

Optimum Number of Gaming Machines at the Maryland Live Casino at Arundel Mills



Presentation to the Maryland
Lottery and Gaming Control Agency

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Will E. Cummings
Cummings Associates

Questions Please!
(at any time)

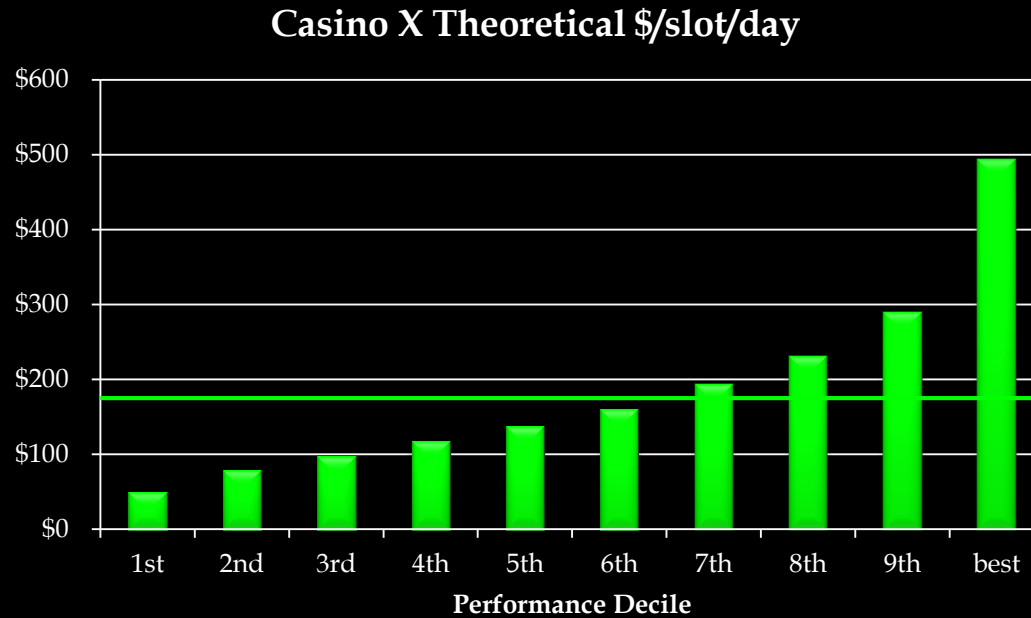
Overview

- Approach: Top-Down
- Limitations and Caveats
- Gravity-Model Projections
 - Number of Machines → Gaming Revenues
- Marginal Revenues vs. Marginal Costs
 - Long Term vs. Short Term
- Results (" ")

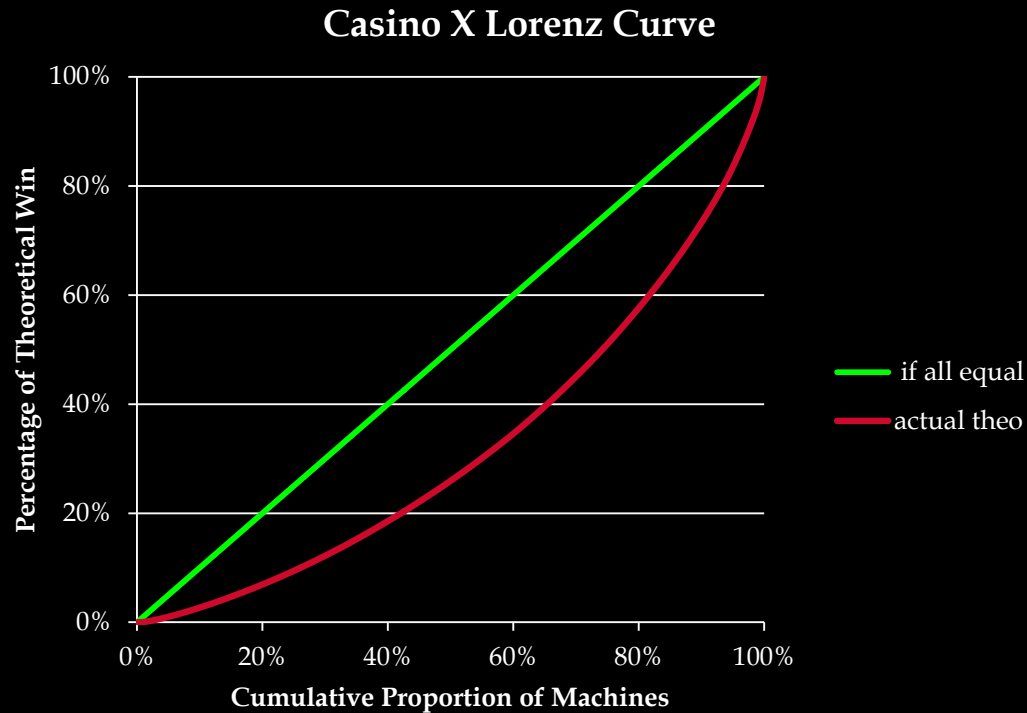
Top-Down Approach

- Looks at (each) facility as a whole
- Amenable to practical calculations
- **HOWEVER**, treats slots (for the most part) as interchangeable generic units
(and they're not!)
- Why not bottom-up?
 - Complex interactions among the “trees”
 - Data? (have seen some . . .)

