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Del. seeks competitive edge over other casinos in the area

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PERRYVILLE, Md. -- Vernon Thompson wheeled his Lexus up a gravel service road to the foot of a water tower on the bluffs overlooking the Chesapeake Bay.

His gaze spread over a hidden valley that could be sprouting green shoots for Cecil County by this time next year -- and he's not talking corn.

The nation's third-largest casino company -- Penn National Gaming Inc. of Wyomissing, Pa. -- has already begun site work on the 36-acre parcel for the proposed \$75 million Hollywood Casino it hopes to open by late 2010. The company predicts the new slots casino, located at a full interchange on I-95 about 20 miles from Newark, Del., will capture gaming dollars now flowing to Delaware.

"Clearly, it will bleed off some traffic," said Thompson, director of the Cecil County Office of Economic Development. "A lot of Maryland money is leaving Maryland and going to Delaware."

After more than a decade of having a near-monopoly in the region, Delaware's gaming industry is under attack at the borders. Besides Penn National, whose license application for Perryville is being reviewed by the Maryland lottery commission, Ocean Downs Racetrack in Berlin, about 17 miles from Fenwick Island, is planning to introduce slots. A casino proposal by Baltimore City Entertainment Group for Baltimore is even more fearsome to some Delaware operators.

To the north, Pennsylvania, which has already eroded Delaware's gaming market in the past two years, has two bills pending in the Legislature to allow table games.

At the same time, demand for gaming has plummeted during the worst economic downturn since the Depression.

"The slices of the gambling pie have really become like cupcakes," said John O'Neill, associate professor of hospitality management at Penn State University, who focuses on gaming.

The stakes in this market battle are high for Delaware. Besides employing more than 3,000 people in the state, money from the racino industry has made up about 6-7 percent of the total general fund revenues in recent years -- the fourth-largest source of revenue in the state. But historically, most of that revenue has come from gamblers living in Pennsylvania and Maryland.

"It's time to share," said Buddy Roogow, director of the Maryland State Lottery.

Many believe the only way Delaware can keep its gaming franchise from devolving into a strictly local enterprise frequented by Delaware gamblers is to add new games, including the proposed Las Vegas-style casino games such as craps, roulette and baccarat and sports betting. Because the slot machine gaming market has reached maturity in the mid-Atlantic region, analysts say, revenue gains in that sector will come only from population growth or inflation.

A franchise of table games, sports betting, slots and horse racing would give Delaware an edge east of the Mississippi, experts say.

"You've got to differentiate yourself somehow. When you've all got the same product -- if you've all got slot machines -- then the question becomes how close is the casino, or how nice is the facility and how well do they treat you?" said Judy Cornelius, associate director of the Institute for the Study of Gambling and Commercial Gaming at the University of Nevada, Reno.

But Delaware is mistaken if it views table games or sports betting as a silver bullet, gaming analysts said.

"I absolutely do think it's a win," Steve Rittvo, head of The Innovation Group in Denver, said of sports betting and table games. "But do I think people will swarm to you? No."

Others are less positive. Delaware had its chance to treat gaming as an economic development and tourism engine when it legalized slots in 1994, said Bill Eadington, a professor of economics and director of the Institute for the Study of Gambling and Commercial Gaming. Instead, Delaware's public policy leaned toward revenue generation for the state, he said.

With the cross-border competition, a big percentage take for the state, tight credit and swooning market conditions, investors aren't going to put money into a destination casino project in Delaware, Eadington said.

"It's too late for Delaware," Eadington said. "It's a mature market. As a significant fiscal contributor to the state, gambling has pretty much played itself out in your region."

Research mission

Since 1973, when Delaware amended its constitution to have a state-controlled lottery, lawmakers and governors have flirted with gambling, said O'Neill. Even the sports betting of the 1970s, which gives Delaware the right under federal law to have it today, was a lukewarm effort, said Nathan Hayward III, who was economic development director under Gov. Pierre S. du Pont IV from 1981-85.

"Gambling as an economic development strategy wasn't even on the radar," Hayward said. "I'm not sure the public was ready for it."

But much has changed since the mid-1970s, when Americans wishing to play a legal game of roulette had to get on an airplane to Nevada or some exotic destination.

