

Business Opportunity Review for Electronic Gaming on BC Ferries

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Executive Summary

In November 2013, the Minister of Transportation and Infrastructure announced the Provincial Government's intention to consider a gaming pilot on select BC Ferries routes. The Ministry has indicated the gaming pilot would add slot machines in a secure, restricted area on the 95-minute Tsawwassen to Swartz Bay route, which carries about 5.5 million passengers a year, and that the revenue generated would go back into ferry services to ease the need for future fare increases.

British Columbia Lottery Corporation ("BCLC") conducts and manages commercial gaming on behalf of the Province of British Columbia. In gaming facilities, private sector service providers provide day-to-day operations for BCLC. BCLC operates gaming in accordance with the *Gaming Control Act* (GCA) and the Criminal Code of Canada. Gaming in B.C. is regulated by the Gaming Policy and Enforcement Branch ("GPEB").

BCLC, with input from BC Ferries, reviewed the business potential for offering gaming on BC Ferries. A number of gaming options were explored, including lottery products, online gambling and slot machines, referred to as electronic gaming devices ("EGDs"). The analysis in this review focuses primarily on EGDs, as they have the greatest potential to generate revenue. Other gaming offerings such as Lottery and PlayNow.com may be feasible offerings in time, but the revenue will not exceed the potential for EGDs assessed in this review. In addition, both lottery and PlayNow.com would require consistent network connectivity for the duration of the ferry sailing to operate, which is not available at this time.

Currently, the GCA and Provincial policy only allows EGDs in gaming venues (casinos, community gaming centres and race tracks) and does not permit EGDs in any other location. While a BC Ferries vessel is not deemed to be a gaming facility, it would be possible to create such a designation after addressing a number of legal, security, staffing, operations and compliance requirements.

In developing this review, BCLC modified its existing business model to meet the unique circumstances of offering gaming on a BC Ferry while still maintaining the security and integrity of gaming and providing a cost effective approach. Similarly, BC Ferries ensured that the options reviewed did not compromise passenger safety or travel service.

Two vessel options were evaluated: EGDs on Coastal Class and Spirit Class vessels.

BCLC based its evaluation on passengers having a moderate demand for gaming. Aboard the two Coastal Class vessels, it is expected that there will be an underutilized gaming floor with excess capacity and an underuse of assets. Given the fixed capital costs, fixed management labour and the significantly lower traffic, we estimate a net loss to government that could be three times greater than the Spirit class option.

Based upon moderate demand for gaming from potential customers aboard the Spirit Class vessels (post mid-life upgrade¹ in 2017 and 2018), BCLC would see a positive net income. However, BC Ferries would experience an annual net loss. The projected combined annual net loss to Government is (\$240,563).

Although the operational and regulatory requirements for gaming facilities may be able to be addressed in the gaming environment aboard BC Ferries vessels, BCLC expects the revenue opportunity of EGDs will not be significant enough to generate a return on investment due to significant costs related to BC Ferries staffing, equipment installation and IT infrastructure.

The initial capital and ongoing operating cost estimates do not take into account the additional financial impact and time required by BCLC and GPEB to make changes to the existing gaming model and legislation to allow for EGDs aboard a BC Ferries vessel. The financial viability of this opportunity does not improve with roll out to more vessels.

While relatively rare, potential security-related incidents such as disputes over game outcomes, thefts, delayed jackpots due to irregularities, children being left unattended if guardians enter the gaming facility during the sailing, and other issues carry the potential to damage the reputation of BC Ferries and BCLC, as well as cause delays in the boarding and disembarking of passengers on the vessel.

It should be noted that the proposed pilot route currently travels through US waters for 20 to 25 minute of the sailing time. As BC Ferries vessels are not considered cruise ships, there is the potential that a portion of all sales aboard the vessels, including gaming revenue, may need to be shared with Washington State. It has been recommended that external legal counsel specializing in marine water crossings and sales be retained to provide clarity on this matter.

In addition, it is still to be determined if a Host Local Government (HLG) would be selected for this model. In the land-based facility business model, the community that hosts the gaming facility – the HLG – must consult with surrounding communities and residents before a new facility can be approved. The HLG in turn receives a 10% of gambling net income. Who or how the HLG would be selected and what the revenue sharing and consultation model would look like in the case of gaming on BC Ferries has yet to be determined.

Ultimately, the costs, risks and procedural changes required to operate EGDs on a BC Ferries vessel outweigh the financial gains of this Business Opportunity. Changes would also need to be made to the *Gaming Control Act*, Provincial Policy, and BCLC Policies and Procedures in order to facilitate gaming outside the current gaming model.

