

Report of

NOVA SCOTIA CASINO PROJECT

COMMITTEE

December, 1994



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Nova Scotia Casino Project Committee

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Nova Scotia



**Nova Scotia
Casino Project**

PO Box 1501
Halifax, Nova Scotia
B3J 2Y3

902 424-2203

December 12, 1994

The Honourable Bernie Boudreau
Minister of Finance
Province of Nova Scotia
P. O. Box 187
Halifax, Nova Scotia
B3J 2N3

Dear Mr. Boudreau:

Now that the Casino Project Committee has almost fulfilled its mandate we are pleased to be able to report to you, and through you to Cabinet, our recommendation as to the proponent who we think will be the best agent of the government to operate the Halifax and Sydney Casinos.

Our report includes not only our recommendation, but also supporting information and sufficient comparative data to allow you to examine the reasoning behind our recommendation.

We have taken great pains to assure that none of our actions violated our mandate (copy attached as Appendix "A").

The Nova Scotia Casino Project Committee wishes to express its gratitude to you and to all members of the Nova Scotia Government for having made it possible for us to reach all our decisions truly at "arms length" from government.

All members of the Committee and our staff worked hard to assure that your announcement of April 20th, 1994 will come to fruition. In that announcement you have predicted jobs, economic activity and revenue for Nova Scotia as a result of the two casinos. You have also assured Nova Scotians that care will be taken to ensure the establishment of a comprehensive regulatory environment. This Committee is pleased to have been of assistance to you in making those predictions come true.

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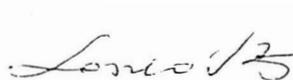
We believe that our recommendation to have the Government of Nova Scotia accept Metropolitan Entertainment Group "Partnership" as the best private sector casino operator for this province will indeed create the optimum number of jobs, will provide the maximum economic activity and most certainly generate the greatest amount of revenue for the Province.

In addition we believe that Bill NO. 120 and the draft regulations once adopted will indeed provide a comprehensive regulatory environment in Nova Scotia.

We wish to call your attention to the many civil servants who have given their time, energy and good-will in assisting us in our task. We must admit that some departments were much slower in extending their resources to us than others, but eventually the slow process of making a commitment was replaced with unprecedented speed, devotion and cooperation. To all of these people we are grateful.

In closing we wish to indicate that our report to you Sir was prepared in a manner that permits evaluation of our recommendation and comparison of our recommended proposal with some data from other proposals. We will be pleased to respond to any and all of your enquiries.

Sincerely yours,



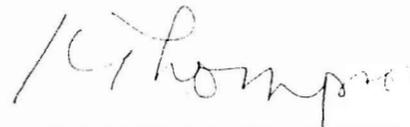
Laszlo S. Lichter, Chair



Harry Wheaton, Vice-chair



Marilyn Gaudet



Keith Thompson



Gordon Hughes

Brief History of the Casino Project Committee

- a.) The Casino Project Committee came into existence on May 16, 1994.
- b.) The Casino Project Committee began work immediately on preparing a Request for Proposals and issued the document on June 1, 1994.
- c.) Between June 1, 1994 and the deadline for submission of proposals, July 29, 1994, the Committee worked hard to become familiar with laws, regulations, rules of operating casinos and with the Canadian casino experience. To this end three members of the Committee, Gordon Hughes, Harry Wheaton and Laszlo Lichter travelled to Winnipeg, Toronto, Windsor and Montreal. In each case discussions were held with regulators, operators, casino workers, etc.

The above activities assisted the Committee with preparation of drafting instructions of the Act for Legislative Counsel and later with the drafting of the proposed Regulations pursuant to the Act.

- d.) On July 29 six proponents submitted seven proposals. Each of the proposals consisted of as few as three and as many as six books. Several proponents also submitted models, charts and audio-visual materials relating to their proposal.

At this point Stage I of the Committee's work began

Stage I Process

- a.) All Committee members devoted a great deal of time to the reading, analyzing and evaluating the seven proposals.
- b.) Parallel with the Committee's activities a team of specialists available from different Departments of the Government studied the proposals and analyzed them from different perspectives.