Public attitudes nationally have softened toward what was once considered a vice industry controlled by organized crime, experts said. Today, people tend to view it like going to concerts, sporting events or plays, according to the American Gaming Association.

Eighty-one percent of people polled by the gaming association in a 2009 public opinion survey considered it acceptable for themselves or others to gamble at casinos.

With this shift in perception has come a relaxation of state laws prohibiting gaming. Now, only Utah and Hawaii are without some form of legal gaming.

"In two generations, we've gone from gambling being largely illegal to largely legal," Eadington said.

Delaware got the jump on its neighbors in 1994 when it passed a law that allowed slots -- or so-called video lottery machines -- at the three racetracks. The Legislature's stated reason for the expansion was to save the state's horse racing industry. Indeed, it was called the Horse Racing Redevelopment Act.

"Now, gambling is just accepted. A day at the casino, a day at the races is what families do now," said William Rickman Jr., who owns both Delaware Park Racing, Slots & Golf and Ocean Downs.

Demand slackens

So what's Delaware up against?

On a recent Saturday evening, Cindy Simons of Clinton, Md., drove five hours round trip to spend a few hours at the slots at Harrah's Chester Casino & Racetrack on the Delaware River.

With \$75 in coupons from Harrah's, Simons considered it a night of cheap entertainment. And, who knows? Maybe she would go home with her pockets jingling.

Demand from customers like Simons is the reason gaming companies like Harrah's have pushed into virgin markets as states have legalized gaming. Approximately 54.6 million people visited casinos in 2008 -- or a quarter of the U.S. adult population, according to the American Gaming Association.

Thanks to cheap money during the early part of the decade, the industry went on a building spree, Eadington said. In 2007 alone, the number of racetrack casinos rose by 14 percent from the previous year, according to the gaming association.

Spending at commercial casinos nationally, not including the spending at racetrack casinos, rose steadily from 1988 to 2007, according to the American Gaming Association. Racetrack casinos, such as the three in Delaware, saw consumer spending triple from \$2 billion in 2002 to \$6.19 billion in 2008, the gaming association reported.

But the recession has hit the industry hard, with revenues at commercial casinos declining in 2008 for the first time in 20 years, according to the gaming association.

The pullback has hurt over-leveraged companies, forcing some into bankruptcy. Trump Entertainment Resorts Inc., the company founded by Donald Trump, filed for bankruptcy earlier this year. Even the company that owned the Nevada casino featured in Elvis Presley's "Viva Las Vegas!" was forced to seek protection from its creditors.

Most analysts agree the slots casino industry has reached maturity in the mid-Atlantic. It's getting harder for casinos outside the gaming destination spots of Atlantic City and Nevada to differentiate themselves -- other than convenience, experts said.

"It's a very competitive market," said Lawrence Klatzkin, managing director of Chapdelaine & Co. in New York City.

Indeed, some believe the mid-Atlantic slots market is nearing saturation, although most believe demand will rebound once the economy recovers.

Going forward, the industry could see some thinning out of casinos in the mid-Atlantic, most likely in Atlantic City, said Eric Schippers, vice president of Penn National.

"As we see more states, more facilities and more types of games, such as table games and sports betting in Delaware, some of the oversupply will be pruned off. We think it will be older product," Schippers said.

For Delaware racinos, the future looks shaky, judging by 2008 numbers. Overall revenue increases in the racino industry largely were driven by expansion in Indiana and Pennsylvania, according to the gaming association. By contrast, spending at Delaware's racinos in 2008 fell by 4 percent from 2007, according to the gaming association. That followed a 6 percent drop from 2006 to 2007, the gaming association reports.

Rickman agrees.

"Yes, we're overbuilt when you can't go 20 minutes without running into one," Rickman said. "We're at the saturation point, no question."

Harrah's Chester now has surpassed Delaware Park as a gaming market and is nipping at the Dover-Harrington racetrack casinos, according to The Innovation Group. Employment at Delaware's racinos dropped 11 percent in 2008 from the previous year, according to the gaming association.

For Delaware casinos, table games and sports betting promise to be their best hope to keep from becoming strictly a convenience market.

"Everybody's going to get table games. Let's be honest. Why not get it first and be at a competitive advantage?" Rickman said.