All Slots Not Created Equal



“Income” Inequality Among Slots



Other Caveats

- “Maximum” = “Maximum Sustainable”
 - Financial viability of licensees
 - Appropriate incentives to maximize overall revenue performance
- “Size” relationships fuzzy
- Usual academic economic assumptions (rational actors, long-term self-interest, we can analyze things “at equilibrium” etc.)

Gravity Models – Recap

- Location
- Location
- Size
- Everything Else

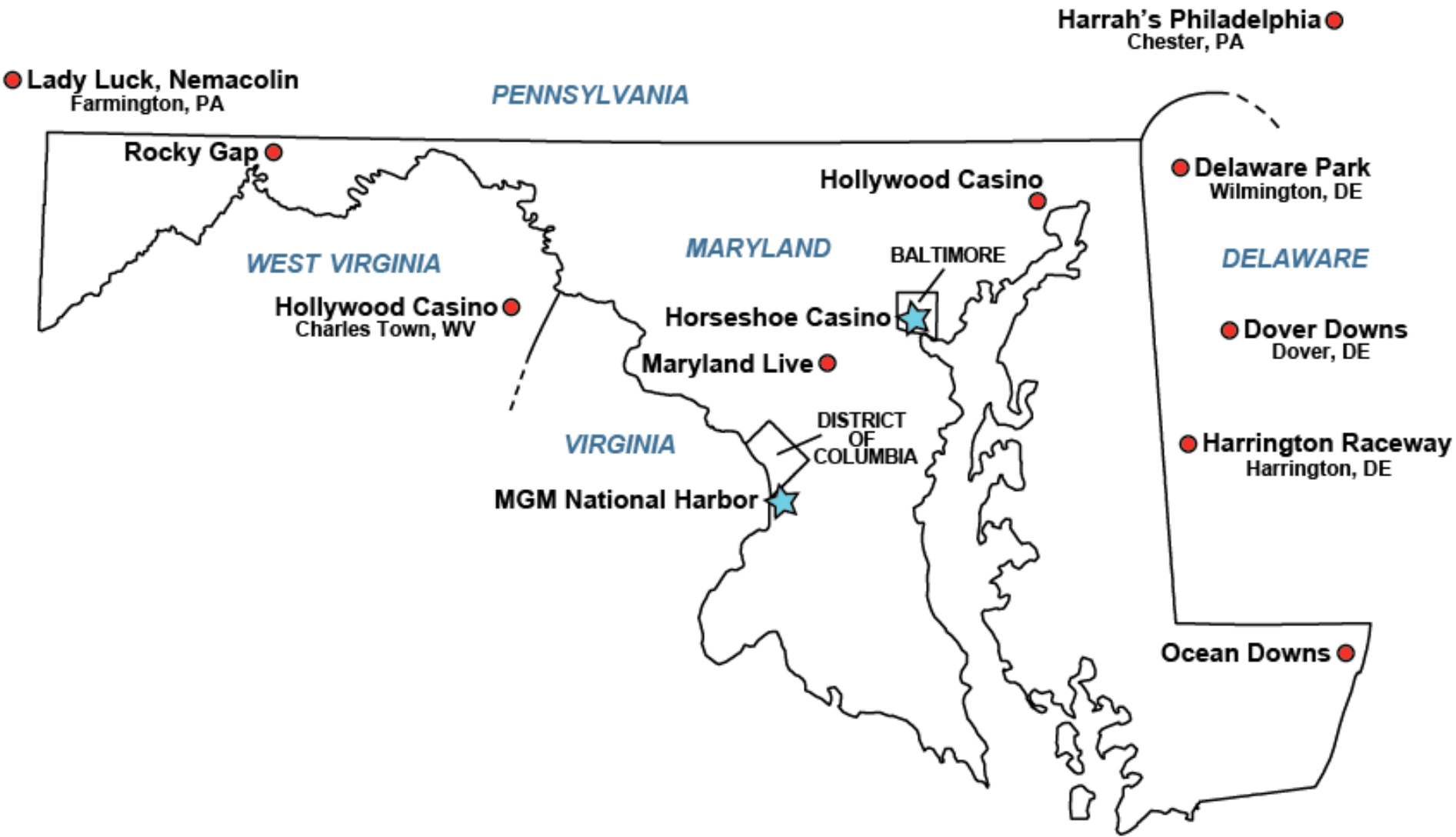
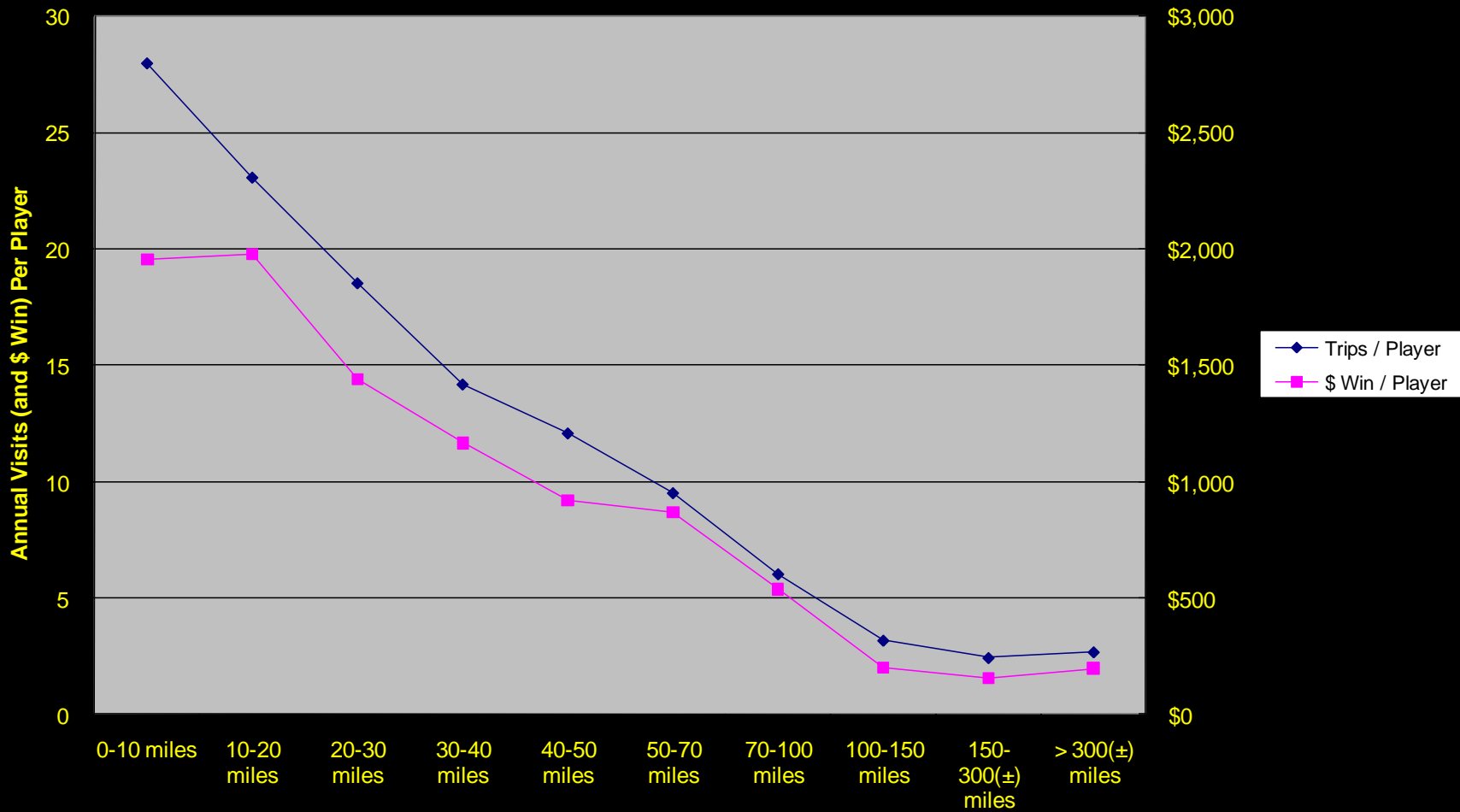


