SUBJECT: Municipal Share of Slot Machine Revenue (FCS08069) (City Wide) (Item I of Audit & Administration Committee Outstanding Business List)

RECOMMENDATION:

a) That the City of Hamilton support the City of Toronto in renegotiating the municipal share of slot machine revenue with the Ontario Lottery and Gaming Corporation (OLG);

b) That the City of Hamilton, together with all other host municipalities of Slots-at-Racetrack, jointly approach the Ontario Lottery and Gaming Corporation (OLG) and the Ministry of Energy & Infrastructure, to collectively request that the current agreement with respect to the municipal share of slot machine revenue be increased to 10% of the slot operation’s gross revenues (Net Win), regardless of the number of slot machines, subject to not negatively affecting the amount currently received by the racetrack owner and horse breeders, or cause the reduction in grants provided through Ontario Trillium Foundation;

c) That a copy of report FCS08069 “Municipal Share of Slot Machine Revenue” be forwarded to all host municipalities of Slots-at-Racetrack, the Ontario Lottery and Gaming Corporation (OLG) and the Ministry of Energy & Infrastructure; and

d) That Item "I" be removed from the Audit and Administration Committee Outstanding Business List.

Peter A. Barkwell, Acting General Manager
Finance and Corporate Services
EXECUTIVE SUMMARY:

The City of Hamilton, similar to other host municipalities of Slots-at-Racetrack, receives quarterly payments from the Ontario Lottery and Gaming Corporation (OLG) for its share of the slot operation’s gross revenues (Net Win). This share is calculated as follows: 5% for the first 450 slot machines and 2% for the balance in excess of 450 machines. Flamboro Downs currently has about 800 slot machines, which results in the City of Hamilton receiving a 3.7% share of the slot operation’s Net Win (gross revenue). Since Flamboro Downs has in excess of 450 slot machines, the City of Hamilton’s percentage share is less than the full 5% allocated to host municipalities with 450 or fewer slot machines, and significantly less than the 10% share received by both the racetrack owners and horse breeders.

The following Table identifies the quarterly payments received since commencing the Slots-at-Racetrack operations at Flamboro Downs in the Fall of 2000.

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Quarter</td>
<td>691,565</td>
<td>1,048,960</td>
<td>1,180,250</td>
<td>1,307,288</td>
<td>1,041,615</td>
<td>1,069,219</td>
<td>1,032,964</td>
<td>1,121,856</td>
<td>8,493,717</td>
<td></td>
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<tr>
<td>2nd Quarter</td>
<td>773,525</td>
<td>1,173,638</td>
<td>1,316,657</td>
<td>1,290,854</td>
<td>1,073,206</td>
<td>1,069,869</td>
<td>1,128,582</td>
<td>7,826,331</td>
<td>7,826,331</td>
<td></td>
</tr>
<tr>
<td>3rd Quarter</td>
<td>964,306</td>
<td>1,193,755</td>
<td>1,320,163</td>
<td>1,111,710</td>
<td>1,130,800</td>
<td>1,132,515</td>
<td>1,210,569</td>
<td>8,063,818</td>
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</tr>
<tr>
<td>4th Quarter</td>
<td>569,500</td>
<td>1,002,519</td>
<td>1,180,139</td>
<td>1,336,482</td>
<td>1,086,264</td>
<td>1,098,362</td>
<td>1,109,751</td>
<td>8,436,752</td>
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<tr>
<td>Total</td>
<td>$569,500</td>
<td>$3,431,915</td>
<td>$4,596,492</td>
<td>$5,153,552</td>
<td>$4,796,116</td>
<td>$4,299,356</td>
<td>$4,369,965</td>
<td>$4,481,866</td>
<td>$1,121,856</td>
<td>$32,820,618</td>
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</tbody>
</table>

History of Flamborough Slot Revenues

To date, the City of Hamilton has received approximately $33 million. During the same time period, Flamboro Downs slot operation’s gross revenues (Net Win) were $872 million. The amount allocated to the City of Hamilton therefore represents about 3.8%. Had the City been entitled to the same share as the racetrack owners and horse breeders (10%), this would have totalled in excess of $87 million over the same time period, representing an additional $54 million. In 2007 alone, the City of Hamilton would have received $12.1 million, which represents an increase of $7.6 million compared to what was actually received.