¹ Currently, the Spirit Class ships sail as the primary vessels only during high demand periods. During lower demand periods, the Coastal Class ships operate due to their lower operating costs (primarily fuel costs). In 2017 and 2018, the Spirit Class ships will complete mid-life upgrades which include conversion to Liquefied Natural Gas (LNG), allowing for lower the operating costs. Following these upgrades, the Spirit Class ships will sail year-round, not just during the high demand periods.

Introduction

In developing this Business Opportunity, the factors selected were deemed to offer the highest opportunity for success – such as selecting the largest ships that carry the most passengers and sail the most days per year (post mid-life upgrade). The standard gaming model for land-based facilities has been responsibly modified where required to maintain ferry service and safe passenger transport while ensuring gaming security and integrity aboard the vessels.

Generally, BCLC separates gaming facilities with EGDs into two difference categories; casinos offer EGDs and table games, while a Community Gaming Centre (“CGC”) offers EGDs and bingo. For the purposes of this Business Opportunity, the BC Ferries environment would be considered a small-scale gaming facility utilizing a “cashless” model.

Within the current gaming industry framework of British Columbia, BCLC is responsible for selecting a private-sector service provider to operate any gaming facility. BCLC determines customer demand for potential gaming facilities through market assessments, which take into account adult population numbers, estimated Net Win (revenue after prizes) to be generated within each market, the proximity of other gaming facilities, tourism potential and other factors to help determine the financial viability of a gaming facility.

Service providers (“SPs”) are responsible for building and operating the facility, which must be done in accordance with BCLC policies and procedures, as well as within the *Gaming Control Act* and Regulations. In return, SPs receive a commission based on the Net Win at the facility. To add EGDs to BC Ferries vessels, a SP must be designated. For the purposes of this review, BC Ferries will be the SP.

The social implications of adding EGDs to BC Ferries vessels should also be considered before proceeding. At present, B.C. and Ontario are the only provinces that confine EGDs to dedicated gaming facilities. Jurisdictions such as Nova Scotia and Quebec have been revisiting and, in some cases, reversing their policies that allow EGDs in locations other than gaming facilities, such as bars and pubs. This review focuses primarily on EGDs, as they have the greatest potential to generate revenue compared to other gaming offerings.

The introduction of EGDs on a BC Ferries vessel within a dedicated room as proposed is different from BCLC’s current gaming model which requires integrated food, beverage, and entertainment services. This execution may be viewed by the public and stakeholders as a move to implement a Video Lottery Terminal (“VLT”) model of gaming which has been heavily scrutinized in recent years in relation to social responsibility. VLTs are gaming machines that allow gamblers to bet on the outcome of a video game and are often found in bars and pubs in other gaming jurisdictions. B.C. is one of only two jurisdictions that do not permit gaming machines outside of gaming facilities. A legislative amendment to the definition of “gaming facility” may be required to accommodate EGDs on ferries.

As with any gaming facility in B.C., comprehensive responsible gambling strategies, programs and requirements would need to be in place on BC Ferries vessels. This would include the

presence of a GameSense Information centre and the training and registration (including Criminal Record Checks) of all gaming workers working within the gaming environment.

Operations

Background

A traditional gaming facility is predominantly a “cash based” model. Customers insert cash into the EGDs to play and the EGDs dispense a slot voucher when the customer is finished playing. Slot vouchers from one EGD can be reinserted into another EGD to allow for continued play. In order for customers to receive cash back once they have finished playing, they have to take their slot voucher to the staffed cash cage for exchange or insert it into a ticket redemption machine (“NRT”). NRTs convert slot vouchers into cash.

As stated previously, this review will look at the opportunity as a “cashless” model. EGDs will only accept slot vouchers and customers will use NRTs to convert cash into slot vouchers. Slot vouchers will be inserted into the EGDs for play. As there is no cash cage in a cashless model, customers will use NRTs to convert slot vouchers into cash once finished playing.

Credit cards and debit cards are not accepted in EGDs in B.C. as this is not currently possible with the technology BCLC utilizes. In addition, there are responsible gambling implications to allowing EGDs to operate similar to ATMs with players having easy access to funds. Currently, debit cards are accepted at the cash cage in land-based facilities should patrons wish to retrieve funds directly from bank accounts, however lack of consistent cellular connectivity makes this an issue on BC Ferries. Players are not able to use credit cards at the cash cage in land-based facilities.

