



Race Track Industry Program

**34th ANNUAL
SYMPOSIUM ON RACING & GAMING**

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Racino – New Territories Update

Moderator/Speaker:

Will Cummings, President, Cummings Associates

Speakers:

Keith Kocher, Director of Gaming Facilities, Kansas Lottery

Dave Roberts; Director, Florida Division of Pari-Mutuel Wagering

MR. STEVE BARHAM: First thing I would like to do is thank our sponsor, IGT, for this panel, and also for the refreshment break, Del Mar Thoroughbred Club. I have the honor of introducing Will Cummings who's not only going to be a moderator but also a speaker on the panel. Will is the president of Cummings Associates, a consulting firm that specializes in economics of racing and gaming industries. He joined a professional consulting firm in 1975 when and where he began consulting for the racing industry. Will has consulted for racetracks, casinos, state lotteries, racing and gaming commissions, vendors, creditors, investors and many groups of horsemen and breeders, so just about anybody in the industry, he'll work for.

(Laughter)

On a more serious note, Will has helped us out a lot of times speaking at the Symposium, and we appreciate that he'll work as both a moderator or speaker. Anytime we need him he seems to be willing to do that. This year he actually went beyond that; many of you may know that we have just started a master's degree program, and as part of that, master's degree students must do a professional development project. We had one that needed a bunch of information, a bunch of data and we as faculty kind of looked around at each other saying, how do we help this guy get it? Finally we decided, you do what any good manager does and that's delegate, so we called Will, and he came through for us on that too. With that, Will, thank you.

(Applause)

MR. WILL CUMMINGS: Thank you Steve. It's always a pleasure to be here, particularly with the nice weather you have for us, thank you very much. Again, highly appreciated.

Again, I'm Will Cummings, I'm moderator and also going to be giving a bit of information as a speaker on this panel. We also have with us David Roberts from the Florida Division of Pari-Mutuel Wagering Regulation and Keith Kocher, from the Kansas Lottery, which is in charge of developing the new Kansas lottery gaming facilities, otherwise known as casinos and slots at racetracks.

I'll lead off and talk about some background on slots at tracks, slots in general, give a little bit of slots 101, why are we talking about slots, kicking off what is actually a track here at the racing Symposium, there will be a whole series of sessions regarding slots and VLTs at tracks, there is practically one every time slot for the next couple days, and they will all be interesting I'm sure.

I will then talk about Pennsylvania and Indiana, Dave Roberts will talk about Florida and then Keith will clean up and talk about forthcoming developments in Kansas.

To start off, why slots? Slots are where the money is. These figures are from Eugene Christiansen's latest Gross Annual Wager of the United States, which is actually for the last year, '06. The numbers are of course up in '07 for everybody but racing, perhaps. Slots and various venues and VLTs, both in tracks and in a few states in a broadly disseminated basis, attracted \$49 billion in consumer spending last year. Traditional lottery games, \$21 billion. Table games at casinos and a few card clubs, which are exclusively table games in California, Washington and the biggest one connected with the racing business at Canterbury Downs in Minnesota, attracted \$12 billion. And pari-mutuel racing is well down the track at \$3.6 billion. Another way to look at these numbers, in my work, I do a lot of gravity model analysis and look at where people come from to go to these facilities or engage in any type of gaming, and I look at what I call distance-adjusted population. The average adult, the typical adult who lives within 10 miles of a facility that offers slots, a full spectrum casino or just a stand alone slot facility, typically spends between \$600 and \$700 per year on slot machines. The average adult who lives within 10 miles of a facility that offers table games spends between \$70 and \$200 per year. The \$200 is somewhat of an outlier; the casinos in Nevada and New Jersey do that, most other jurisdictions table games are down in the \$70 to \$100 range.

Traditional lotteries, if you live in a state that has a traditional lottery, roughly 40 do these days, the average adult spends between \$50 and \$170 a year on lottery games.

And pari-mutuels, the average adult who lives within 10 miles of a racetrack or off-track betting outlet or some type of a simulcast facility spends between \$20 and \$60.

So again, there is a wide spectrum here, and slots are way up there above everything else. I think that one point to note here is that while racing is at the bottom, the gulf between us and those other games is not that great. Our \$20 to

\$60 is not that different to the \$50 to \$70 bottom end of the spectrum for traditional lotteries and table games. We've got some issues with getting our product out there with pricing and other things, but we're in the ballpark with regard to other games. Slots are a different world entirely.

