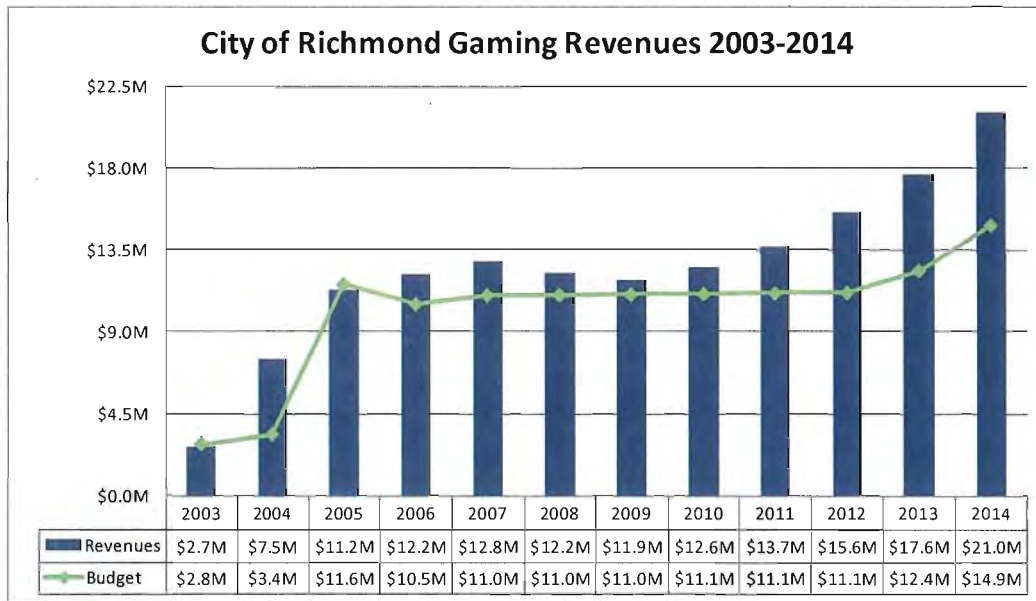
1. Past – A review of gaming revenues received
2. Present – The current use of gaming revenue
3. Future – Proposed update to the gaming revenue allocation and Policy

Analysis

1. Past – A review of gaming revenues received

River Rock Casino Resort (River Rock) has been in operation for over 10 years. Over this period, the revenue received has increased annually with notable increases in both of the last three years. Total gaming revenue received in 2014 was a record amount of \$21.0M, up by \$3.4M (19 %) from the previous record set in 2013 of \$17.6M. Figure 1 depicts the annual gaming revenue received by the City.

Figure 1: Gaming Revenues received by the City of Richmond for the period of 2003-2014



River Rock opened in June 2004. Figures prior to this represent gaming revenue received from the Richmond Casino. River Rock’s first full year of operations in 2005 resulted in \$11.2M of gaming revenue for the City, an increase of 320% from the \$2.7M received in 2003 prior to the opening of River Rock.

The annual revenue received is dependent on two main components: the actual activity at River Rock, and the allocation that Province provides to the host local governments. These factors will influence the revenue received by the City and can cause fluctuations in the annual amounts.

The gaming industry is highly competitive with numerous gaming establishments of varying size and type. River Rock competes with other non-gaming resorts, tourist destinations, and other entertainment businesses. The expansion of other local casinos may have a significant effect on River Rock’s market share, thereby impacting the revenues received by the City.