From an operational perspective, a gaming facility includes three primary operations areas:

- a. Gaming Areas; this contains the EGDs available, customer service and security
- b. Front of House; this includes equipment to facilitate transactions to convert cash for use in EGDs.
- c. Back of House; this includes areas for security/surveillance functions, communication/server equipment and other staff duties.

Although the model will be cashless, when the NRT machine is loaded and unloaded, cash handling will be required. Managing cash requires established policies and procedures and the associated resources to uphold integrity and manage risk. When managing cash and the movement of cash, BCLC requires ‘dual custody’ on all cash transactions. This requires two employees – one of whom must be at a supervisory level – to witness and sign off on all transactions.

Customer service is also an integral part of creating a positive gaming experience for customers. To provide this service, staff will be required to facilitate gaming transactions for patrons, resolve any minor technical issues and be well-versed on the product offerings. They should have excellent communication and conflict resolution skills, be trained in recognizing and

managing responsible gaming practices, and be able to respond appropriately to customers should they exhibit signs of distress.

In addition, slot vouchers may not be redeemable from one vessel to another. In the current model, slot vouchers are redeemable only at the gaming facility that they originated from. This may create confusion among customers and lead to a poor customer experience.

Requirements

Based on current BCLC standards and a cashless model, the following full time BC Ferries employees will be required to support all gaming hours of operation, per vessel:

- One Full-Time Employee (“FTE”) on the Gaming Floor (one Customer Service Representative/Slot Attendant). This position would be incremental to the existing staff. Land-based gaming properties do not have the responsibilities of the Customer Service Representative/Slot Attendant combined into a single role. This has been modified due to the smaller gaming size aboard BC Ferries vessels to reduce labour requirements.
- One FTE at the Gaming Floor entrance (one Gaming Security Officer). This position would be incremental to the existing staff. This role cannot be combined with any other in order to maintain passenger safety, security, and the exclusion of minors and those who are voluntarily self-excluded or banned from gaming facilities. This role is consistent with land-based gaming properties.
- One FTE in the Back of House (one Customer Service Manager/Slot Supervisor) to work in concert with the Customer Service Representative/Slot Attendant to deal with customer concerns and questions, as well as resolve any customer disputes related to the gaming equipment. This position would be incremental to the existing staff. Land-based gaming properties do not have the responsibilities of the Customer Service Manager/Slot Supervisor combined into a single role. This has been modified due to the smaller gaming size aboard BC Ferries to reduce labour requirements.
- Given the highly regulated nature of the gaming business, BC Ferries has indicated that it will require one Gaming Manager to provide oversight to the six operating watches and act as the point of contact with BCLC. This role is consistent with land-based gaming properties.

One BCLC Slot Technician will be required to service each vessel one day per week for eight hours, and as required for emergency service. The technician will be deployed from one of BCLC’s land-based facilities for this weekly call. If there are technical issues with the EGDs, the Customer Service Representative/Slot Attendant would place the EGD out of service until the next scheduled service call.

Gaming Facilities

Background

BCLC Casino and Community Gaming Centre Facility Design Standards provide guidelines for the design of structural, electrical, and mechanical aspects of a gaming facility. Three key elements play a part in gaming facility design: theme, functionality and operations/maintenance.

All casino and CGC properties within the province of B.C. must meet or exceed all requirements of the current BCLC Facility Design Standards. Gaming facilities currently range in size from 50 to 1125 EGDs.

The gaming space on a BC ferry will need to be enclosed, with security staff monitoring access to ensure the integrity of the games and to restrict access by minors. The space on the ferry that would be replaced in a pilot project would be the current video arcade, however, if the project were to move past the pilot, a purpose built enclosed space would be created as a part of the already scheduled mid-life retrofit of the ferries.

Requirements

A gaming facility consists of four specific Functional Areas: Public Areas, Operations and Support Services, Offices and Optional Areas. Some of the Functional Areas are already in existence aboard the vessels and efforts to co-locate areas and services have been made. The items listed below are the minimum requirements in order to operate a gaming facility aboard a BC Ferries vessel using a cashless model:

- Public Areas: security station, customer service, GameSense Information and gaming areas.
- Operations and Support Services: Uninterruptable Power Supply (UPS) room and generator.
- Offices: Digital Video Recording (DVR) room, BC Ferries management offices and BCLC communications room.

In addition to the BCLC Facility Design Standards, the following items would be required aboard a BC Ferries vessel:

- All EGDs and NRTs must be secured to the deck to prevent shifting during passage. One option would require steel frames to be welded to the deck and EGDs and NRTs to be bolted to each. Another option would be drilling through the deck and fastening with brackets and screws; however, this may require additional steps to be taken if the holes require fire-stop material.
- All electrical/data must be fed into the EGDs and NRTs from below, which requires feeding them through the walls at floor height or drilling through the deck and using a fire-stop material.