Alex MacDonald, Senior Economist with the Department of Finance, Marie Mullallay, C. A., Director of Internal Audit with the Department of Transportation, Shirley Hazen, Economist with the Department of Finance and Mr. Bruce Hennebury, C.M.A., Revenue Officer with the Department of Finance summarized and analyzed the financial and economic aspects of all proposals in considerable detail. This comprehensive analysis, completed under some very tight time constraints, represented an important contribution to the Stage I process of the Committee.

Other staff of the Department of Finance checked the credit rating of all the proponents.

Ralph Hessian, Senior Traffic Engineer with the Department of Transportation examined the seven proposals for adequacy of parking and for the acceptability or potential problems/solutions with traffic flows in both Halifax and Sydney for the interim casinos as well as for the permanent casinos.

During the last two weeks of September we had the assistance of Eric Luke, Director of Security and Licensing with the Manitoba Lotteries Corporation. Mr. Luke has studied all the proposals and shared his views with us concerning them. In particular he contributed his views on the market potentials contained in the proposals and the realism of the financial projections of each proposal. He gave his opinion after participating in all meetings and all activities of the Committee during that two week period.

- c.) Committee members, most of the above named staff members, Clyde Horner, Executive Director and Debbie Mountenay, Administrative Officer, both from the Nova Scotia Lottery Commission, and most of the RCMP officers listed here: Staff Sergeant Jake Jacobson, Cpl. Bob Purcell, Cpl. Garry McCay, Sergeant Lloyd Melbourne, Cpl. Karl Christiansen, Constable Phil Johnson, Constable Paul Kelly and Cpl. Steve Mills, have attended the meetings held with all the proponents and their advisors in September, as listed below.

Sept. 19, 1994 meeting with Aztar
Sept. 20, 1994 meeting with Austria
Sept. 26, 1994 meeting with Grand
Sept. 27, 1994 meeting with Sheraton
Sept. 28, 1994 meeting with Harrah's
Sept. 29, 1994 meeting with Bluenose

These meetings consisted of a two hour presentation by the proponent followed by questions from our staff and Committee members.

- d.) On October 4, 1994 the Committee brought Stage I to a conclusion by holding a secret ballot vote to decide the short list of three proponents. This voting was designed to take place in such a manner that Committee members to this date do not know which of the three proponents received the greatest number of votes. The same holds true for the three RCMP officers who acted as scrutineers. At this stage the Committee felt that it was important to hold a vote of this type so that all three proponents on the short list would be and could be treated without any notion as to which was the strongest or the weakest.

e.) On October 7, 1994 the Chairman of the Committee issued a press release announcing the following three short-listed proponents:

- Casino Halifax-Sydney Limited
- Metropolitan Entertainment Group "Partnership"
- Harrah's N. S. Casino Ltd.

It should be noted that the equivalent of a Level III security check was completed by the RCMP on Committee members and staff working directly on the project. All obtained a security clearance equivalent to Top Secret in the Government of Canada system.

At this point we wish to express our sincere appreciation to all those who assisted the Committee in any way. We have attempted to name those individuals who were involved in the Stage I process and to the best of our recollection we need to add only two other names: Carol Andrews, formerly Carol LeRue, our secretary and Alison Currie who rushed to our aid many times when Carol was unavailable or overloaded with work.

Stage II Process

- a.) Whenever legal advice or extensive legal work was required before we reached this Stage, and in some cases afterwards as well, we have relied on the assistance of the following Justice Department/RCMP/Legislative Counsel solicitors: Noella Brennan Fisher, Margaret Howie, Cpl. Bob Purcell, Cpl. Garry McCay, Jim Spurr, Bruce Davidson, Gregory Evans, Neil Ferguson and Gordon Hebb. Our gratitude to all of them and to Peter Spurway, Department of Justice Communications Officer.
- b.) In spite of all the legal help we have received during the Stage I Process we required the assistance of a Law firm that could provide us with solicitors with other forms of expertise. We sent out a proposal call for such service as evidenced by the document labelled as Appendix "B".
- c.) Once the Legal firm was selected by the Committee the work as described in Appendix "B" began in earnest.
- d.) We have held a number of meetings and utilized these to improve proponents' offers, to receive clarifications and decisions from the proponents on the "menu" items sent in advance to each of them. Our solicitors were in constant contact with proponents regarding outstanding issues.
- e.) Our solicitors were instructed to recommend an accounting firm to assist them and

the Committee with all necessary financial analysis, such firm to be paid by the legal firm through disbursements. The firm of Green, Haley, Jain & Pye were recommended and retained. Mr. Rakesh C. Jain, Chartered Accountant has assisted the Committee greatly by having generated financial data that allowed comparison and by the creation of charts that speak a thousand words.