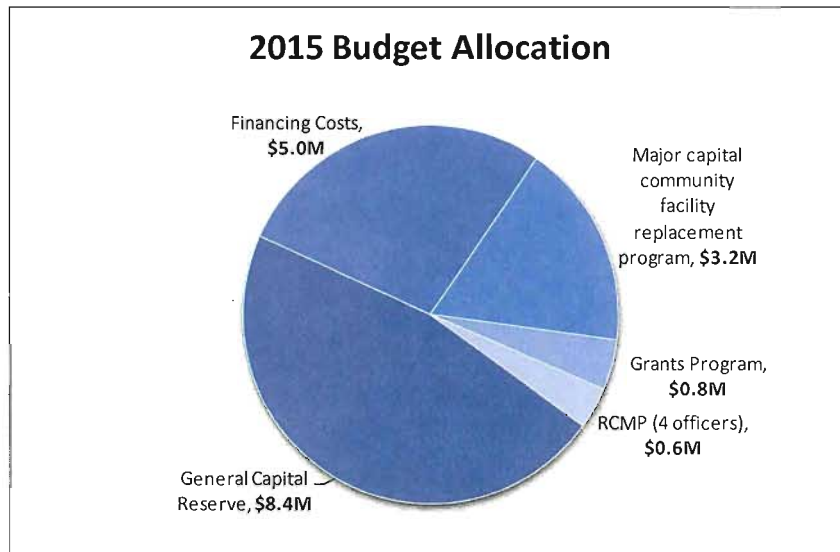
2. Present – The current use of gaming revenue

The budgeted expenditures relating to gaming revenue are presented annually to Council within the Five Year Financial Plan.

The budgeted expenditures of gaming revenues relate to current year revenues. As a result, the budgets have been conservative due to the unpredictable nature of the revenues. Other than the Consumer Price Index (CPI) increases for the grants and the increases related to the funding of the RCMP officers, the increases to the budget have been to the capital program and reserves.

The 2015 budgeted expenditure of gaming revenues is \$18.0M. Figure 2 presents the distribution of the budgeted expenditures.

Figure 2: 2015 Budgeted Expenditure of Gaming Revenues



Capital Program and Facility Reserve

The General Capital Reserve and major capital community facility replacement program (Capital Building and Infrastructure Reserve) are funded from gaming revenue by \$11.6M in 2015. The total gaming revenue allocated to reserves and capital since 2004 is \$56.1M. These reserves have subsequently funded several major projects including:

- replacement of the No. 2 Road fire hall,
- funding towards the replacement of the Bridgeport fire hall,
- seismic upgrading of several fire halls
- acquisition and renovation of the community safety building (No. 5 Road police station)
- expansion of the Hamilton Community Centre
- Britannia Heritage Shipyard – development of the historic zone and Seine net loft
- Oval public art

In 2014, these reserves with partial funding from gaming revenues contributed approximately \$76.9M toward the total \$124.1M approved for a comprehensive Major Capital Facilities Program including the replacement of the Minoru aquatic centre; a new, expanded older adult centre; completion of the new City Centre Community Centre and replacement of the City's No. 1 Fire Hall.

Staff are currently reviewing the Major Capital Facilities Program with Phase 2 of this program estimated to be in the 2018-2020 timeframe.

Financing Costs

Gaming revenues totalling \$50.0M were allocated towards the construction costs of the Richmond Olympic Oval through an annual \$5.0M payment. The final payment was completed in 2014.

Beginning in 2015, \$5.0M annually has been allocated towards the debt servicing costs on the \$50M external borrowing for the replacement of the Minoru aquatic centre. The final payment will be in 2024.

Grants

Since 2004, over \$6.7M of gaming revenue has been allocated to the City Grants Program.

In 2015, \$0.8M is allocated annually to the City Grants Program. Policy 3712 stipulates that the City Grant Program receive an annual Cost of Living increase, and as such the allocation of gaming funding has increased by CPI each year. The current distribution of the grants program is as follows:

- Health, Social and Safety – \$563,986
- Arts, Culture and Heritage – \$105,080
- Parks and Recreation – \$101,494

RCMP

Gaming funding of \$5.1M has been allocated to RCMP officers since 2007.

In 2015, there is \$0.6M of gaming revenue allocated to offset the costs of four RCMP officers. This amount is adjusted annually based on changes in the RCMP contract. The allocation of gaming revenue to defray the cost of policing recognizes the additional policing resources required as a host community.