- The gaming areas may require additional HVAC to offset the additional heat load created by the EGDs and NRTs.

The securing of the equipment to the deck is a part of standard installations aboard a BC Ferry and is not a signification alteration, not would these installs have significant costs as this type of installation is a part of all equipment installs on a BC Ferry. However, as the pilot project makes use of a small space for the EGDs and NRTs, it is worth noting that additional HVAC will most likely be needed during the pilot to offset heat.

FDC / AFDC

The Facilities Development Commission (“FDC”) and Accelerated Facilities Development Commission (“AFDC”) are a component of the remuneration of the SPs to invest in establishing and enhancing gaming facilities, provide an enriched player experience and subsequently maintain BCLC standards.

BC Ferries would be responsible for all construction costs related to the initial gaming facility build, future renovations, and ongoing maintenance to adhere to the minimum BCLC Facility Design Standards as outlined above.

All qualifying expenditures of the initial gaming facility build, future renovations and ongoing maintenance may be eligible for submission for FDC/AFDC.

IT Analysis

Background

BCLC's casino business is highly reliant on technology. All EGDs function on a gaming management system, which is the software and hardware that operate the machines, as well as integrate financial transactions and other functions.

The outline and estimate of costs have been provided based on a fully disconnected standalone solution for the gaming management system onboard BC Ferries vessels. Once the vessels are identified, further information gathering would be required to understand the type and quality of power and other limitations that are available.

Requirements

BCLC has described in detail the current communication option with respect to EGD servers.

While detailed requirements would need to be defined, for the purposes of this review the following assumptions have been made to guide the estimates:

- Costs include technology (hardware, licensing, etc.); production and non-production technology (required to enable); labour/services/recurring charges. BCLC can leverage field technical services where possible.
- Machines will feature core functionality given the standalone solution. Costs assume vessels are reliable, secure and will meet both the expectations of players, as well as regulatory requirements.
- BCLC management systems must maintain visibility.
- Cellular service would be utilized to provide network connectivity. Network connectivity is required to complete all cash transactions and to report game history to the central server in Kamloops for BCLC's Finance and IT Teams to ensure accurate reporting and to allow for auditing.

There are 3 options for network connectivity; cellular, radio line-of-sight, and satellite. Although none of the options would be consistent for the entire passage, cellular will provide the most consistent network connectivity. This will require each vessel to operate in stand-alone mode as a 'four-walled casino' with all required servers onboard the vessel. All data would be cached to the onsite servers and transmitted to BCLC central servers at the end of the gaming day once the vessels are docked. This means that all data would be "held" until a connection is made and data can be sent. If there is a disruption in the connection, the download may resume or start again from the beginning, which could lead to transmission delays. It is unknown how long the transmission of cached data may take utilizing cellular service and there is no option of 'hard-wiring' the connection upon docking. Land-based gaming facilities do not have these concerns as all network connectivity is hard-wired, which provides a reliable

and fast connection to the central servers in Kamloops. Data is not cached and is sent in real-time or whenever a request is made by the central servers.

BCLC explored the possibility of using BC Ferries existing network – which is a dedicated IT and financial transaction network owned by BC Ferries – for gaming purposes, however, it is at capacity and there is no space available for BCLC network functions. . In addition, due to inconsistent network connectivity, BC Ferries also caches all commercial transactions and downloads them at the end of the day. The download takes approximately two hours. Sales transactions are cash and credit card based. Debit card purchases are not possible due to the lack of real-time authorization due to inconsistent network connectivity.

EGD software and server updates at land-based gaming properties are completed remotely via network connectivity. These will need to be completed aboard each vessel manually at each EGD by BCLC technicians and at each server by BCLC IT staff.

Additional infrastructure, development and testing would be required to implement this solution. BCLC IT costs are as follows:

BCLC IT Costs

*Detailed costing removed (Third party business interest)

Total Costs (Coastal or Spirit 2 Vessel Pilot)	Capital	Operational
On/Off Vessel	\$ 1,678,000	\$ 286,000

Product

Background

EGDs are most popular when initially launched. Over time, their popularity declines as players become familiar with the games, and the games need to be switched (known in the industry as a refresh) in order to ensure that players continue to be interested in the games. Monitoring game performance and player preferences, as well as refreshing EGDs regularly are integral to sustaining revenue.