Exhibit A-11: Rates of Visitation (and Win) vs. Distance at Casino Z



More Slots, More Spending

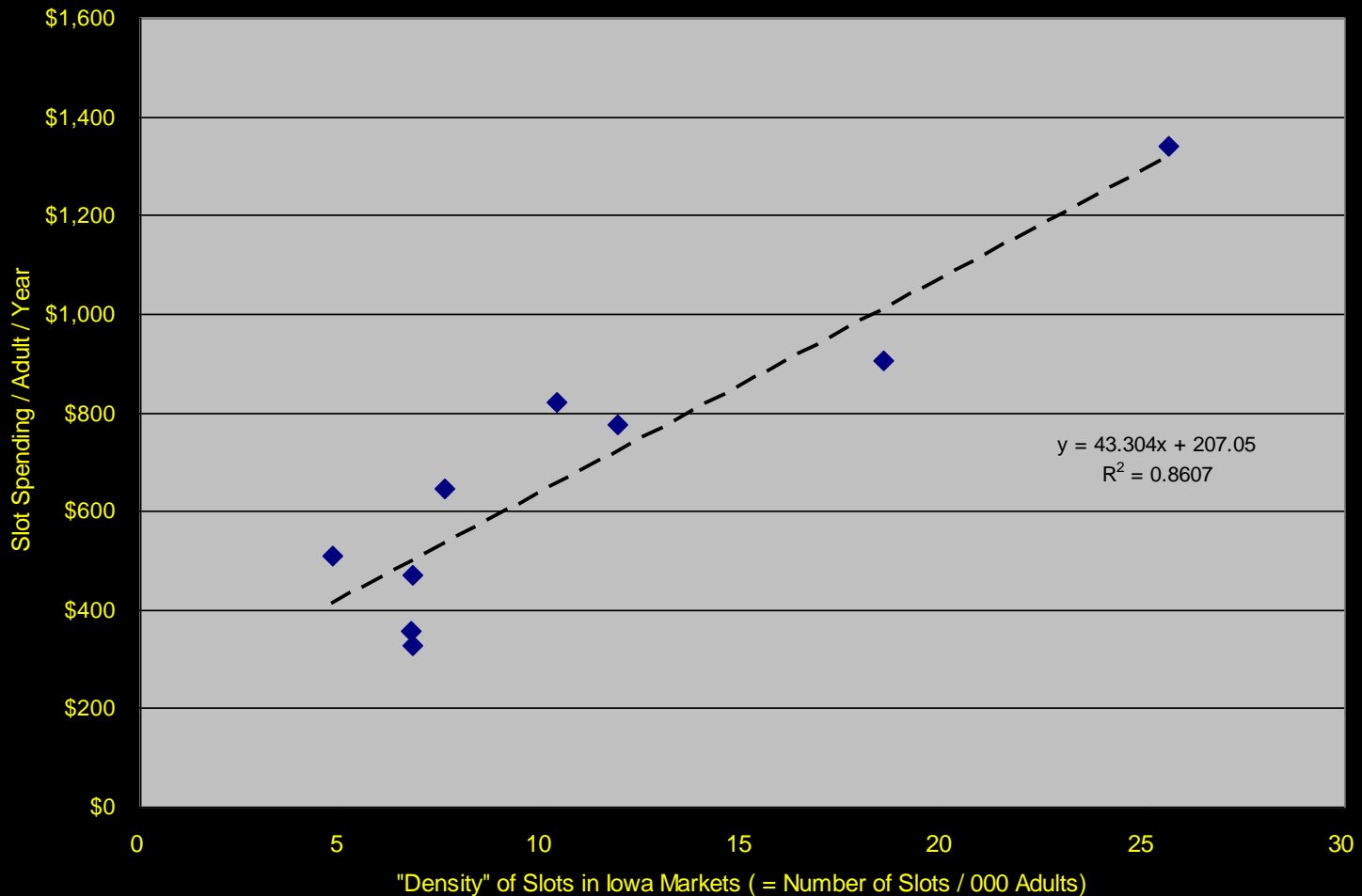
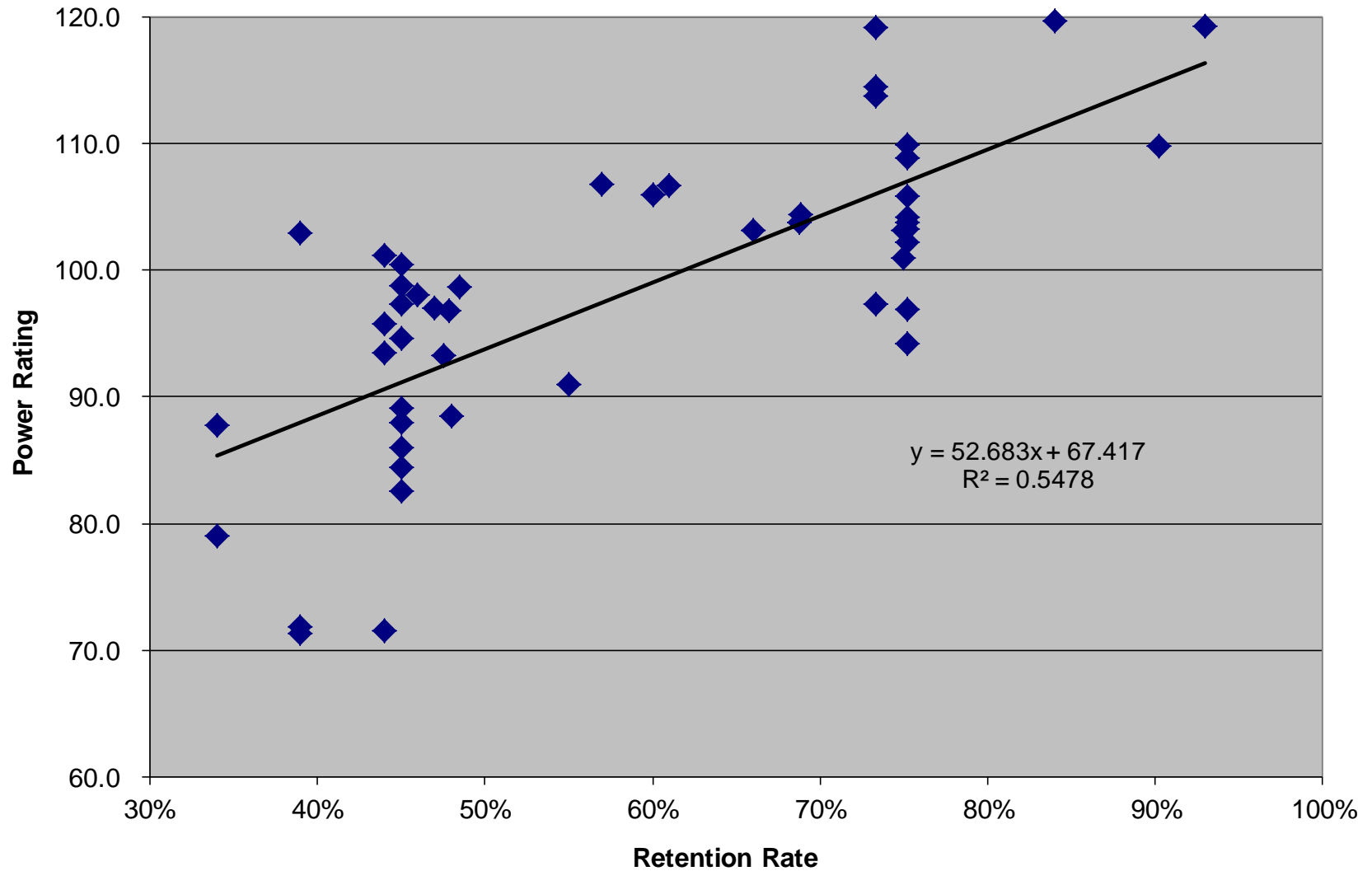