Council Community Initiatives Account

The establishment of a Council Community Initiatives account will allow Council to direct gaming revenues to one-time initiatives designated for social, environmental, recreation and sports, heritage, arts and culture, safety and security, and infrastructure projects.

Gaming Revenue Provision

Annual gaming revenue surplus has been saved in the Gaming Revenue Provision for future use. The uncommitted balance of the Gaming Revenue Provision at December 31, 2014 is \$15.0M. Included in this amount is the 2014 gaming revenue surplus of \$6.1M.

Recent allocations from the Gaming Revenue Provision include; \$3.0M for the Storeys affordable housing development approved at the July 28, 2014 Council meeting, \$1.8M (equivalent to 1% of the tax draw) towards the Capital Building Infrastructure Reserve approved at the February 10, 2015 Council meeting.

Staff recommend that \$3.0M of the current uncommitted balance from the \$15.0M Gaming Revenue Provision be used to establish the Council Community Initiatives account and the remaining balance of \$12.0M be transferred to the general Capital Reserve (Revolving Fund). The uncommitted balance of the Capital Reserve (Revolving Fund) at December 31, 2014 is \$27.8M.

3. Future – Proposed update to the gaming revenue allocation and Policy

Staff considered the following criteria in evaluating the gaming revenue allocation:

- the availability of funding already provided in the various budgets
- the likelihood of other funding sources
- the continuity of casino funds as an ongoing revenue source
- the need to minimize the ongoing reliance on the tax levy
- the ability to provide a significant lasting improvement to the City
- impact of gaming activities on the community

Staff recommend that the calculation of the budgeted revenue be based on the most recent three year rolling average of actual revenues with projections for the most recent year. This will mitigate fluctuations in revenues and establish a standard practice for budgeting.

For example, based on the previous years (2012-2014), the 2015 budget would have been \$18,087,917.

	Revenues*
2014	\$21,047,132
2013	17,631,779
2012	<u>15,584,840</u>
Average	\$18,087,917

**Note that these figures are used for the example 2016 allocation. The actual figures used during the preparation of the 2016 budget will include an estimate for 2015 revenues.*

Future – Financing Costs

Annually, \$5.0M is allocated towards the debt servicing costs on the \$50M external borrowing for the replacement of the Minoru aquatic centre for the period of 2015 to 2024. This amount is consistent with the 2015 allocation.

The allocation towards financing costs will remain fixed at \$5.0M. For 2025, this amount can be re-evaluated to determine if there is a continued need or if there is potential to redistribute this amount to other items.

Future – RCMP Officers

Gaming revenue of \$0.7M is allocated to offset the cost of for four officers. This amount will be adjusted annually based on changes in the RCMP contract. This amount is consistent with the 2015 allocation.

Future – Grants

The allocation of gaming revenue for grants will be 15% of the total revenues with any unspent amounts transferred into a Grant Provision account for future distribution.

Staff recommend that all grants be funded by gaming revenue, except for where other sources of funding exist; developer contributions, Strategic Community Investment Funds (traffic fine revenue from the Province of BC), etc.

The 2015 distribution of grants is as follows:

2015 Grants

\$1,153,800	Gateway Theatre contribution
	Municipal grants (City Grants Program) - defined under
770,560	Policy 3712
237,956	Other grants
	121,792 - Richmond Centre for Disability
	56,964 - Richmond Therapeutic Equestrian Society
	59,200 - Youth Grants - various
\$2,162,316	2015 Total Grants

The City Grants Program of \$0.8M is funded by gaming revenue, the remaining \$1.4M is funded through the operating budget by taxes (\$1.2M for the Gateway Theatre contribution and \$0.2M for the other grants).

Staff recommend that the grants that are currently in the operating budget funded by taxes be removed and funded by the 15% gaming revenue allocation. This will result in a \$1.4M reduction of the operating budget.

The 2015 grants total is \$2.2M (see above) and the proposed 2016 grants allocation based on 15% would be approximately \$2.7M. This would result in an additional \$550,872 available for grants inclusive of CPI adjustments with any unspent funds transferred into the Grant Provision account.