- f.) Our solicitors have prepared three different draft documents. At this stage these documents are only "boiler plate" agreements that have been drafted for consideration by the proponents. Major elements of the deal have not been incorporated in the agreements. These agreements will have to be concluded by the Corporation and the Proponent.

The first contract is an "Option Agreement" that would essentially spell out the terms and conditions under which the Province of N.S. could acquire the two casinos (land, building, equipment and all rights). This contract would be filed with the Registrar of Deeds to protect the Province's rights to acquire the project under the option. The Option Agreement will also outline permitted financial encumbrances which the successful Proponent would be able to place on the project.

The second contract is the "Building Construction Agreement" that would essentially ensure that the Proponent would build what was proposed and assure the quality and cost as per the proposal. Our Committee and our solicitors had extensive discussions with Alan North and John O'Connor, both architects with the Department of Supply and Services. They have supplied a preliminary building design manual to the proponents which they were to complete within seventy-two hours. They have evaluated the documents and discussed with the Committee any and all concerns they had. The Building Construction Agreement will incorporate by reference the building design of the successful proponent and will provide a methodology for evaluation of the construction design documents and the ultimate building documents of the successful proponent, by a site representative acting on behalf of the Nova Scotia Gaming Corporation.

The Committee recommends that both building projects be supervised by qualified staff members of the Department of Supply and Services acting as site representative of the Nova Scotia Gaming Corporation, so as to assure that the projects will be built as designed and specified and that what the Province will get at the end of the contract period is indeed of high quality and what has been represented to the Selection Committee by the successful proponent.

There will be an Operating Agreement in place between the Nova Scotia Gaming Corporation and the casino operator. The substantive positions have been agreed to. It is anticipated that the final negotiations of this Agreement will be completed immediately upon selection of the successful operator, and will be executed

concurrently with the Building Development Agreement and Option Agreement. Although no more than a brief synopsis can here be given, the Operating Agreement:

- Will be a single agreement covering operations in all four casinos (two interim and two permanent);
- Will define all financial terms of the Agreement with the operator, including cash management, calculation of profit, annual and other more frequent financial reporting, and the operator's responsibility to fund all operational expenses;
- Will contain detailed management and operational guidelines to be adhered to by the operator;
- Will contain financial guarantees by the operator, as well as third-party performance guarantees by the operator's parent corporation or other principals;
- Will define events of default (by either the operator or its guarantors) entitling the Nova Scotia Gaming Corporation, in the event that defaults are incurred, to terminate the operating agreement at its option; and
- Will be for a fixed period of years, upon expiry of which the Province's right to acquire the casino for nominal consideration (see description of "Option Agreement") will mature.

Each of the Operating Agreement, the Option Agreement and the Building Construction Agreement will contain cross-default clauses such that if there is default under any of the Agreements, that they will all be deemed to be in default allowing the Province full opportunity to realize on its rights and remedies. The essential and main elements of these contracts have been agreed to with the successful Proponent who has committed himself by corresponding to these facts. The actual wording of the documentation and the normal negotiation required in such an instance will be conducted after the successful Proponent is named.

- g.) On December 6, 1994 members of the Committee have received final input from the solicitors, the accountant and the RCMP investigators who have just completed a full national and international investigation of the three proponents and their partners. With this final briefing the Committee met without staff or advisors and reached its recommendation unanimously, by an open voice vote, that the Province of Nova Scotia enter into an agreement with Metropolitan Entertainment Group "Partnership".

Major Elements of the Recommended Proposal

Proponents

The participants in Metropolitan Entertainment Group "Partnership" are: ITT Sheraton Canada Ltd. & Purdy's Wharf Developments Limited with respective ownership interest in the "partnership" of 90% and 10%.

Officers of the RCMP have investigated the participants as to "honesty and integrity" to the extent that time permitted and reported to the Committee that they have found nothing derogatory.