Exhibit 13: Slot Power Rating vs. Casino Retention % (Detail)



Application to Maryland

Northeast Slot Estimates

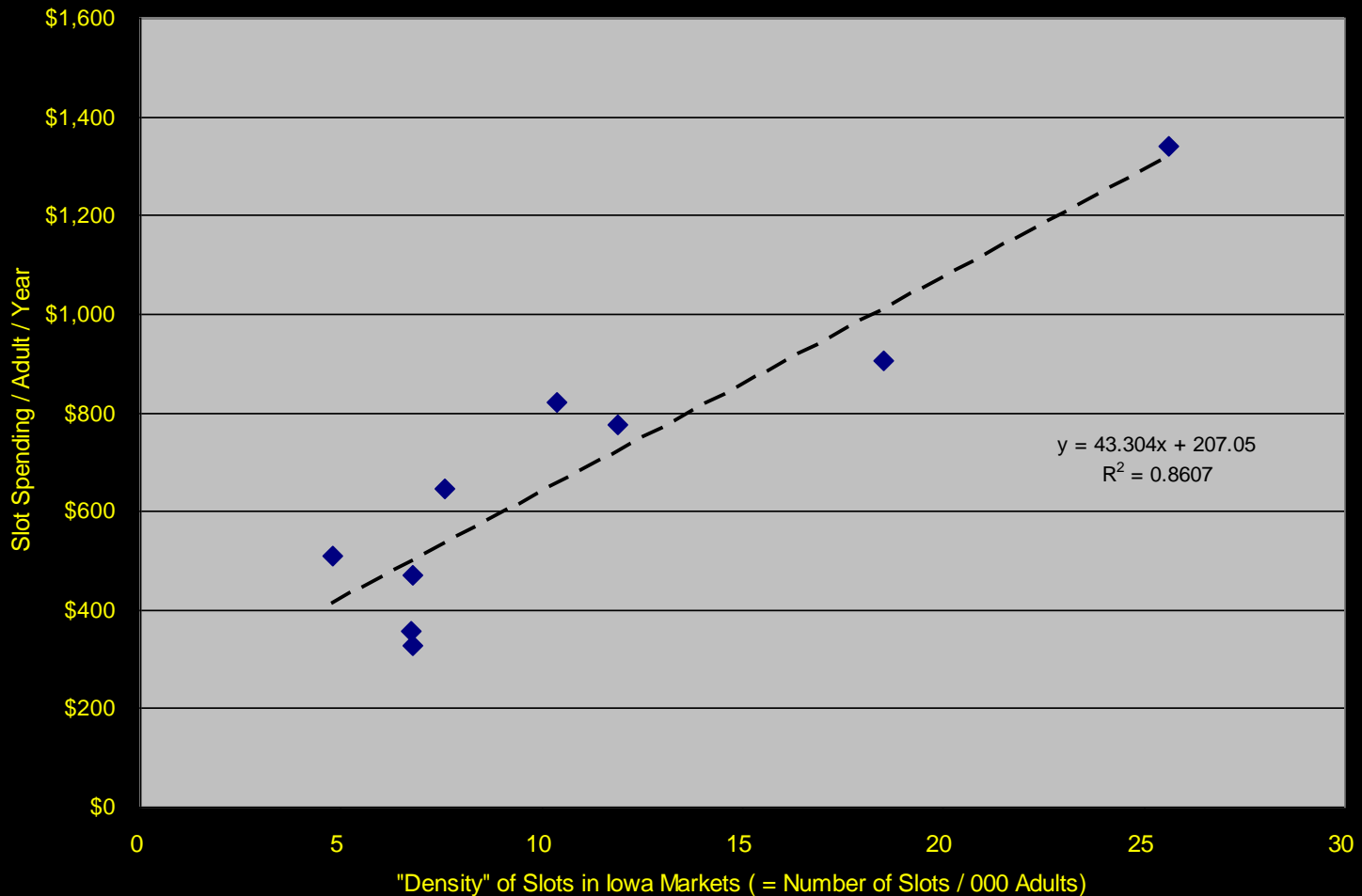
Travel Time (in minutes):