Requirements

A game refresh rate of approximately 20 per cent per year keeps the product mix relevant for customers. For a gaming facility with 20 EGDs, this would mean four to six game changes per year in the form of new EGDs or software changes for each vessel. BCLC Slot Technicians and vendor staff will need to board the vessel and conduct these changes. BCLC will also need to ship the equipment to the ferry terminals for BCLC Slot Technicians to receive.

To install EGDs, there must be an easy method to move equipment from the delivery truck to the gaming area and vice versa, especially given that there are multiple decks. The weight of an EGD is approximately 250 lbs. and the standard footprint of an EGD is 4 square feet by 60 inches in height.

For a small 20 EGD operation, some of the higher revenue-generating games will need to be eliminated along with the associated jackpot payouts. Eliminating these types of games will help stabilize profitability, but may reduce the gaming experience for players, as higher spend players tend to prefer higher jackpot games. BCLC will make every effort to review game jackpot payout levels.

In order to operate a cashless gaming facility, each vessel will require two NRTs that will accept cash in exchange for a slot voucher. The slot voucher will then be inserted into an EGD to allow the customer to play the game. Once finished playing, the customer will cash out from the EGD and receive a slot voucher. This slot voucher can then be reinserted into another EGD or into the NRT to receive a cash payout.

Other Gaming Options

Lottery and PlayNow.com are two other gaming options that could potentially be considered; however, technology (mainly lack of consistently available network connectivity) limits the potential.

In fiscal years 2003-2007 BC Ferries sold Scratch & Win tickets. Due to lack of network connectivity, staff needed to manually verify tickets for prize claims. Sales were as follows and as with any retailer, BC Ferries earned five percent commission on all sales:

BC Ferries Scratch & Win Sales (2001-2008 Actuals)

Fiscal Year	Total Sales	BC Ferries Commission
2003	\$ 449,295	\$ 22,465
2004	\$ 435,963	\$ 21,798
2005	\$ 412,857	\$ 20,643
2006	\$ 322,384	\$ 16,119
2007	\$ 251,516	\$ 12,576

BC Ferries has indicated it is not interested in pursuing Scratch & Win again, due to the high cost of infrastructure associated with bringing in electronic verification for lottery and the onerous processes associated with controlling the physical Scratch & Win tickets, with result in low return to BC Ferries. However, BC Ferries is interested in the sales of other lottery products such as 6/49 or Keno. There is potential that a self-serve terminal (“SST”) could be used for the sale of lottery products on ferries, however, the sale and verification of tickets would be hampered by the lack of consistent cellular service since network connectivity would be required. In addition, staff would be required to ensure age restrictions are maintained and to verify winning tickets and pay small prizes.

The Ombudsperson report *Winning Fair and Squared: A Report on the British Columbia Lottery Corporation's Prize* issued in May 2007 examined the payout process of retailers and their employees. As one of the recommendations, BCLC now ensures that Check-A-Ticket (CAT) terminals, which allow players to check their own tickets, are available at every retail lottery location in B.C. that offers both sales and validation. Locations that offer sales only (such as Lotto Express locations, where tickets are sold via the point-of-sale device) do not have CAT terminals. The CAT allows players to easily verify if their ticket is a winner themselves, and many players prefer to do this before giving their ticket to a retailer. CAT terminals require constant connectivity to properly operate, not currently available on BC Ferries. If BC Ferries sold and verified lottery without CAT terminals present this could lead to player concerns regarding the integrity of the game and an overall negative customer experience.

PlayNow.com is another option that could be used aboard BC Ferries vessels; however a commission or fee-for-use may need to be explored to ensure this option led to increased funding for BC Ferries. BCLC is currently exploring alternate delivery options for PlayNow.com with a focus on customers registering and completing transactions using their own smartphones and tablets. Cellular network connectivity would be required to pursue this avenue which, as explained previously, is not available consistently throughout the sailing.

Security and Surveillance

Background

The gaming industry is one of the most regulated industries in B.C. The safety and security of gaming facilities is of the utmost importance and requires specific measures related to training, registration, surveillance, reporting and access control to ensure the integrity of the industry for casino operators and customers alike.

In land-based gaming facilities, it is the responsibility of BCLC and our Service Providers to check that no minors, self-excluded or banned individuals enter the gaming facility. In addition, the security team will assess patrons for levels of intoxication prior to permitting entry. In rare instances, issues arise with undesirable (i.e. minors, banned or VSE) or intoxicated individuals try to enter BCLC facilities. Security teams work closely with local police jurisdictions to ensure that when required, a police presence can be called upon for assistance.