The current distribution of proceeds (Net Win) from slots at Ontario’s racetracks is as follows:

- 10% to racetrack owners
- 10% to horse breeders
- 5% to host municipalities for the first 450 slot machines, and 2% for any slot machines in excess of 450 (this equates to 3.7% based on Flamboro Down’s 800 slot machines)
- 2% towards the Province’s problem gambling programs
- balance (73%-75%) to the Province (to cover OLG operating costs and OLG’s contribution to the Ontario Trillium Foundation)
Any increase to a host municipality’s share should come from the Province’s 73%-75% share (without negatively affecting the amount guaranteed to Ontario Trillium Foundation). Through the Ontario Trillium Foundation, the OLG provides in excess of $100 million annually towards Ontario’s charities and community organizations. These funds are made possible through the use of slot machine revenues from all 17 OLG Racetrack Slot facilities. Community organizations and charities in the Hamilton area receive approximately $3 million annually from the Ontario Trillium Fund. Any agreed-upon increase in a host municipality’s share of slot revenues should not negatively affect the Ontario Trillium Fund as this, in turn, would negatively impact these community organizations and charities. The current share provided to racetrack owners and horse breeders should also not be reduced.

**BACKGROUND:**

In a letter dated April 22, 2008, the City of Toronto has requested the City of Hamilton’s support in renegotiating the municipal share of slot machine revenue with the Ontario Lottery and Gaming Corporation (OLG). Under the existing Racetrack Municipality Contribution Agreement, a host municipality of a Slots-at-Racetrack facility receives a share of the slot operation’s gross revenues (Net Win) calculated as follows: 5% for the first 450 slot machines and 2% for the balance in excess of 450 machines. The City of Toronto is requesting to increase the municipal share to 10% of the slot operation’s gross revenues (Net Win) to equal to that of what is currently being received by the racetrack owners and horse breeders (attached is a copy of Toronto’s letter and report received by Council on May 14th, 2008 as “Appendix A”).

Currently, all 17 host municipalities of Slots-at-Racetracks have the same financial arrangement with OLG through a “Racetrack Municipality Contribution Agreement”. As stated in this agreement, one of the host municipality’s role is “at no additional cost to OLC, provide for additional policing services at or near the Racetrack as may be determined by the Municipality and local police authorities, acting reasonably, to be necessary or desirable, to maximize the adult public’s ability to access, utilize and derive enjoyment from, the Prescribed Lottery Scheme on a year-round basis.” Since the start of this arrangement with OLG, the City of Toronto’s position is that a larger share of the gross gaming revenue is required, as host municipalities incur additional costs (police, fire, transit, roads, planning) as a result of these slot operations.
ANALYSIS/RATIONALE:

Flamboro Downs currently has 800 slot machines. The existing municipal share formula results in 2007 slot revenues of approximately $4.5 million apportioned to the City of Hamilton. This is calculated by taking 5% of the net win for the first 450 slot machines and 2% for the balance in excess of 450 machines (800 – 450 = 350). This calculation is demonstrated below:

\[
\begin{align*}
\$121.4 \text{ M (Net Win)} \times 5\% \times \frac{450}{800} &= \$3.4 \text{ M} \\
+ \$121.4 \text{ M (Net Win)} \times 2\% \times \frac{350}{800} &= \$1.1 \text{ M} \\
\end{align*}
\]

\[\text{\$4.5 Million} \]

Dividing Hamilton’s share by the total net win reveals that the percentage share entitlement to the City of Hamilton is actually 3.7%.

\[
\frac{\$4.5 \text{ Million}}{\$121.4 \text{ Million}} = 3.7\% 
\]

If the municipal share were increased to 10%, this would result in the City of Hamilton receiving $12.1 million (based on 2007 net win) compared to $4.5 million. This is an additional $7.6 million to the City of Hamilton. This additional amount should come from the Province’s current share of the Net Win.

As illustrated in the table below, the Province’s share of Flamboro Downs’ 2007 Net Win was $90 million (which represents a 74.3% share). After allowing for major OLG operating expenditures, the Province’s revenue from the slot operations at Flamboro Downs is over $76 million. Increasing the municipal share to 10% can therefore be adequately funded from this balance, without negatively affecting the remaining stakeholders or the OLG’s commitment to the Ontario Trillium Foundation.
2007 NET WIN

<table>
<thead>
<tr>
<th>Distribution of Net Win:</th>
<th>($ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Host Municipality (City of Hamilton)</td>
<td>4.48 $</td>
</tr>
<tr>
<td>Racetrack Owner</td>
<td>12.14 $</td>
</tr>
<tr>
<td>Horse Breeder</td>
<td>12.14 $</td>
</tr>
<tr>
<td>Problem Gambling Problem</td>
<td>2.43 $</td>
</tr>
<tr>
<td>Province</td>
<td>90.18 $</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>121.4</strong> $</td>
</tr>
</tbody>
</table>

Province’s Gross Share

<table>
<thead>
<tr>
<th>Less OLG Operating Costs:</th>
<th>($ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll</td>
<td>11.00 $</td>
</tr>
<tr>
<td>Goods/Services Purchased</td>
<td>2.30 $</td>
</tr>
<tr>
<td><strong>Balance (before contribution to Trillium Foundation)</strong></td>
<td><strong>76.88</strong> $</td>
</tr>
</tbody>
</table>

**ALTERNATIVES FOR CONSIDERATION:**

Increasing the percentage share of the Net Win to 5%, regardless of the number of slot machines, would also result in additional funds to the City of Hamilton and, most importantly, treat all host municipalities equally. The current agreement with OLG, results in municipalities with more than 450 slot machines receiving less than a 5% share, while municipalities with 450 slot machines or fewer, receiving their full 5% share. This equation is unfair and results in host municipalities with greater than 450 slot machines being unfairly treated by receiving a reduced share.