Our solicitors, Daley, Black & Moreira have carried out a "due diligence" check on the participants and found no reason for concern.

Location of casinos

The Halifax Interim Casino

The Halifax Interim Casino will consist of 30,000 sq. ft. (gross floor area) of the underutilized lobby, restaurant and bar areas in the Halifax Sheraton. It will be able to open within 150 days of acceptance of proposal. The capital cost of interim casino is expected to be approximately \$23.9 million.

Sydney Interim Casino

The Sydney Interim Casino will consist of 13,000 square feet (gross floor area) of an existing building next to Centre 200. It will be able to open within 150 days of acceptance of proposal. The capital cost of interim casino is expected to be approximately \$11.1 million.

Halifax Permanent Casino

The permanent Halifax Casino will be situated on a 3.5 acre vacant "parcel P" located on the harbourfront, immediately north of the Purdy's Wharf Complex. Please see Appendix C for location of project. There will be 40,000 square feet (gross floor area) in this facility. Construction is scheduled to begin within one year of opening of interim casino with opening in December 1997 at a capital cost of approximately \$121.2 million.

Sydney Permanent Casino

A 2.5 acre lot will be utilized next to Centre 200 to build the 14,000 square feet (gross floor

area) facility. Construction is to begin within 6 months of opening of interim casino with opening of the permanent facility in the Spring of 1996 at a capital cost of approximately \$20.0 million.

Financing of Projects

ITT Sheraton has provided a letter from Chemical Securities Inc., a wholly owned subsidiary of Chemical Banking Corporation as confirmation of the existence of a bank facility that allows Sheraton to use up to \$3.0 billion of this facility. In our opinion the proponent is able and willing to finance all of the casino projects as outlined below.

ITT Sheraton shall provide 40% equity financing of capital costs at 12% return on its equity with a straight line reduction of equity investment over a 10 year period. Sixty percent of the capital cost will be debt financed at 12% with an amortization period of 10 years.

Major Elements of Deal

Summary of Financial Aspects of Proposal			
1998 Estimated Provincial Revenues			
	Halifax Casino	Sydney Casino	Total
Win Tax 20%	\$ 24,987,000	\$ 6,653,000	\$ 31,640,000
65% Provincial Share after approved expenses and priority payments	\$ 18,800,000	\$ 0	\$ 18,800,000
Total Provincial Revenue	\$ 43,787,000	\$ 6,653,000	\$ 50,440,000
Charity/Community Share	\$ 0	\$ 4,355,000	\$ 4,355,000
Total direct revenue to Province	\$ 43,787,000	\$11,008,000	\$ 54,795,000

Summary of Financial Aspects of Proposal			
1998 Calculation of Revenue Sharing			
	Halifax Casino	Sydney Casino	Total
Total project revenues after GST	\$137,547,000	\$36,949,000	\$174,496,000
Less approved expenses and priority payments:			
Provincial Win Tax 20% of casino revenue	\$ (24,987,000)	\$ (6,653,000)	\$ (31,640,000)
Direct operating expenses	\$ (55,903,000)	\$ (17,109,000)	\$ (73,012,000)
Fixed asset replacement reserve	\$ (2,186,000)	\$ (587,000)	\$ (2,773,000)
Debt and equity return	\$ (25,549,000)	\$ (5,720,000)	\$ (31,269,000)
	<u>\$(108,625,000)</u>	<u>\$(30,069,000)</u>	<u>\$(138,694,000)</u>
Available to share	\$ 28,922,000	\$ 6,880,000	\$ 35,802,000
65% Provincial share	\$ (18,800,000)	0	\$ (18,800,000)
Charity/Community share	0	\$ (4,355,000)	\$ (4,355,000)
Share to Metropolitan Entertainment Group before Canadian Corporate taxes	<u>\$ 10,122,000</u>	<u>\$ 2,525,000</u>	<u>\$ 12,647,000</u>

Since all of the above are projections the Committee insisted that all proponents provide a minimum revenue guarantee to the Province. We are pleased to indicate that ITT Sheraton has provided, in writing, a cumulative guarantee of \$100,000,000 CDN of Casino Win Tax and Profit Share (Cash Flow) Allocation, inclusive of the charity share for Sydney, over a four year period, commencing with the opening of the second of the interim facilities. We anticipate that ITT Sheraton's willingness to provide this guarantee indicates a high level of confidence in its market study and all of its projections. ITT Sheraton will pay the first \$25 million on the day of opening of the Halifax Interim Casino.