A gaming facility on a BC Ferry will not have access to a police presence until docked. Situations that require police will require BC Ferry staff to manage the situation, including securing problem individuals, until the vessel is docked. This model is very different from land-based facilities. In addition, surveillance footage of a BC Ferry gaming area will not be live-monitored but will be recorded to be reviewed later, once the vessel is docked.

Requirements

BCLC has described in detail the minimum policies and procedures pertaining to security and surveillance requirements.

All persons performing duties relevant to the conduct, management, and operation of EGDs in B.C. must be appropriately registered (including criminal record checks) by GPEB. Staff must successfully complete BCLC's Anti-Money Laundering ("AML") training prior to commencing work in the gaming facility. AML training is delivered on-line and takes approximately one (1) hour to complete. Staff must also complete BCLC's Appropriate Response Training ("ART") as part of BCLC's and GPEB's Responsible Gambling programs. Security and Supervisor staff must complete Level 1 and Level 2 ART training. ART training is delivered in a classroom setting and take approximately four (4) hours to complete. ART and AML training are funded by BCLC; however, BC Ferries would be responsible for compensating staff for their time during the training. Security staff, and staff acting in the capacity of a security officer from time to time, must obtain Gaming Security Officer ("GSO") certification from the Justice Institute of British Columbia. GSO Certification must be obtained from the Justice Institute of British Columbia ("JIBC") within three (3) months of commencement of employment, at a tuition cost to BC Ferries of approximately \$450.00 per person plus labour costs. In order to work aboard a BC Ferries vessel, staff may also need to be Transport Canada Safety Certified.

In accordance with current BCLC Casino and Community Gaming Centre Standards, Policies and Procedures, a gaming facility of the size proposed by BC Ferries requires a closed caption television system ("CCTV") that meets all current BCLC requirements as per BCLC Surveillance Standards, Policies and Procedures for Gaming Facilities. The CCTV system must be in

operation 24 hours per day, and must provide real-time recording of all EGDs, entrances to the gaming facility, back of house areas and other areas as prescribed by BCLC to ensure the integrity of gaming is maintained. The CCTV system must contain built-in redundancy such that, in the event of hardware or software failure, no historical or live data is lost. The system must also be capable of historical data retention as prescribed by BCLC. Operation of the CCTV system, including viewing and extraction of still images and video footage, must be restricted to authorized gaming facility personnel (Gaming Manager and Security Personnel).

A BCLC-approved access control system must be installed and maintained by BC Ferries in order to restrict access to secure areas of the facility at all times. A BCLC-approved key control system must also be implemented by BC Ferries, so that the person in possession of any key is known at all times.

Security personnel, as well as the Gaming Manager and his/her designate, must have direct access and connectivity to the BCLC Casino Reporting System. Challenges with network connectivity mean that consistent and reliable access to the BCLC Casino Reporting System will not be possible, which may cause issues with system reporting and inability to follow BCLC procedures. Staff will be required to report on occurrences via the system, as prescribed by BCLC Casino and Community Gaming Centre Standards, Policies and Procedures. In addition, BC Ferries is responsible for reporting any real or suspected conduct that is detrimental to the integrity of lottery schemes directly to GPEB, in accordance with Gaming Control Act Section 86(2)².

BC Ferries, in partnership with BCLC, would be responsible for all large cash transaction reporting requirements as per the Proceeds of Crime, Money Laundering and Terrorist Financing Act ("PCMLTF"). Timely and accurate reporting of applicable transactions that occur within the facility, including suspicious financial transactions is compulsory. Non-compliance with the PCMLTF Act can result in substantial monetary sanctions.

Security personnel are responsible for controlling access to the gaming facility. This includes positioning a GSO, or a GSO-certified designate, within three meters of the entrance to the gaming facility at all times. The GSO is responsible for checking that no minors, self-excluded or banned individuals enter the gaming facility. He/she also assesses patrons for levels of intoxication prior to permitting entry. There must be a GSO certified staff member at the gaming facility entrance at all times.

BC Ferries would also be responsible for liaising with BCLC Corporate Security personnel, including Gaming Compliance Officers, Casino Security/Surveillance Investigators and Anti-Money Laundering Specialists. Compliance Inspections and Investigations are commonplace in gaming facilities, and cooperation on behalf of BC Ferries in these processes is mandatory.

² Section 86 (2) of the *Gaming Control Act* reads: The lottery corporation, a registrant and a licensee must notify the general manager immediately about any conduct, activity or incident occurring in connection with a lottery scheme or horse racing, if the conduct, activity or incident involves or involved

(a) the commission of an offence under a provision of the Criminal Code that is relevant to a lottery scheme or horse racing, or

(b) the commission of an offence under this Act.