State	County	ZIP Code	Baltim.	MD Live	H'woodP	RockyG	OceanD	MTR	Wheeling	M Gras	CharlesT	Greenbr	Atl City
MD	Allegany	21502	132.0	133.0	168.7	22.2	302.4	167.1	138.4	208.5	96.4	233.9	269.8
MD	Allegany	21504	123.1	124.1	159.8	13.3	293.5	169.9	136.9	207.0	87.5	240.2	260.9
MD	Allegany	21521	162.7	163.7	199.4	52.9	333.1	174.4	144.0	214.1	127.1	243.1	300.5
MD	Allegany	21529	137.1	138.1	173.8	27.3	307.5	162.5	146.8	216.9	101.5	254.2	274.9
MD	Allegany	21530	124.2	125.3	161.0	13.8	294.6	179.1	146.1	216.2	88.7	241.4	262.1
MD	Allegany	21532	137.5	138.5	174.2	27.7	307.9	159.7	131.2	201.4	102.0	235.7	275.4
MD	Allegany	21539	150.0	151.0	186.7	40.2	320.4	167.9	137.6	207.7	114.4	242.0	287.8
MD	Allegany	21540	159.4	160.5	196.2	49.6	329.8	186.1	157.5	235.8	116.6	214.4	297.3
MD	Allegany	21543	132.5	133.5	169.2	22.7	302.9	155.9	127.2	197.3	96.9	231.6	270.3
MD	Allegany	21545	141.5	142.6	178.3	31.7	311.9	159.6	141.1	218.1	106.0	252.4	279.4
MD	Allegany	21555	140.9	142.0	177.7	41.0	311.3	203.2	170.2	240.4	105.4	258.1	278.8
MD	Allegany	21557	143.2	144.2	179.9	33.4	313.6	181.1	152.5	222.6	107.6	228.7	281.0
MD	Allegany	21560	131.8	132.8	168.5	22.0	302.2	179.4	146.4	216.5	96.2	252.4	269.7
MD	Allegany	21562	149.1	150.1	185.8	39.3	319.5	187.1	158.4	223.0	103.8	216.6	287.0
MD	Allegany	21766	114.9	115.9	151.6	26.9	285.3	198.0	165.0	235.1	79.3	232.1	252.8
MD	Anne Arundel	20711	44.8	43.4	80.0	144.1	134.3	303.7	282.2	352.3	96.5	248.0	181.1
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MD	Worcester	21851	147.0	145.2	145.2	257.6	38.2	417.2	395.7	465.8	209.9	353.1	128.4
MD	Worcester	21862	131.5	129.6	129.6	242.0	12.0	397.3	380.1	450.2	194.4	359.3	92.6
MD	Worcester	21863	137.8	136.0	136.0	248.3	25.0	403.6	386.5	456.6	200.7	365.7	115.2
MD	Worcester	21864	153.4	151.6	151.6	263.9	38.3	419.2	402.1	472.2	216.3	364.4	138.2
MD	Worcester	21872	132.2	130.3	130.3	242.7	16.0	398.0	380.8	451.0	195.1	360.0	94.5

Total MD

Slots ≠ “Size”

More Slots, More Spending



More Slots, More Spending

Contribution to "Size" or "Mass"



Projections for Maryland Live

Key Features / Maryland Live

- Reduce # slots by 300 = - 7%
 - 59% “Tax” rate, but low utilization
- ADD 13 banked table games plus 57-position dealer-operated hybrid $\approx +16\%$
 - 20% Tax rate, but very high utilization
 - Capacity-constrained at peak periods
- Also adding 80-seat restaurant