Future – Council Community Initiatives Account

The Council Community Initiatives Account will be established with an initial \$3.0M transferred from the Gaming Provision. In addition to this amount, an annual allocation of 2% of the gaming revenues will be available, with any unspent amounts placed in the Council Community Initiatives account for future distribution. The proposed 2016 allocation would see a further \$0.4M added to this account.

This amount is in addition to the annual council contingency allocation of \$0.1M in the operating budget.

Future – General Capital Program – Capital Reserve

The capital program's proposed allocation is 30% of total the estimated gaming revenue. The amount for 2016 is estimated at \$5.4M. Annually, this is \$3.0M less than the 2015 allocation.

Staff recommend that commencing with the 2016 operating budget, the \$1.4M reduction in the operating budget as a result of transferring the grants to be funded by gaming revenue be redistributed towards the Capital Reserve (Revolving Fund). This will offset a portion of the \$3.0M annual reduction.

Future - Facility Reserve

The allocation to the major capital community facility replacement program (Capital Building and Infrastructure Reserve) is based on the remaining revenue not previously allocated to the other items. The 2016 allocation would result in approximately \$3.9M allocated towards this reserve which is an increase of approximately \$0.7M. Any surplus gaming revenue received in the year will be allocated to this reserve toward the major capital community facility replacement program.

Proposed Gaming Revenue Allocation Model

Financing Costs – fixed at \$5.0M	Fixed \$5.0M
RCMP four officers –increase in correlation with RCMP contract	Cost of 4 Officers
Capital program - general Capital Reserve	30%
Grants	15%
Council Community Initiatives account	2%
Major capital community facility replacement program (Capital Building and Infrastructure Reserve)	Remainder

The proposed allocation of gaming revenue commencing in 2016 is structured where certain items receive funding based on a fixed measure, others are based on a percentage and the major capital community facility replacement program is allocated the remaining revenues. The details of the proposed allocation are below.

Figure 3 – Example of the proposed 2016 allocation

	Proposed Distribution	2016 Proposed Allocation	2015 Budgeted Allocation	Difference
General Capital Reserves	30%	5.4M	8.4M	(3.0M)
Financing Costs	Fixed	\$5.0M	\$5.0M	-
Major capital community facility replacement program	Remainder	3.9M	3.2M	0.7M
Allocation for all grants	15%	2.7M	0.8M	1.9M
RCMP four officers*	Four Officers	0.7M	0.6M	0.1M
Council Community Initiatives account	2%	0.4M	-	0.4M
Total		\$18.1M	\$18.0M	\$0.1M

Note the figure for the 2015 Budget Allocation is the amount included in the 2015 operating budget. The 2016 Proposed Allocation is based on the 3 year actual revenue received.

*The increase for the four RCMP officers is due to an estimated increase for the 2016 budget.

Update Policy 3707 – Long Term Financial Management Strategy

The existing Council Policy 3707, Long Term Financial Management Strategy states that,

“Gaming revenues will go directly to the capital reserves, the grants program and a community legacy project reserve.”

Council made an exception to the policy at the February 15, 2007 Finance Committee meeting and funded RCMP officers with gaming revenue. On June 24, 2013 Council also approved to allocate \$5.0M annually from gaming revenue towards the debt servicing costs for the construction of the Integrated Older Adults’ Centre, Aquatic Centre and Minoru Pavilion facility.

Staff recommend that item 2 of the LTFMS Policy 3707 be updated to read,

“Gaming revenues are designated for the capital reserves, the major capital community facility replacement program, the grants program, the Council Community Initiatives account, and towards the cost of policing relating to gaming activities.”

The updated Policy 3707 is included in **Attachment 1**.

Financial Impact

\$3.0M of the Gaming Revenue Provision will be used to establish the Council Community Initiatives account with annual funding to be provided by gaming revenue, and \$12.0M of the Gaming Revenue Provision be transferred to the Capital Reserve (Revolving Fund) for future capital work.