Lastly, potential security-related incidents such as disputes over game outcomes, thefts, delayed jackpots due to irregularities, children being left unattended if guardians enter the gaming facility during the sailing, and other critical issues carry the potential to damage the reputation of BC Ferries and BCLC, as well as cause delays in the boarding and disembarking of passengers on the vessel.

Financial Analysis – Background/Methodology

BCLC has assessed the financial opportunity and calculated key metrics on the profitability of this proposal based on several key factors, including net win (revenue after prizes are paid) and net income (net win minus operating expenses).

A demand analysis for net win projection was used to calculate estimated revenues. In order to stay consistent with the methodology used to calculate EGD potential within geographic market areas, the Adult Population base is used to estimate the win potential BC Ferries and BCLC could realize.

When estimating the EGD potential of BC Ferries, the following factors were considered to maintain consistency:

- a. Total Area population: (BC Ferries carries approximately 5.5M passengers on the Swartz Bay to Tsawwassen route) utilizing 5 vessels.
- b. The first option would utilize the Coastal Class vessels, the Coastal Celebration (“CEL”) and the Coastal Renaissance (“REN”). Both vessels carry approximately 1.8 million passengers annually under the existing operating profile. Each Coastal Class vessel would have three incremental gaming area employees on each operating watch.
- c. The second option would utilize the Spirit Class vessels, the Spirit of Vancouver Island (“SOVI”) and the Spirit of British Columbia (“SOBC”) which carry approximately 4.2 million passengers annually when sailed as the primary vessel during high demand periods. This option would be more viable following mid-life upgrades for the ships when they can be sailed year-round. The Spirit Class vessels would have three incremental gaming area employees for each operating watch.
- d. Total Area population adjustment: Markets adjust populations due to inflow and outflow reasons. (BCLC has projected a decline of 1-3% over next 5 years).
- e. Market area propensity to gamble is based upon socio-economic criteria such as age, income and ethnicity. Also, supply based factors such as location, number of gaming devices and facility scope and amenities impact the ability to capture local market opportunity (BCLC has assumed a propensity to gamble between the ranges of 5% - 15%).
- f. Assume total passengers for year one will be consistent with actual passengers in calendar year 2013 (~1.8M passengers for Coastal and 4.2M for Spirit); assume 80% of the passengers are adults based on demographic research.

Sensitivity/scenario analysis has been incorporated to determine a “range of reasonableness”. Once a reasonable net win was projected, the expected capital and operating cost was applied to show BCLC net income, BC Ferries net income, and payback period for the investment.

Analysis provided is based upon the following perspective:

1. Maximum Demand from the Customer

- a) Based upon propensity to gamble and projection of adults on vessel
- b) Adult passenger projections
- c) Loading time for passengers from vehicles resulting in a 60 minute play window.

The analysis provides a low/medium/high estimate of net win scenario. For a complete list of assumptions, please refer to **Appendix 1**.

In addition, the Financial Analysis takes into consideration that the Coastal Class does not operate consistently on the Tsawwassen-Swartz Bay route. During the months of June to September, the Coastal Renaissance is deployed on the Horseshoe Bay-Departure Bay route. There is the potential that gaming operations could continue on the Horseshoe Bay-Departure Bay route during this time, however, it would be limited to only one vessel. The Coastal Celebration is a secondary vessel during peak times and will revert to secondary status in off peak once the Spirit Class ships complete their mid-life upgrades. This inconsistent sailing profile results in fewer passengers traveling on these ships.

The Spirit Class analysis is based on these ships returning to primary vessel status (sailing on average 344 days per year) after their mid-life upgrades in 2017 and 2018. The option of gaming on the Spirit Class under the existing operating profile (tied up during the slower winter months) was also examined and was even less viable given the lower passenger traffic level and fixed capital costs.

For detailed tables, see **Appendix 2 – Financial Analysis – Spirit Class**.

Summary of Risks

In October 2013, the B.C. Provincial Health Officer released a report providing a detailed analysis of the state of the gaming industry in B.C. The report noted that increasing access to products such as EGDs appears to be increasing gambling related risk in B.C. Experience further suggests that one of the strongest methods for reducing the incidence of problem gambling is to restrict or centralize access to electronic gaming devices within communities, which is the current model used in B.C.

While EGDs have the potential to generate the most revenue of all gaming options available for BC Ferries, they are also one of the highest risk offerings to those experiencing a problem with their gambling. Research indicates that features of EGDs have been shown to contribute to gambling problems. For example, the high speed of play and features that promote an illusion of control comprise some of the more problematic elements associated with EGDs.