Exhibit 12: Projected Total Slot Win at Maryland Live (\$mn) vs. Number of Slots

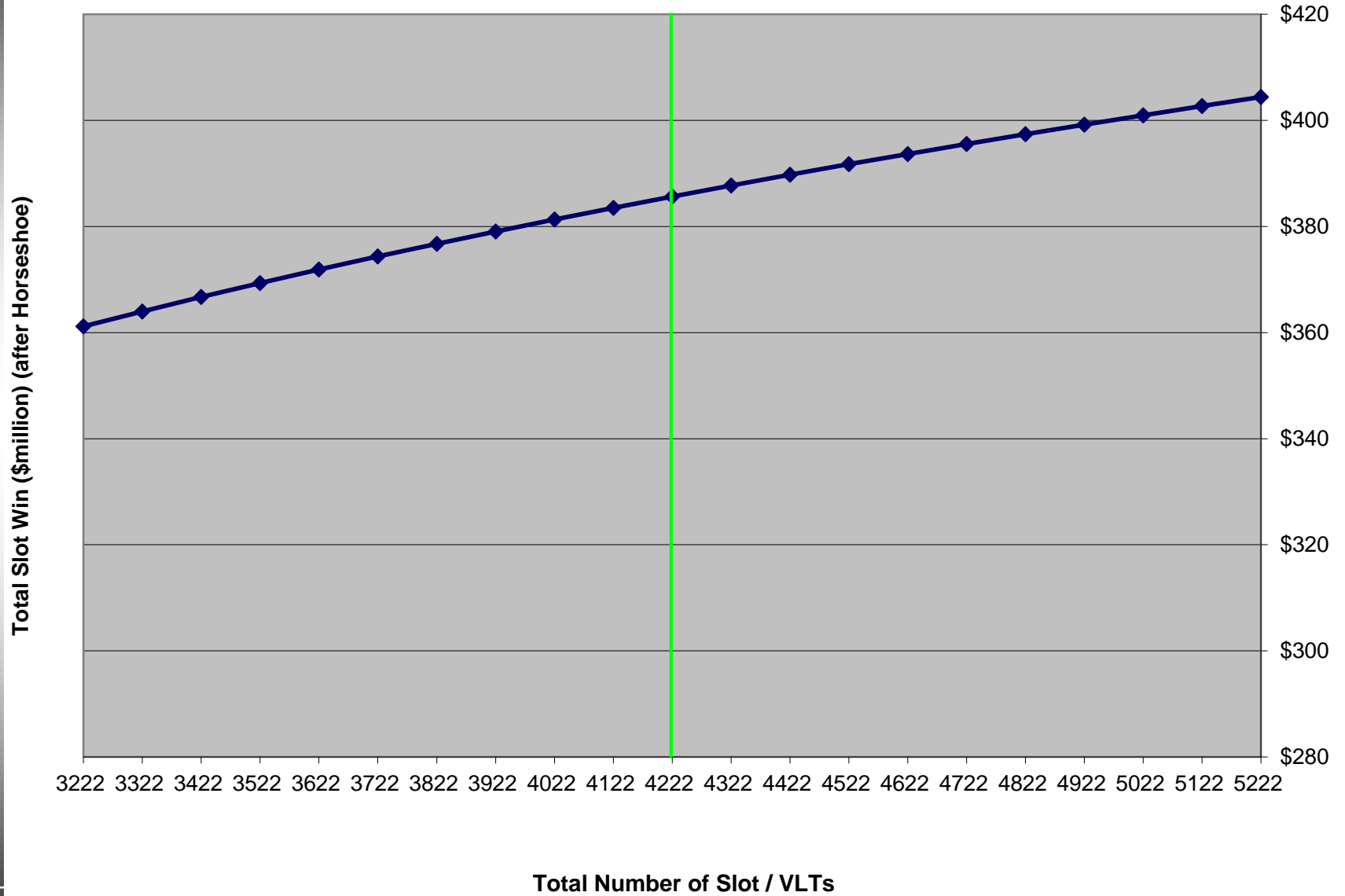


Exhibit 13: Maryland Live Average Win/Slot/Day vs. Number of Slots

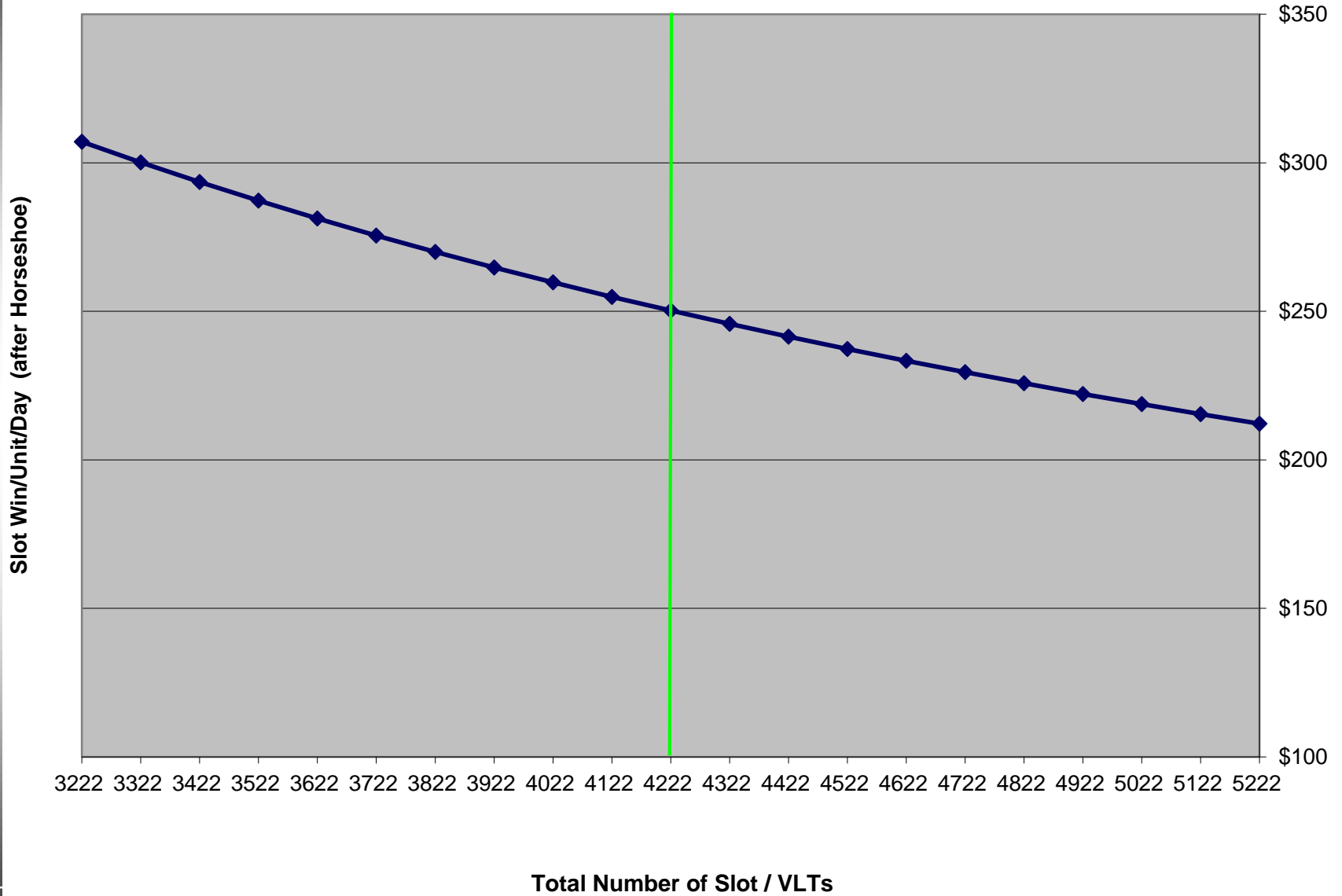


