

Suffolk casino would have to win big to meet estimates - Metro

Written by Administrator
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Suffolk Downs would have to generate more gambling revenue than any other casino in the country — the Western Hemisphere even — to reach the \$1 billion per year mark Boston leaders are counting on under profit-sharing agreements, according to industry experts and a Boston Globe analysis.

The proposed 4,000 to 5,000 slots at a Caesars casino at Suffolk Downs would each have to average \$400 to \$500 in gambling revenue every day to generate the amount the city is expecting, under an industry formula for measuring slot performance. That would be an astronomical rate of profit, surpassing the US slot king, Resorts World in New York City.

Also known as Aqueduct, Resorts World made \$696 million on slots in the fiscal year ended in March, according to the New York State Gaming Commission. During that 12-month period, Resorts World averaged about \$382 per day on about 5,000 slot machines, powered by an urban metro area more than four times as big as Boston.

In the more comparable metro region of Greater Baltimore and Washington D.C., the 4,300 slot machines at the highly profitable Maryland Live! casino have averaged \$292 in daily revenue this year, according to figures compiled by the University of Nevada Las Vegas Center for Gaming Research. The daily slot average for Connecticut and Rhode Island casinos is about \$275.

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Three-quarters of Suffolk Downs' revenue is expected to come from slot machines.

"I'm having trouble getting to one billion," said David G. Schwartz, the UNLV center's director. He said his own calculations suggest annual gambling revenue in Boston would be \$600 million to \$700 million, which would still be impressive for a single property.

Potential gambling profits at Suffolk Downs are important because the fortunes of the resort's

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two host communities, Boston and Revere, are intricately tied to the casino's annual gross gambling revenue, which is essentially the money customers lose in a year. If the casino did not earn \$1 billion, then the two host communities would not fully realize the payouts they had hoped to collect under agreements signed with the developer.

Veteran casino executive and consultant Saverio R. Scheri, president & chief executive at WhiteSand Gaming, broke out in a chuckle at the \$1 billion projection for Suffolk Downs.

"Really? Really?" he said. "Caesars thinks they can do a billion dollars a year? Well. Hmm." He paused. "If you look at some of the revenues from 2005, '06, '07, you can find a few individual properties generating those kinds of revenues. Today? Not happening."

For comparison, at Foxwoods Resort Casino — a \$3 billion complex three times bigger than what is proposed in East Boston — total gambling revenue last fiscal year was an estimated \$800 million. For Mohegan Sun, which claims to be the largest casino in the hemisphere based on gross gambling revenue, the estimate was a little north of \$900 million.

A consultant hired by the city of Boston and Ernst & Young, wrote that gambling revenue for Suffolk Downs "will likely fall below the Connecticut tribal casinos due to the smaller scale of the subject property."

Despite that, the city of Boston, Casears, and Suffolk Downs stand by the \$1 billion estimate. "Our projections are consistent with experts that the Legislature has relied on as well as other studies," said Chip Tuttle, Suffolk Downs' chief operating officer. "It's a market that can produce \$1 billion" in gross gaming revenue.

And there are some analysts who agree.

"The concentration of population in and around the area is pretty incredible," said Jeremy Aguero, a principal analyst with Applied Analysis who studies the industry. "A property of the size and magnitude that has been discussed could approach \$1 billion per year."

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Fitch Ratings senior director Michael Paladino, who studies the casino industry, said \$1 billion is “not out of the realm of possibility” for Boston.

“The fact that it’s one casino in an urban area, where the other cities like New York and Philadelphia have multiple casinos, it’s possible,” he said. “But it has to be considered in the context of other options opening up not that far away,” including as many as three other gambling facilities within the state and potential casino expansion in New Hampshire.

Under Boston’s deal with the developer, Suffolk Downs promises to pay the city \$32 million a year, plus an escalating share of gambling profits that kick in when the casino reaches \$810 million in gross gambling revenue.

The city has touted the agreement as a \$52 million annual benefit, which is the amount Boston would receive if the resort reached \$1 billion in gambling revenue.

Revere’s deal with Suffolk Downs would ultimately guarantee a minimum annual payment of \$9 million a year and would be worth \$15 million a year if the casino hit \$1 billion. The deal specifically says both sides agree that gross gambling revenue “is anticipated to be approximately \$1 billion.”

Suffolk Downs is in a fierce competition for the sole Greater Boston resort casino license with Wynn Resorts, which is planning a casino on the Mystic River waterfront in Everett, and with a Foxwoods project in suburban Milford. Everett voters in June endorsed Wynn’s plan at a referendum. East Boston and Revere are expected to vote Nov. 5 on Suffolk Downs. Milford votes Nov. 19.

The state gambling commission is expected to choose the winning proposal early next year, and could potentially weigh as part of its calculations how much the host communities would benefit from the project.

In negotiating its deal with Suffolk Downs, Boston used a market study from Ernst & Young, which forecast that Suffolk Downs could make \$917 million in gross gambling revenue, with 75

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percent coming from slots and 25 percent from table games. Suffolk Downs is planning 4,000 to 5,000 slot machines, up to 200 tables and a World Series of Poker room. Patrons would lose an average of \$114 per visit, according to the study.

Under the percentages projected by the consultant, a Suffolk casino with 4,000 slot machines would have to average more than \$500 profit on each machine every day to stay on pace to make \$1 billion. A casino with 5,000 machines would have to average about \$410.

Daily slot averages at nearby casinos show how difficult it is for any facility to reach \$1 billion in gross gambling revenue.

Foxwoods averaged \$242 per day on 6,123 machines in fiscal year 2013, according to the Connecticut Department of Consumer Protection, for a total slot revenue of \$542 million. Mohegan Sun, the New England slots leader, averaged \$304 per day on 5,656 machines, for a total of \$628 million. Twin River in Lincoln, R.I., averaged \$276 on about 4,748 machines in calendar year 2012, according to Twin River and the Center for Policy Analysis at University of Massachusetts Dartmouth.

Casino consultant Frank Fantini said the very successful Maryland Live! casino, which opened in 2012 in Hanover Md., 15 miles outside Baltimore, is a good comparison for Boston, with similar affluence and little direct competition.

Slots provide about 70 percent of gambling revenue at Maryland Live! Based on recent monthly performance, Fantini projects the facility will earn \$640 million in gambling revenue this year, a figure that should grow as the new casino matures.

A Boston gambling floor of roughly similar size would have the advantage of a hotel, he said, which would boost gambling revenue.

“Bottom line, a back-of-the-envelope estimate is that a Boston casino can do \$600 million to \$800 million in gaming revenue,” said Fantini. Such a performance, while short of the developers’ estimates, would still make a Suffolk Downs casino “one of the most lucrative

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licenses in the country.”

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