The annual allocation of gaming revenue will be re-distributed effective for the 2016 operating budget as follows:

- a net increase to grant funding of \$0.6M
- introduction of the Council Community Initiatives account \$0.4M
- a net reduction in reserve funding of \$0.9M recaptured through any gaming revenue surplus
- no change to financing cost of \$5.0M
- no change to RCMP officer funding of \$0.7M

Any surplus revenue received will be transferred to the major capital community facility program (Capital Building and Infrastructure Reserve).

There is no net impact to the Operating Budget. There is a reduction of approximately \$1.4M due to the relocation of the grants to be funded by gaming revenues and a corresponding increase to the transfer to reserve for the same.

Conclusion

The revenues received through gaming have increased significantly over the past few years. However, there is no guarantee that this trend will continue in the future because it is subject to external factors. Staff recommend that the budgeted allocation of these revenues be adjusted to allow for a greater proportion of funding for grants with any surplus amounts to be placed in a major community capital replacement program (Capital Building and Infrastructure Reserve). The Council Community Initiatives account will be established by transferring \$3.0M from the Gaming Revenue Provision for environmental, heritage, arts and culture, safety and security, and infrastructure projects as recommended by Council. It is also recommended that item 2 of Policy 3707, the Long Term Financial Management Strategy be updated to reflect the recommended allocation distribution.



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Att. 1: Updated Policy 3707 Long Term Financial Management Strategy



Policy 3707:

It is Council Policy that:

1. **Tax Revenue**

Tax increases will be at Vancouver's CPI rate (to maintain current programs and maintain existing infrastructure at the same level of service) plus 1.0 % towards infrastructure replacement needs.

2. **Gaming Revenue**

Gaming revenues are designated for the capital reserves, the major capital community facility replacement program, the grants program, the Council Community Initiatives account, and towards the cost of policing relating to gaming activities. ~~will go directly to the capital reserves, the grants program and a community legacy project reserve.~~

3. **Alternative Revenues & Economic Development**

Any increases in alternative revenues and economic development beyond all the financial strategy targets can be utilized for increased levels of service or to reduce the tax rate.

4. **Changes to Senior Government Service Delivery**

Any additional costs imposed on the City as a result of mandatory senior government policy changes should be identified and added to that particular year's taxes above and beyond the CPI and infrastructure percentage contribution.

5. **Capital Plan**

Ensure that long term capital funding for infrastructure (e.g. parks, trails, facilities, roads etc.) is in place in order to maintain community liveability and generate economic development.

6. **Cost Containment**

Staff increases should be achieved administratively through existing departmental budgets, and no pre-approvals for additional programs or staff beyond existing budgets should be given, and that a continuous review be undertaken of the relevancy of the existing operating and capital costs to ensure that the services, programs and projects



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Adopted by Council: September 22nd, 2003
Amended by Council: July 8, 2013

Policy 3707

File Ref: 0970-03-01

Long Term Financial Management Strategy

delivered continue to be the most effective means of achieving the desired outcomes of the City’s vision.

7. **Efficiencies & Service Level Reductions**

Savings due to efficiencies or service level reductions identified in the strategy targets should be transferred to the capital reserves. Any savings due to efficiencies beyond the overall strategy targets can be utilized to reduce the tax rate or for increased levels of service.

8. **Land Management**

Sufficient proceeds from the sales of City land assets will be used to replenish or re-finance the City’s land inventory. Any funds in excess of such proceeds may be used as directed by Council.

9. **Administrative**

As part of the annual budget process the following shall be undertaken:

- all user fees will be automatically increased by CPI;
- the financial model will be used and updated with current information, and
- the budget will be presented in a manner that will highlight the financial strategy targets and indicate how the budget meets or exceed them.

10. **Debt Management**

Utilize a “pay as you go” approach rather than borrowing for financing infrastructure replacement unless unique circumstances exist that support borrowing.