The introduction of EGDs on a BC Ferries vessel within a dedicated room as proposed is different from BCLC's current gaming model which requires integrated food, beverage, and entertainment services. This execution may be viewed by the public and stakeholders as a move to implementing a VLT model of gaming which has been heavily scrutinized in recent years in relation to social responsibility.

The Gaming Control Act may need to be amended to allow for gaming aboard a BC Ferries vessel. A BC Ferries vessel is not deemed to be a gaming facility and a number of requirements, including legal, security, staffing, operations and compliance requirements would need to be addressed in order for a BC Ferries vessel to operate as a gaming facility.

As mentioned elsewhere, potential security-related incidents such as disputes over game outcomes, thefts, delayed jackpots due to irregularities, children being left unattended if guardians enter the gaming facility during the sailing, and other critical issues carry the potential to damage the reputation of BC Ferries and BCLC, as well as cause delays in the boarding and disembarking of passengers on the vessel.

It should be noted that the proposed pilot route currently travels through US waters for approximately 20 minutes which could have a further negative impact on play time and associated revenue. Implications of this are still being determined by external legal counsel, however, it is expected that revenue sharing, legal restrictions and other financial implications may come in to play.

Security personnel, as well as the Gaming Manager and his/her designate, must have direct access and connectivity to the BCLC Casino Reporting System. Challenges with network connectivity mean that consistent and reliable access to the BCLC Casino Reporting System will not be possible, which may cause issues with system reporting and inability to follow BCLC procedures. Staff will be required to report on occurrences via the system, as prescribed by BCLC Casino and Community Gaming Centre Standards, Policies and Procedures.

Comprehensive responsible gambling strategies, programs and requirements would need to be in place on BC Ferries vessels, including the training and registration of all gaming workers who would work in the gaming environment on the vessels. A GameSense Info Centre kiosk and self-service terminal need to be located on the gaming floor and be connected to the internet at all times. Knowing that this isn't currently possible, additional modifications will be required. The GameSense Info Centre must also be secured to the deck of the vessel, which may require further modification to the millwork in order to complete this for customer safety, GameSense information is also required throughout a gaming facility and this may pose a concern for areas that minors have access too.

Conclusion

Although the operational and regulatory requirements for gaming facilities could be addressed in the gaming environment aboard BC Ferries vessels, BCLC expects the revenue opportunity of EGDs will not be significant enough to generate a ROI.

Two vessel options were evaluated; EGDs on Spirit Class and Coastal Class vessels. Based upon moderate demand for gaming from potential customers aboard the Spirit Class vessels, it is expected that there will be an underutilized gaming floor with excess capacity and an underuse of assets. The Spirit Class option would result in a positive net income for BCLC and an annual net loss for BC Ferries. The project combined annual net loss to Government is (\$240,563).

Based upon moderate demand for gaming from potential customers aboard the two Coastal Class vessels, it is expected that there will be an underutilized gaming floor with excess capacity and an underuse of assets. Given the fixed capital costs, fixed management labour and the significantly lower traffic we estimate a net loss to government that could be three times greater than the Sprit class option.

The initial capital and ongoing operating cost estimates do not take into account the additional financial impact and time required by BCLC and GPEB to make changes to the existing gaming model and legislation to allow for EGDs aboard a BC Ferries vessel. The financial viability of this opportunity does not change with roll out to more vessels.

It should be noted that the proposed pilot route currently travels through US waters for a short period of time. As BC Ferries vessels are not considered cruise ships, there is the potential that a portion of all sales aboard the vessels, including gaming revenue, may need to be shared with Washington State. It has been recommended that external legal counsel specializing in marine water crossings and sales be retained to provide clarity on this matter.

In addition, the question of determining the HLG, what community that would be and how revenue would be shared still remains to be determined. For the purposes of this analysis, the Host Local Government share, which is 10% of gambling net income (revenue after prizes paid and BCLC operating expenses) has been allocated to BC Ferries and included in the financial analysis in Appendix 2.

Other gaming offerings such as Lottery and PlayNow.com may be feasible offerings in time, but the revenue will not exceed the potential for EGDs assessed in this review.

Ultimately, the costs, risks and procedural changes required to operate EGDs on a BC Ferries vessel outweigh the financial gains of this business opportunity. Additionally, reputational risk consideration would need to be addressed, particularly in light of public response to the concept during BC Ferries public hearing. Substantial change would need to be made to the Gaming Control Act, Provincial Policy, and BCLC Policies and Procedures in order to facilitate gaming outside the current gaming model.