Had the City of Hamilton received a full 5% share, this amount would have equated to approximately $6.1 million in 2007, which is an additional $1.6 million than what was actually received in 2007. The Province benefits from the additional revenues as a result of more slot machines, however, based on the current arrangement, the municipality is penalized with a reduced share.

**FINANCIAL/STAFFING/LEGAL IMPLICATIONS:**

**Financial** - Any changes to the current financial agreement with OLG would impact the quarterly payments currently received by the City of Hamilton. Since slot revenues are now allocated to the General Levy, all communities within the City of Hamilton would benefit from an increased share of the Net Win.

**Staffing** – none.
Legal – The current “Racetrack Municipality Contribution Agreement” would have to be amended to reflect any changes to the current financial arrangement between the City and the OLG. The OLG has stated that any change to the financial arrangement with one host municipality would result in a similar change to all host municipalities.

**POLICIES AFFECTING PROPOSAL:**

N/A.

**RELEVANT CONSULTATION:**

Staff have consulted with the City of Toronto and the Ontario Lottery and Gaming Corporation (OLG).

**CITY STRATEGIC COMMITMENT:**

By evaluating the “Triple Bottom Line”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

Community Well-Being is enhanced. ☐ Yes ☑ No

Environmental Well-Being is enhanced. ☐ Yes ☒ No

Economic Well-Being is enhanced. ☒ Yes ☐ No

Does the option you are recommending create value across all three bottom lines?  ☐ Yes ☐ No

Do the options you are recommending make Hamilton a City of choice for high performance public servants?  ☐ Yes ☐ No
April 22, 2008

Mayor Fred Eisenberger
City of Hamilton
Hamilton City Centre
77 James Street North, Suite 230
Hamilton, ON L8R 2K3

Dear Mayor Eisenberger:

I am writing to seek your municipality’s support in renegotiating the municipal share of slot machine revenue with the Ontario Lottery and Gaming Corporation (OLG). Attached is a related staff report adopted by Toronto City Council on January 29 and 30, 2008.

Under the existing Racetrack Municipality Contribution Agreement, a host municipality of Slots-at-Racetrack receives, on a quarterly basis, a share of the slot operation’s gross revenues (Net Win) from the Ontario Lottery and Gaming Corporation (OLG), calculated as 5% for the first 450 slot machines and 2% for the balance in excess of 450 machines. The formula provides the host municipality with a share which is much less than that received by the racetrack owners and horse breeders, who each receive 10% of the Net Win.

The City of Toronto is planning to begin discussions with the provincial elected officials and staff with the objective of increasing the City’s share to 10% of the Net Win.

As a host municipality under the current Agreement, your support would be very helpful. Should your municipality be interested in having further discussions with the City of Toronto in this regard, please feel free to contact:

Mr. Don Altman
Manager, Corporate Financial Strategies, Corporate Finance
Toronto City Hall, 100 Queen Street West
5th floor, East Tower
Toronto, ON M5H 2N2
Tel: (416) 397-4220
Fax: (416) 397-4555
Email: daltman@toronto.ca

Yours truly,

[Signature]
Mayor David Miller

[City Hall • 100 Queen Street West • 2nd Floor • Toronto, Ontario M5H 2N2
Telephone: 416-397-CITY • Fax: 416-696-3687 • E-mail: mayor_miller@toronto.ca]
c: Shirley Hoy, City Manager
   Joseph P. Pennachetti, Deputy City Manager & Chief Financial Officer
   Len Brittain, Director, Corporate Finance
   Don Altman, Corporate Financial Strategies, Corporate Finance

Attachment
Executive Committee – Item 16.7
Considered by City Council on January 29 and 30, 2008

EX16.7  NO AMENDMENT   Ward: All

Revenue Sharing Fairness of Woodbine Slots

City Council Decision
City Council on January 29 and 30, 2008, adopted the following motions:

1. The Mayor and staff negotiate a change in the Racetrack Municipality Contribution Agreement with the Ontario Lottery and Gaming Corporation with respect to revenue sharing with the objective of increasing the City's share to be the same as other non-government stakeholders, i.e. 10% of the Net Win as defined by the existing agreement; and that these negotiations take place on a political, as well as staff-to-staff level.