Now, in talking about slots and particularly slot facilities, the most common unit of measurement is win per slot, per day. You will hear lots of talk when talking slot casinos and slots, "I won \$300 a day," "\$400 a day," "\$200 a day," and that is the common unit of measurement in the business. I have some issues with it, I think it's good if you are two facilities right next door to each other, then it's a good denominator for how well you stack up against your competition, but if you're in different markets, it's apples and oranges. If you're Elgin, for example, if you've got 1,000 slots, 30 miles outside of Chicago, well, the competition is very limit. You'll do \$880 a day. That's not a misprint, that's off the scale; it's a very high number. If you've got 1,000 slots, 40 miles outside Des Moines, again, with more competition than they have in Chicago, you do \$136 a day and you're happy with it. They would like it to be \$140 or \$150, but they're doing a good job getting \$136, they're making a profit and they've got a nice facility. So, it depends on where the people are, how many slots you've got, what the conditions are.

Here are some broader averages from states across the U.S.: Illinois, again, with that one facility doing \$880, has only got 10,000 slots to serve a market of 13 million people, and their win per slot per day is accordingly very high. Down at the bottom of the spectrum, and it may surprise you to see Nevada down at the bottom of anything, they've got over 200,000 slots there, and yes, they've got a lot of visitors there but they've got a small native population that play very intently, as I said, the \$600 to \$700 a day in Nevada, it's probably \$1,000 for local residents there, and their win per day is \$110. Again, most of them are very happy with that. While the Bellagio and the Venetian and the other mega resorts do better than that, they're on the order of \$200 a day, that's a very good number for Nevada and that provides return on investment to build those billion-dollar facilities. So you don't need \$300 a day, \$300 a day is really, in my opinion, a reflection of an imbalance between supply and demand. You get these high numbers when you've got a lot of people and very few slot machines. You're just fortunate to live or occupy a niche where the law or some other type of barrier to entry prevents much competition. In a competitive market, as Iowa and Mississippi and Nevada are getting to be, the win per slot per day is going to be more reasonable because people are going to put more slots in as long as there's a return on that investment and slots aren't that expensive, so that the more you can provide to the customer, the better the experience is for the customer. You will have a low win per day but the ultimate total revenues will rise for you.

So in doing my research at various locations across the country and abroad, I've identified a number of factors that really matter as to what drives the revenues there. You know, in real estate they say it's location, location, location. For slot machines and most other casino games, I'd say it's location, location and size, and then there's everything else. A lot of other things matter too, but again, a lot of

what drives a business is where the people are, how many slots you've got and location, location

Location matters two ways. One, simply distance that people have to travel to your facility, this works even for Las Vegas, that's what this slide is about. The vertical axis measures rate of visitation per year and the bottom axis measures distance from Las Vegas, and you see the further you get from Las Vegas, the less frequently you visit. And this works, some people are surprised this works for Las Vegas, but it works for a lot of markets, it works for practically every market.

.....**Other terms, concepts and keywords contained in the balance of this transcript are:** competitive, Reilly's Law, Retail Gravitation, travel time, distance, riverboats, slot mix, Ontario, New York, Canada, Florida, Arkansas, Indiana, Kansas, racetracks, slot facilities, Mohegan Sun, Pocono Downs, Philadelphia Park, Harrah's at Chester Downs, Presque Isle Downs, Meadows, Magna, Cannery Casinos, Hoosier Park, Indiana Downs, up-front license fees, maximize investment, Dave Roberts, Florida Division of Pari-Mutuel Wagering, racing, cardrooms, slot machine, ARCI, National Racing Compact, NAPRA, Broward County, Gulfstream Park, Mardi Gras Racetrack, Hollywood Greyhound Track, Isle Casino and Racing, Pompano Park, Dania Jai-Alai, Calder Race Course, Flagler Greyhound, Miami Jai-Alai, Florida Department of Law Enforcement, greyhound tracks, jai-alai frontons, thoroughbred tracks, harness track, Seminole Hard Rock Casino, Seminole, Coconut Creek, constitutional amendment, local referendum, enacting legislation, write the rules, APA requirements, progressive jackpots, ATMs, check cashing, Indian casinos, cruises to nowhere, gray market slot machines, compact, exclusivity, lawsuits, state supreme court, banked card games, non-banking games, Texas Hold 'em, Kansas Lottery, Keith Kocher, state-owned, Ed Van Petten, Steven Martino, Sedgwick, Woodlands, Camptown, privilege fee, problem gambling fund, common system, central system.....If you desire a full transcript contact bprewitt@ag.arizona.edu