ITT Sheraton has also offered a written Completion of Performance Guarantee in the event it does not open the Halifax permanent casino by March 31, 1998.

ITT Sheraton's proposed split of cash flow (before depreciation and taxes) for the Province from the Halifax Casino (65% to Province and 35% to proponent) is significant in itself, however, after the 10 year amortization period for the capital cost for all Casinos, the financial benefit to the Province increases greatly beginning the eleventh year.

With respect to the Sydney Casino ITT Sheraton expects to charge a 3% Basic Management Fee (3% of total revenue prior to casino tax and GST) and an Incentive Management Fee of 10% (10% of Gross Operating Profit less Basic Management Fee).

ITT Sheraton contracts with the Province to have all casino assets (capital, equipment and database of customers) become the property of the Province for \$1.00 at the end of the contract which is to run for 20 years.

ITT Sheraton indicated, in writing, that their position with respect to video lottery terminals is that they would expect the current regulations and legislation not to change during the term of their four year financial guarantee. They have no concern relating to 6/49, Scratch and Win tickets, Proline betting or other activities currently carried on by Atlantic Lotto Corporation.

ITT Sheraton expects direct employment to reach the level of 700-800 "full time equivalents" (FTE) in the two interim casino operations and 1,072 FTE in the two permanent casinos. 804 FTE will be employed in the Halifax Casino operation and 268 FTE in the Sydney Casino operation. ITT Sheraton expects that the average annual remuneration & benefits for all employees of the operation to be \$26,333 with a total annual payroll cost of \$28,238,529.

Payroll and benefit breakdown follows:

	Average remuneration	Total payroll & benefit
Halifax Casino	\$ 25,739	\$ 20,693,701
Sydney Casino	\$ 28,111	\$ 7,544,828

These projections do not include tipping but are based on the assumption that tipping will be permitted.

ITT Sheraton expects that between 85% and 95% of the employees of the two casino operations would be Nova Scotians.

Studies carried out for ITT Sheraton indicate that the operation of the two permanent casinos will create an additional indirect/induced FTE employment of over 1,000. Based on analysis by staff, this appears to be a realistic assumption.

Studies done for ITT Sheraton also indicate that residents of Nova Scotia are expected to pay 2,506,848 visits to the casinos annually and they will spend \$ 41.00/visit.

578,942 tourist visits are expected annually with \$ 67.00/visit spent by tourists. In other words, 18.8 % of the casino visitors are expected to be tourists and, due to their higher average spending/visit, it is expected that 27.2 % of gaming revenues will be generated from tourists.

ITT Sheraton studies indicate that the additional tourism created by the two casinos will create 536 FTE tourist direct/indirect/induced employment in the province.

Direct construction employment is expected to be 242 FTE in Halifax and 154 in Sydney during the construction of the permanent casinos. ITT Sheraton indicates that this translates into 759 employment years of direct jobs.

The construction activity will also create indirect/induced employment of 332 in Halifax and 186 in Sydney. ITT Sheraton indicates that this translates into 1,017 employment years of indirect jobs.

ITT Sheraton included in its financial projection for 1998 (first year of operation of permanent casinos) property & business taxes in Halifax in the amount of \$ 5,983,000 and in Sydney \$1,418,000.

ITT Sheraton will also build in its Halifax Casino Complex a parking garage with 800 parking spaces.

ITT Sheraton intends to operate its Casinos 16 hours from Sunday through Thursday and 24 hours on Friday and Saturday. Although they would prefer to run the operations 24 hours on Sundays.

ITT Sheraton has indicated a willingness to address the problem of gambling addiction in many ways: through education, information, prevention, barring from casinos potential addicts and by assisting financially organizations that help prevent or remediate problem gambling. To this end ITT Sheraton has held a number of meetings with these organizations.