2. If necessary, the City Manager be requested to report to an upcoming meeting of the Executive Committee on the feasibility of:
   a. negotiating a separate deal for the new slot machines only, should requests to amend the existing agreement fail; and
   b. capping the number of slot machines permitted, perhaps as a function of the zoning by-law, in an establishment in the City of Toronto.

3. It be Council’s policy that, in the event that there is any expansion of gaming within the City of Toronto, it will be contingent on the City receiving at least an amount equivalent to that received by non-governmental stakeholders.

4. A copy of the report (December 19, 2007) from the City Manager and the Deputy City Manager and Chief Financial Officer, be forwarded to all municipalities that host slot gaming venues, with a view to building a coalition of the municipalities that host gaming facilities.

(December 19, 2007) Report from the City Manager and the Deputy City Manager and Chief Financial Officer
Revenue Sharing Fairness of Woodbine Slots

Date: December 19, 2007
To: Executive Committee
From: City Manager
Deputy City Manager and Chief Financial Officer
Wards: All
Reference Number: P:\2007\Internal Services\CfE\Ec07056Cf - et (AFS #6574)

SUMMARY

The purpose of this report is to discuss the feasibility of negotiating a larger percentage of the slot machine revenue dedicated to the City of Toronto from Woodbine Racetrack, which is owned by the Woodbine Entertainment Group, but operated by the Ontario Lottery and Gaming Corporation (OLG).

At present, the OLG operates 17 facilities in Ontario under the Slot Machine Program at Racetracks. Host municipalities in this program are entitled to receive a portion of the gaming revenues quarterly under a revenue-sharing agreement (Racetrack Municipality Contribution Agreement) with the OLG. The formula is such that the municipality's share is calculated at 5% of the gross gaming revenue (Net Win) on the first 450 slot machines and 2% on the balance in excess of 450 machines. The balance of the gross revenue is distributed quarterly in the following manner: racetrack owner - 10%; horse breeders - 10%; Ministry of Health's Problem Gambling Strategy - 2%; and the rest to the Province's Consolidated Revenue Fund including the Ontario Trillium Foundation. With approximately 1,950 slot machines at Woodbine in 2006, the City's share of the gross gaming revenue was approximately 2.69% (or $14.8 million – 2006 actual).

Ever since Woodbine's 2000 inception, Council's position has been that the City requires a larger share of the gross gaming revenue. This is premised on the fact that the City incurs additional operating and capital costs to support the slot operation at Woodbine, (e.g. planning, emergency services (police, fire and EMS), transit and transportation). Further, it is also an issue of fairness – Toronto receives a disproportionate return than it contributes to the Province in the racetrack slot operation.
The host municipality’s share of the gross slot gaming revenue is prescribed by a contract between the OLG and the municipality. The legislative authority of the OLG is set out in the *Ontario Lottery and Gaming Corporation Act, 1999*, which neither prohibits municipalities from receiving a larger percentage of gross gaming revenues than the current shares, nor prescribes the percentage shares of revenues for each of the stakeholders. Staff are of the opinion that it is feasible for the City to negotiate a larger percentage of the gross slot machine revenue at Woodbine Racetrack Slots. It should be noted that in the past OLG indicated that if any change was made to the template agreement with the City of Toronto, it would need to make similar changes to other template agreements with all other host municipalities participating in the Slots-at-Racetrack program.

Council previously resolved to seek an improved template agreement so that the revenue to the municipality from slot machines in excess of 1,300 machines would be at least equivalent to the 5% for the first 450 machines, i.e. 5% on the first 450 machines, 2% on the next 850 machines, and 5% for any additional ones beyond 1,300 machines (5%, 2%, 5%).

This report recommends that the City re-negotiate the agreement with the Province so that the City receives the same percentage of revenues as other non-government stakeholders, i.e. 10% of the Net Win. The City may negotiate with the OLG directly, or as part of the negotiation in relation to the Woodbine development project.

**RECOMMENDATIONS**

The City Manager and the Deputy City Manager & Chief Financial Officer recommend to City Council that:

1. the Mayor and staff negotiate a change in the Racetrack Municipality Contribution Agreement with the Ontario Lottery and Gaming Corporation with respect to revenue sharing with the objective of increasing the City’s share to be the same as other non-government stakeholders, i.e. 10% of the Net Win as defined by the existing agreement.

**Financial Impact**

This report does not have an immediate financial impact on the City. Future discussions with the OLG may result in an amendment to the existing Racetrack Municipality Contribution Agreement which may provide for a greater share of slot machine revenues to the City.

