

## Gambling revenue declines across U.S.

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The realization — after years of steady, healthy gains — that the gaming industry isn't immune to the distress of a troubled economy couldn't have come at a worse time for Massachusetts.

"It's ugly," Andrew Zarnett, gambling analyst with Deutsche Bank AG of New York, said of the revenue losses and declining stock prices that have thrown the industry for a loop. "There's an overall uncertainty in the economy and gaming is feeling the impact. It's really bad."

From southeastern Connecticut to Atlantic City to Las Vegas, gaming operators are pulling in less revenue, leading to dramatic declines in stock prices for many of the companies that would be interested in developing the types of resort casinos envisioned by Gov. Deval Patrick.

The governor's plan for three resort casinos in different parts of the state suffered a stinging legislative defeat in March, but it's widely anticipated that, in a changing political landscape, Gov. Patrick will resubmit his proposal, geared to provide new sources of revenue and boost economic development, for consideration by the next legislative session.

While gambling experts almost unanimously predict that the industry will rebound, they say the current swoon could limit the number of potential developers for any potential Massachusetts properties and the amount of money the state could receive for casino licenses.

While "there will always be someone who is able" to compete for the potential licenses in Massachusetts, "today there are fewer players that would be able," Mr. Zarnett said. "When you wean down the competitive field, you usually end up with a lesser product, in this case the license fees."

And companies may have difficulty financing new developments, not just in Massachusetts, but anywhere. "Most of our companies usually finance with the large commercial banks in New York, the kinds of places that are in trouble now," said Frank J. Fahrenkopf, Jr., president and CEO of the American Gaming Association.

"I can't speak about any Massachusetts development specifically, but, in general, the financial wherewithal and the resources to finance new projects have gotten tighter," he said.

The Patrick administration wants nothing to do with that type of conversation right now.

Rather than speculate on how the economic downturn might affect potential casino development, Gov. Patrick's team says it's waiting for a report by Spectrum Gaming, which was hired in the spring to provide an independent analysis of the governor's estimates on jobs and casino revenue. Gov. Patrick said three state-licensed, commercial casinos would generate \$400 million a year after local safety and infrastructure needs are met.

"At the request of the governor and our colleagues in the Legislature, we have hired an independent expert firm to obtain an objective analysis of the impact of expanded gaming in the Commonwealth in order to better inform policy deliberations if, and when, the question arises in the future," said Kofi Jones, spokeswoman for Economic Development Secretary Daniel O'Connell, who has been the governor's point man on the casino issue.

That report is expected next week.

"That study has to take into effect the current state of casino economics, which is like most every other industry, feeling the pain," said Doug Bailey, campaign coordinator for CasinoFreeMass. "The study will simply be irrelevant if it fails to acknowledge the current economic climate and vastly lower the financial expectations, which in our view have always been exaggerated."

## Rising prices

The rise in gasoline prices and air fares that tend to keep patrons and their disposable income at home are bad news for both the major gaming destinations and regional casinos and slot parlors.

"Currently we are in the middle of a perfect storm: gas prices cutting automobile travel to regional casino markets and substantial air capacity cutbacks to Las Vegas combined with job losses from our current recession ... and the disastrous situation with subprime mortgages," said H. Steven Norton of Las Vegas, a former executive at the Sands Hotel and Casino and a partner in Northeast Resorts, which is hoping to develop a casino in New Bedford.

Beyond those issues, experts blame several other factors for deepening the downturn in the industry:

- **Competition:** The opening of casinos and slot parlors in Pennsylvania and New York drained customers from New Jersey and the New York development plus the expansion of Twin River cut into revenues at Foxwoods and Mohegan Sun, the two Indian casinos in Connecticut.
- **Smoking bans:** Smoking was prohibited in Colorado and Illinois casinos last year and is under increasing attack at other locations, cutting casino attendance. A full ban takes effect in Atlantic City on Oct. 15.
- **Natural disasters:** Hurricane Katrina crippled the industry in Mississippi and Louisiana for several years, and flooding along several Midwestern rivers earlier this year affected attendance at casinos in St. Louis, Illinois and Iowa.

While the souring economy has hurt the industry, it hasn't crippled it.

"There's no question that a dramatic downturn in the economy has hurt, but our industry is healthy," said Mr. Fahrenkopf of the American Gaming Association. "Revenue is down in a lot of places, but we're not in dire straits."

## Changing dynamics

The resort casinos of the type proposed for Massachusetts are suffering the most in this economic slowdown.

"It is a bit ironic, but the reason why gambling stocks are down is that more of their revenue is coming just from gambling," said Richard McGowan, adjunct associate professor of economics at Boston College, who has written extensively on the gaming issue.

"The economic dynamics of our industry have changed a lot," said the American Gaming Association's Mr. Fahrenkopf, "Ten years ago, companies were deriving 65 to 75 percent of their income from gaming revenue. Today, for almost every one of the major companies in the gaming business, only 40 percent of the bottom line is gambling revenue. Sixty percent comes from other amenities."

