

Bad bet? Casino money misses states' forecasts

Written by Administrator

Saturday, 21 February 2015 23:04 -



Patrons play the slot machines at Harrah's Casino in Chester, Pa. The odds are long on Northeast casino projects hitting financial expectations. (AP Photo/Alex Brandon) ORG XMIT: BX702(Photo: Alex Brandon, AP)

HARTFORD, Conn. (AP) — For anyone betting on the Northeast's casino bonanza, the odds are long on projects hitting financial expectations.

In the last several states to open casinos — Ohio, Maryland and Pennsylvania — overall revenue is coming in below baseline forecasts, according to a review of state tax data. Officials blame miscalculations of spending habits and competition, but some also question how much the projected numbers reflected wishful thinking.

The casino industry has grown exponentially over the last decade as revenue-hungry states have moved to claim business that once went across state lines to Atlantic City, New Jersey, or the tribal-owned megaresorts in Connecticut. After Nevada, Pennsylvania has emerged as the country's No. 2 gambling marketing, overtaking Atlantic City, where four of 12 casinos closed last year.

As Massachusetts and New York prepare for a new round of casino building, they have added new levels of financial scrutiny, enlisting consulting firms to vet revenue projections. But the industry's growth in the Northeast's tight geography has made modeling more complex, and experts warn there are no guarantees.

"This isn't a science," analyst Alan Woinski said.

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Projections are developed through so-called gravity models, premised on the concept that bigger casinos draw more people from farther away. They are used by developers and regulators to estimate how a property will perform based on factors including the affluence of surrounding towns.

The track record shows big margins for error. With access to the same data, developers regularly come back with higher projections than regulators who run the numbers themselves, especially when companies are competing for bids. A recent study by Cummings Associates, a Massachusetts-based consulting firm, found that projections done for the same project were, on average, 20 percent apart and, in cases where the casinos were actually built, almost always were proved too high.

Casinos generally remain big moneymakers, and some projects have far exceeded predictions, but state averages have been below forecasts that set expectations for tax revenue.

One of the biggest misses came in Ohio, where the state Department of Taxation weighed in on a proposed constitutional amendment in October 2009 with an estimate that casinos would generate at least \$470 million in annual tax revenue. In 2014, tax revenue from the casinos totaled \$267.5 million.

"In retrospect, we were guessing," said Mike Sobul, who was the tax department's director of research.

Sobul said the gravity model run by Ohio officials used industry assumptions that were overly optimistic, and, more significantly, officials underestimated how the recession would affect consumer spending. Sobul, who tracks the numbers now as a financial officer for an Ohio school district, said schools that once were expected to receive more than \$80 per pupil statewide in casino money are now expecting about \$51 per pupil.

In Maryland, casino revenue has been hundreds of millions of dollars short of a December 2008 projection by the Department of Legislative Services.

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