Revenues from the OLG which are the City’s share of the slot machines revenues at the Woodbine Racetrack Slots are currently Non-Program Revenues in the Operating Budget with a 2007 budget of $14.5 million. Should the City be successful in getting the higher
share of revenues as recommended in this report (i.e. 10% vs 2.69%) and had it been in place in 2006, the City would have received about $55 million, in excess of $40 million more than the $14.8 million received in 2006.

DECISION HISTORY

In 2000, City Council authorized staff to enter into a revenue-sharing agreement with the Ontario Lottery & Gaming Corporation (OLG), an agency of the Government of Ontario, with respect to the operation of slot machines at Woodbine Racetrack. OLG asked that all host municipalities sign a “template agreement” providing each host municipality the same revenue-sharing formula. Prior to the facility’s March 2000 opening, a number of City divisions were involved to ensure all necessary zoning and building requirements had been met, and to ensure overall financial impacts arising from the slot operation could be determined. These divisions included: City Planning, Transportation, Legal Services, Economic Development, Public Health, TTC, Toronto Police Service, Fire Services, Emergency Medical Services and Corporate Finance. In May 2000 Council considered two confidential reports relating to the financial impacts and other outstanding matters. Council decisions relating to the confidential reports (but not the confidential reports themselves) can be found at:

In particular, Council resolved that the City seek “an amended template agreement so that the revenue to the municipality from slot machines in excess of 1,300 machines be at least equivalent to the revenues received and paid for the first 450 machines”. During the summer of 2000 City staff continued to negotiate the revenue-sharing formula with the OLG according to Council’s decision. However, the OLG did not agree to the request, and the final agreement that was fully executed in November 2000 was essentially the same as other agreements signed by municipalities participating in the Slots-at-Racetrack program with respect to revenue sharing.

In a letter to the OLG in October 2002, the City’s CFO & Treasurer reaffirmed the City’s wish to seek from the OLG an amended template agreement as mentioned above. OLG’s Chair and CEO, in his response to the City dated November 13, 2002, stated that he was of the view that the agreement with the City of Toronto was fair and he had no intention of renegotiating or amending it.

At its November 26, 2007 meeting, the Executive Committee requested the City Manager, in consultation with the appropriate City staff, to report to the January 2008 meeting of the Executive Committee on the feasibility of negotiating a larger percentage of the slot machine revenue dedicated to the City from Woodbine Racetrack:

ISSUE BACKGROUND

The Ontario Lottery and Gaming Corporation (OLG) currently operates 17 Racetrack Slots facilities, six Charity and Aboriginal Casinos, and four Resort Casinos across the Staff report on Revenue Sharing Fairness of Woodbine Slots
province. Woodbine Racetrack Slots is one of 17 free-standing racetrack slot facilities. It is owned by the Woodbine Entertainment Group, but operated by the OLG. The Appendix is a list of all facilities operated by the OLG in 2006 and the associated revenues for the host municipalities.

Revenue-Sharing Formulae for OLG Slots & Casinos:

OLG’s Slots-at-Racetracks — Host municipalities in this program are entitled to receive a portion of the gaming revenues quarterly under a Racetrack Municipality Contribution Agreement with the OLG, whereby the municipality’s share is calculated at 5% of the gross gaming revenue or “Net Win” on the first 450 slot machines and 2% on the balance in excess of 450 machines. The balance of the gross revenue is distributed quarterly in the following manner: racetrack owner - 10%; horse breeders - 10%; Ministry of Health’s Problem Gambling Strategy - 2%; and the rest to the Province’s Consolidated Revenue Fund including the Ontario Trillium Foundation. (The OLG guarantees $100 million annually for Ontario’s charities through the Ontario Trillium Foundation).

OLG’s position has been that if any change was made to the template agreement with the City of Toronto, it would need to make similar changes to other template agreements with all other host municipalities participating in the Slots-at-Racetrack program.

OLG’s Charity Casinos are governed by a different revenue-sharing formula. Their host municipalities receive 5% of the gross gaming revenues regardless of the number of slots.

First Nation Casinos — Casino Rama and Great Blue Heron Charity Casino - where the facilities are located on First Nations land, have different arrangements for revenue sharing: The Great Blue Heron Charity Casino is owned by the Mississaugas of Scugog Island First Nation and is operated by Great Blue Heron Gaming Company, which is wholly owned by Casino Austria, Fantasy Gaming Entertainment Inc. and Sonco Gaming. The Mississaugas of Scugog Island First Nation Indian Band (¶34) formed the Baagwating Community Association, a non-profit charitable association, to conduct and manage the table game operations. The OLG is responsible for the management of the slot facility only. As the host community of the Great Blue Heron Charity Casino, the Mississaugas receive 5% of the revenue for the slot machines. The Ontario Government receives 20% of gross gaming revenue and 100% of net profits from the slots facility.