CASINO PROJECT COMMITTEE**Mandate**

Within the parameters set forth by government, the Committee's mandate should be to choose the best private sector operator, under the best terms and conditions possible, for operation of a casino in metro Halifax-Dartmouth and in industrial Cape Breton. At all times in any judgement of what constitutes the best operator or arrangement, the public interest of the people of Nova Scotia shall be the paramount consideration.

As a second responsibility, the Committee shall recommend to government the appropriate regulatory regime, including legislation, regulation and administrative structure. The main purpose of any such regime shall be to ensure the legitimacy of all gaming activity in the province and the minimizing of any attendant undesirable social impact on our citizens.

The Committee shall operate at arms length from government, in that it shall receive or entertain no representations from any MLA or cabinet minister, and shall institute contact with government only for the purpose of seeking information or clarification of it's mandate or budget.

When a final recommendation is made to government by the Committee, it shall be government's decision as to whether the recommendation is accepted or rejected.

October 20, 1994

Appendix "B"

Mr. George Cooper
McInnes Cooper & Robertson
1601 Lower Water Street
P.O. Box 730
Halifax, Nova Scotia
B3J 2V1

Dear Mr. Cooper:

The Nova Scotia Casino Project Committee requires the assistance of legal expertise to carry out the following tasks:

- 1) to study the three short-listed casino proposals;
- 2) to prepare a list of proposed selection criteria for the Casino Project Committee's approval;
- 3) to carry out those portions of the due diligence checks on the three short-listed proponents that are not within the jurisdiction of the Royal Canadian Mounted Police (note - credit checks on all proponents have been completed);
- 4) to generate draft contracts that would include the operation of the interim and permanent casinos in Halifax/Dartmouth/Metro area and Sydney area, the construction of the permanent casinos in Halifax and Sydney areas and the operation of the permanent casinos in Halifax and Sydney areas;
- 5) to assist the Casino Project Committee in developing the contractual framework with the three short-listed proponents; and
- 6) to provide the Committee with an opinion respecting the legality of certain matters respecting the above.

Legal firms interested in offering their services, as outlined above, must respond as listed below:

- 1) declare that the firm did not represent any of the six casino proponents and did not assist these proponents in any way with the preparation of their casino proposals or any other possible conflicts of interest;

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- 2) indicate the anticipated fee the legal firm would expect to receive for the above services, whether in the form of a retainer or in the form of a charge for service per hour. The Casino Project Committee would expect an anticipated total cost projection. Please note: these services are exempt from Health Services Tax (Provincial Sales Tax) and are not subject to the Goods and Services Tax (GST);
- 3) indicate the experience of the firm and any proposed individuals in contract negotiations, and familiarity with the gaming provisions of the Criminal Code, and Nova Scotia Statutes that may be relevant to labour, safety, health, liquor, property and/or environmental issues and other relevant laws. Provide names and relevant experience of those who would carry out the work;
- 4) indicate specific knowledge or experience in the gaming industry, providing details where possible; and,
- 5) include a brief narrative outlining the proposed approach to the project.

Responses must be received by fax no later than 24 hours after receipt of this invitation, with hard copy to follow. Fax to (902) 424-0724. Send hard copy to Nova Scotia Casino Project, Post Office Box 1501, Halifax, Nova Scotia, B3J 2Y3; attention Laszlo Lichter, Chair, Nova Scotia Casino Project Committee.

Responses must include date and signature of authorized signing official of the firm.

Selection of the successful firm will be made no later than Oct. 25th, 1994. The successful firm will be notified on Oct. 26th, and must respond by Oct. 28th. Work is to commence on October 31st and must be completed no later than December 31, 1994.

The right to reject any or all responses or to accept any response deemed most satisfactory is reserved by the Province.

The successful respondent shall ensure that any confidential information belonging to the Province is not released to any third parties or unauthorized individuals.

For further information, please contact Mr. Laszlo Lichter, Chair, Nova Scotia Casino Project Committee, (902) 424-2203.

Sincerely yours,

Laszlo Lichter
Chair

October 20, 1994

The same proposal call was sent to the following two Law firms:

Mr. Gerald Goldlist
Davies, Ward & Beck
1 First Canadian Place, 44th Floor
Toronto, Ontario
M5X 1B1

and

Mr. Ed Harris
Daley, Black & Moreira
P.O. Box 355
Halifax, Nova Scotia
B3J 2N7