As a result, "firms are always interested in new expanded gambling markets but they are probably much less interested in the development of a destination casino," Mr. McGowan said. "Hence the slot parlors in Pennsylvania are doing better than expected while Atlantic City, which provides the full-scale entertainment casino, is down," he said.

Clyde W. Barrow, director of the UMass Dartmouth Center for Policy Analysis, which researches gaming issues in New England, puts it this way:

"The slump in the gaming industry is not uniform, but is actually following the same pattern that we see in much of the entertainment, amusement, and leisure industry. The result is that many of the destination resorts, which require longer travel and more expense, are seeing revenues fall from 5 percent to 17 percent on a year-to-year basis. However, many of the casinos, which attract a more local crowd, are doing quite well."

## The long range

As inevitably as the economy has dipped into an occasional recession, so has it emerged, often stronger, at the other end.

"No major company, casino or otherwise, makes long-term investments based on a short-term recessionary downturn," Dr. Barrow said. "The recession will end, but the original market demand for casinos will remain intact and continue to grow in New England."

"Economic downturns last for certain periods of time," said Deutsche Bank's Mr. Zarnett. "Given that this one started, from a consumer perspective, about six months ago, probably sometime in the middle of next year we'll be well through it."

And, if the Massachusetts Legislature adopts a casino plan early in its next session, that timing could be fortuitous.

"Even if casino legislation was passed tomorrow, it would be 18 to 24 months before a casino opens its doors," Dr. Barrow said. "The recession will be a distant memory and any new casino will be opening at the beginning of a new growth cycle, the perfect time to open any business."

If that's the case, potential developers "will be excited by the market," Mr. Zarnett said. "There are lots of candidates ... They'll see it as an opportunity to do well."

Mr. Norton predicted the state would draw plenty of suitors for potential gaming licenses. "I see Sands and Wynn, along with regional powerhouses like Penn National and possibly some of the private groups that have billions to invest all being very interested in Massachusetts, if the bill is like the one proposed by Gov. Patrick.

"The majors need something new to add to their inventory of casinos to balance Las Vegas' decline, something that doesn't require air service, and Massachusetts and New England is already a proven territory," Mr. Norton said.

## gaming struggles

Gaming revenues and stock prices are down as the current downturn in the economy is shattering the

myth that gambling is recession-proof. Here are some of the particulars:

- Casino revenues fell throughout the United States in June, according to the National Revenue Report published by Fantini Research. Gaming revenues fell 1.38 percent overall, but the decline was worse when new casinos are factored out, as revenues fell 5.66 percent for the month for casinos that had been operating last year.
- Despite opening the \$700 million MGM Grand on May 17, revenue from the 7,200 slot machines at Foxwoods Resort Casino in June was 8.6 percent less in the same month a year earlier. Revenue was down 8.9 percent at the nearby Mohegan Sun, which, for the first time in its 12-year history, paid less to the state for Connecticut's fiscal year, which ended June 30, than it had the previous year.
- Foxwoods laid off almost 200 middle-manager and some hourly employees last month. Earlier this year, the Mashantucket Pequot tribe, which operates Foxwoods, laid off about 170 tribal government workers, dropped out of the bidding process to build a resort casino in Kansas and pulled its funding from Norwich's fireworks display. Mohegan Sun officials announced that they would cut about 600 jobs through attrition, but planned no layoffs.
- While revenue has been increasing at the Twin River casino in Lincoln, R.I., owners of the facility have missed several loan payments and have told Rhode Island officials they may face bankruptcy if the state doesn't agree to cut its take of 60 percent from slot machine revenues. Twin River's Twin Hearth Buffet and Carmine's Family Style Italian Restaurant have closed recently.
- Gambling revenue is steadily declining in Atlantic City, where 11 casinos report that revenue has declined by 6.1 percent in the first half of this year. The numbers for June are even worse, with revenues declining 11 percent from the same month in the previous year.
- Revenue for the casinos on the Las Vegas Strip fell 16 percent in May, the fifth straight monthly decline in the biggest casino center in the United States. Revenue for all of Nevada fell 15 percent.
- Earlier this month, Moody's Investors Service downgraded the bond ratings of Wynn Resorts Ltd., Fountainbleau, Riviera Holdings, Harrah's Entertainment and Station Casinos from "stable" to "negative." Another gaming operator "" Boyd Gaming Corp. "" was placed on review for a possible downgrade of its bond ratings and MGM Mirage and Las Vegas Sands Corp. were put on notice that the bonds covering their debt were on review for a possible downgrade
- Three casino operators "" Kentucky-based Tropicana Entertainment LLC , Greektown Holdings LLC of Detroit and Illinois-based Legends Gaming, which has casinos in Louisiana and Mississippi "" have filed for Chapter 11 bankruptcy protection this year.

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