Commercial Resort Casinos — Host cities (Niagara Falls and Windsor) each receive $2.6 million annually for ten years, followed by $3 million annually for the next ten years. The Ontario Government receives 20% of gross gaming revenue from resort casinos and 100% of net profits from Casino Windsor, Casino Niagara and Niagara Fallsview Casino Resort. Casino Rama is located on the Mnijikening First Nation land. Net revenues from Casino Rama are distributed to Ontario’s First Nations for economic, community development, health and education.

It is worth noting that the Ontario Government has been the subject of a legal dispute since 1996 arising from Casino Rama’s revenue distribution amongst all parties including the Mnijikening First Nation and Ontario’s other 133 First Nations. The First Nations
have disputed over the Ontario Government’s first take of 20% of the gross gaming revenue, as well as how the net revenues get distributed amongst the 134 First Nations.

Distribution of Revenues at Slots-at-Woodbine:

At its 2000 opening, Woodbine had 1,700 slot machines. The blended rate for the City’s share according to the formula was 2.794%. In August 2005, a total of 200 machines were added. At the end of 2006, it was reported to have about 1,950 machines, resulting in a lower blended rate to the City of 2.693%.

In 2006, the distribution of revenues from the Woodbine slot operation, a total estimated $550 million, was:
- City of Toronto: $14.8 million (2.693%)
- Woodbine Entertainment Corp: approximately $55 million (10%)
- Horse breeders: approximately $55 million (10%)
- Ministry of Health’s Problem Gambling Strategy: approximately $11 million (2%)
- Province (including Consolidated General Revenue Fund and Ontario Trillium Foundation): approximately $414 million before operating expenses (over 75%,)

The following table shows the annual revenue from OLG since Woodbine Slot’s inception up to and including the quarter ending September 30, 2007:

<table>
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<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007 Q1-Q3 only</th>
<th>Total since opening</th>
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<tbody>
<tr>
<td>Woodbine Racetrack Slots</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Opening Mar 27, 2000

New Development Project at Woodbine (Woodbine Live!):

City Council in July 2007 approved a draft plan of the subdivision at 555 Rexdale Boulevard, which sets the stage for a $700 million development project at the Woodbine Racetrack called “Woodbine Live!” It will consist of a 2,500-unit residential district and a regional entertainment tourism destination including offices, retail stores, a hotel, restaurants, theatres, a live performance facility and associated amenities. Although the announcement of the development does not include a new casino, it is believed that the volume of patrons visiting the existing slot facility will increase substantially.

There are on-going negotiations between the developers, the City and the OLG concerning the new development of the site. The City may incur additional cost, e.g. financial incentives, in relation to the development, and staff consider it opportune to renegotiate with the OLG for an amended template agreement with respect to sharing of the Woodbine slots revenue.
COMMENTS

The issue at hand is a matter of revenue sharing fairness.

1. Based on the existing formula, facilities with a higher number of machines get a proportionately smaller share of the gross revenues. Hence, larger facilities are essentially disadvantaged by their size. The following chart illustrates this point:

   ![Municipal Share of Slot Revenues as a Function of the Number of Slot Machines per Racetrack Municipality Contribution Agreement](chart)

   As mentioned above, Council in 2000 resolved to seek from the OLG an amended template agreement so that the revenue to the municipality from slot machines in excess of 1,300 machines would be at least equivalent to the 5% for the first 450 machines, i.e. 5% on the first 450 machines, 2% on the next 850 machines, and 5% for any additional ones beyond 1,300 machines (5%, 2%, 5%). The blended rate under this formula for 1,950 machines would be 3.692%. If the formula was indeed changed to provide the City with 3.692% of the gross revenue, the City would have received more than $20 million in 2006 (vs actual $14.8 million), or a 37% increase.

   Further, had the City been paid at 10%, same as the horse breeders or Woodbine Entertainment Corp., the City would have received $55 million, an additional $40 million, or a 270% increase.

2. Staff did an analysis of the OLG annual reports over the six fiscal years, from 2000/2001 to 2005/2006, and made the following observations:

   - Over the six fiscal years, the Slots-at-Woodbine had on average 15% of the total number of slots machines in charity casinos and racetrack slots, and brought in 20% of the total patrons visiting these facilities. This means Woodbine attracted proportionately more patrons than other similar facilities.
- Woodbine is also the most “profitable” slot facility amongst all 17 existing facilities in Ontario. For example, in 2005/2006, Woodbine generated $274,260 in Net Win per slot, 24% higher than the second highest facility at Georgian Downs at $220,976, and 85% higher than the average of all facilities at $148,410.

- Over the six fiscal years, with only 15% of the total slots, Woodbine generated 29% of the total "Net Win" from slot machines in charity casinos and racetrack slots. Yet, Toronto’s share of the total commissions paid to host municipalities was only 22%. If commissions paid to racetracks and horse breeders were included, Toronto’s share of the total commissions paid was just 4%.

3. Overall gaming revenue in the Province grew from $4.7 billion in 2000 to over $6.0 billion by 2006. Revenue peaked in 2003/2004, but has decreased slightly due to a number of factors, including the implementation of local municipal non-smoking by-laws, provincial non-smoking legislation, border restrictions and the strong Canadian dollar.

Although Woodbine has also seen a similar pattern of revenue change since 2000, it was hit harder than the Province as a whole. The relative drop in revenues flowing to the City was more pronounced than the Province.

The following chart shows that the total slot revenues from all charity casinos and racetrack slots for the Province increased by 48% from 2001 to 2006, the revenue flowing to the City increased by only 36%.
From the above discussion, there is an issue of fairness from three perspectives:

- Woodbine is the largest non-commercial slot facility in the Province with the most slot machines, but the City vis-à-vis the other host municipalities is disadvantaged by the slot facility’s size with respect to revenue sharing.
- Woodbine is the most “profitable” site amongst similar operations, but Toronto does not receive a fair share of the gaming revenues in return.
- Growth in gaming revenues for the Province has been faster than that for the City, and it appears that the gap is widening.

In conclusion, it appears that the current revenue-sharing formula between the OLG and the City of Toronto is unfair and disadvantages the City. The host municipality’s share of the gross slot gaming revenue is prescribed by a contract between the OLG and the municipality. The legislative authority of the OLG is set out in the *Ontario Lottery and Gaming Corporation Act, 1999*, which neither prohibits municipalities from receiving a larger percentage of gross gaming revenues than the current shares, nor prescribes the percentage shares of revenues for each of the stakeholders. Staff are of the opinion that it is feasible for the City to negotiate a larger percentage of the gross slot machine revenue at Woodbine Racetrack.

Given the on-going negotiations between the City, the developers and the OLG with respect to the Woodbine Live! development project, staff consider it opportune for the City to re-negotiate with the OLG for an amended template agreement. This report recommends that the City re-negotiate the agreement with the Province so that the City receives the same percentage of revenues as other non-government stakeholders, i.e. 10% of the Net Win. The City may negotiate with the OLG directly, or as part of the negotiation in relation to the Woodbine development project.

**CONTACT**

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**SIGNATURE**

Shirley Hoy  
City Manager  

Joseph P. Pennachetti  
Deputy City Manager and  
Chief Financial Officer

**ATTACHMENT**

Appendix – OLC Slots and Casinos 2006 Municipal Revenues
## Appendix

### OLG Slots and Casinos

#### 2006 Municipal Revenues

<table>
<thead>
<tr>
<th>Host Municipality</th>
<th>Opening Date</th>
<th>No. of Slots</th>
<th>2006 Total Municipal Revenues $</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OLG Racetrack Slot Facilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Woodbine Racetrack</td>
<td>Mar. 27, 2000</td>
<td>1,950</td>
<td>14,601,184</td>
</tr>
<tr>
<td>Rideau Carleton Raceway</td>
<td>Feb. 16, 2000</td>
<td>1,250</td>
<td>3,653,364</td>
</tr>
<tr>
<td>Fort Erie Racetrack</td>
<td>Sept. 9, 1999</td>
<td>1,200</td>
<td>2,192,092</td>
</tr>
<tr>
<td>Mohawk Racetrack</td>
<td>Aug. 10, 1999</td>
<td>850</td>
<td>5,617,009</td>
</tr>
<tr>
<td>Flamboro Downs</td>
<td>Oct. 11, 2000</td>
<td>750</td>
<td>4,369,965</td>
</tr>
<tr>
<td>Western Fair Raceway</td>
<td>Sept. 26, 1999</td>
<td>750</td>
<td>3,812,300</td>
</tr>
<tr>
<td>Windsor Raceway</td>
<td>Dec. 16, 1998</td>
<td>750</td>
<td>2,050,947</td>
</tr>
<tr>
<td>Georgian Downs</td>
<td>Nov. 27, 2001</td>
<td>450</td>
<td>4,833,174</td>
</tr>
<tr>
<td>Kawartha Downs</td>
<td>Nov. 22, 1999</td>
<td>450</td>
<td>3,239,855</td>
</tr>
<tr>
<td>Hiawatha Horsecpark</td>
<td>May 8, 1999</td>
<td>375</td>
<td>1,825,388</td>
</tr>
<tr>
<td>Sudbury Downs</td>
<td>Nov. 26, 1999</td>
<td>325</td>
<td>2,137,341</td>
</tr>
<tr>
<td>Picov Downs</td>
<td>Feb. 28, 2006</td>
<td>200</td>
<td>3,519,167</td>
</tr>
<tr>
<td>Grand River Raceway</td>
<td>Dec. 04, 2003</td>
<td>200</td>
<td>1,849,297</td>
</tr>
<tr>
<td>Clinton Raceway</td>
<td>Aug. 24, 2000</td>
<td>108</td>
<td>625,864</td>
</tr>
<tr>
<td>Woodstock Raceway</td>
<td>Jun. 20, 2001</td>
<td>100</td>
<td>1,019,976</td>
</tr>
<tr>
<td>Hanover Raceway</td>
<td>Feb. 19, 2001</td>
<td>100</td>
<td>825,312</td>
</tr>
<tr>
<td>Cresden Raceway</td>
<td>Apr. 18, 2001</td>
<td>100</td>
<td>655,876</td>
</tr>
<tr>
<td><strong>Racetrack Slots Subtotal</strong></td>
<td></td>
<td></td>
<td>9,908 $ 57,028,113</td>
</tr>
<tr>
<td><strong>OLG Charity &amp; Aboriginal Casinos (Note 3)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sault Ste. Marie</td>
<td>May 19, 1999</td>
<td>475</td>
<td>1,455,919</td>
</tr>
<tr>
<td>Brantford</td>
<td>Nov. 17, 1999</td>
<td>500</td>
<td>3,736,048</td>
</tr>
<tr>
<td>Point Edward</td>
<td>Apr. 18, 2000</td>
<td>450</td>
<td>2,097,345</td>
</tr>
<tr>
<td>Great Blue Heron (See note 1 below)</td>
<td></td>
<td>535</td>
<td></td>
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<tr>
<td>Thunder Bay</td>
<td>Aug. 26, 2000</td>
<td>452</td>
<td>2,433,007</td>
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<tr>
<td>Thousand Islands</td>
<td>Jun. 20, 2002</td>
<td>500</td>
<td>3,434,984</td>
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<tr>
<td><strong>Charity Casino Subtotal</strong></td>
<td></td>
<td></td>
<td>2,912 $ 13,159,303</td>
</tr>
<tr>
<td><strong>Slot &amp; Charity Casino Total</strong></td>
<td></td>
<td></td>
<td>12,820 $ 70,167,416</td>
</tr>
</tbody>
</table>

### Resort Casinos (see notes 2 & 3 below)

<table>
<thead>
<tr>
<th>Casino</th>
<th>Location</th>
<th>Date</th>
<th>No. of Slots</th>
<th>Revenues $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Casino Niagara</td>
<td>Niagara Falls</td>
<td>Dec. 9, 1996</td>
<td>1,800</td>
<td>2,600,000</td>
</tr>
<tr>
<td>Fallsview</td>
<td></td>
<td>Jun. 8, 2004</td>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td>Casino Windsor</td>
<td>Windsor</td>
<td>Feb. 11, 2005</td>
<td>3,000</td>
<td>2,600,000</td>
</tr>
<tr>
<td>Casino Rama</td>
<td></td>
<td>Jul. 31, 1996</td>
<td>2,400</td>
<td></td>
</tr>
<tr>
<td><strong>Resort Casinos Total</strong></td>
<td></td>
<td></td>
<td>10,200 $ 5,200,000</td>
<td></td>
</tr>
<tr>
<td><strong>Ontario Total</strong></td>
<td></td>
<td></td>
<td>23,020 $ 75,387,416</td>
<td></td>
</tr>
</tbody>
</table>

### Note 1: Great Blue Heron Charity Casino:

The Great Blue Heron Charity Casino is a true Aboriginal casino and a major First Nations initiative. The Mississaugas of Scugog Island First Nation Indian Band (K34) formed the Baawating Community Association, a non-profit charitable association, to conduct and manage the table game operations.

It is owned by the Mississaugas of Scugog Island First Nation and is operated by Great Blue Heron Gaming Company, which is wholly owned by Casino Austria, Fantasy Gaming and Sonco Gaming.

The OLG is responsible for the management of the slot facility only.

As the host community of the slot machines at Great Blue Heron Charity Casino, the Mississaugas receive 5% of the revenue from the slot machines.

The Ontario Government receives 20% of gross gaming revenue and 100% of net profits from the slots facility at Great Blue Heron Charity Casino.

### Note 2: Resort Casinos (Niagara, Windsor & Rama)

As compensation for hosting a resort casino, the host cities of Windsor and Niagara Falls each receive $2.6 million annually for ten years, followed by $3 million annually for the next ten years.

The Ontario Government receives 20% of gross gaming revenue from resort casinos and 100% of net profits from Casino Windsor, Casino Niagara and Niagara Fallsview Casino Resort.

Casino Rama is Ontario's only First Nation's commercial casino. Net revenues from Casino Rama are distributed to Ontario's First Nations for economic and community development, health and education.

### Note 3: Statistics for table and other games are not included.