Exhibit 14: Maryland Live Win/Day for each Incremental Slot vs. Number of Slots

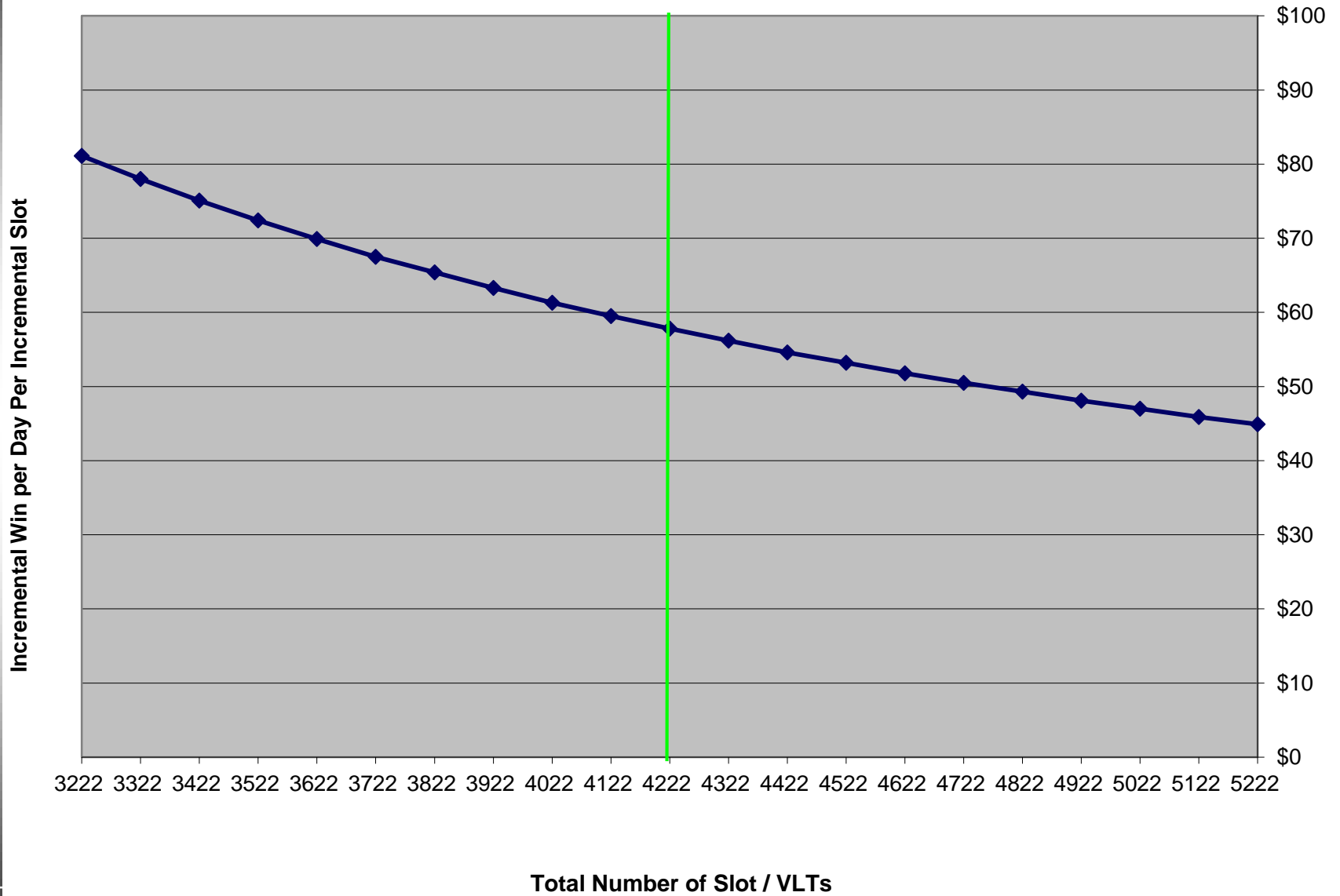


Exhibit 15: Maryland Live's Marginal Revenues/Day for each Incremental Slot

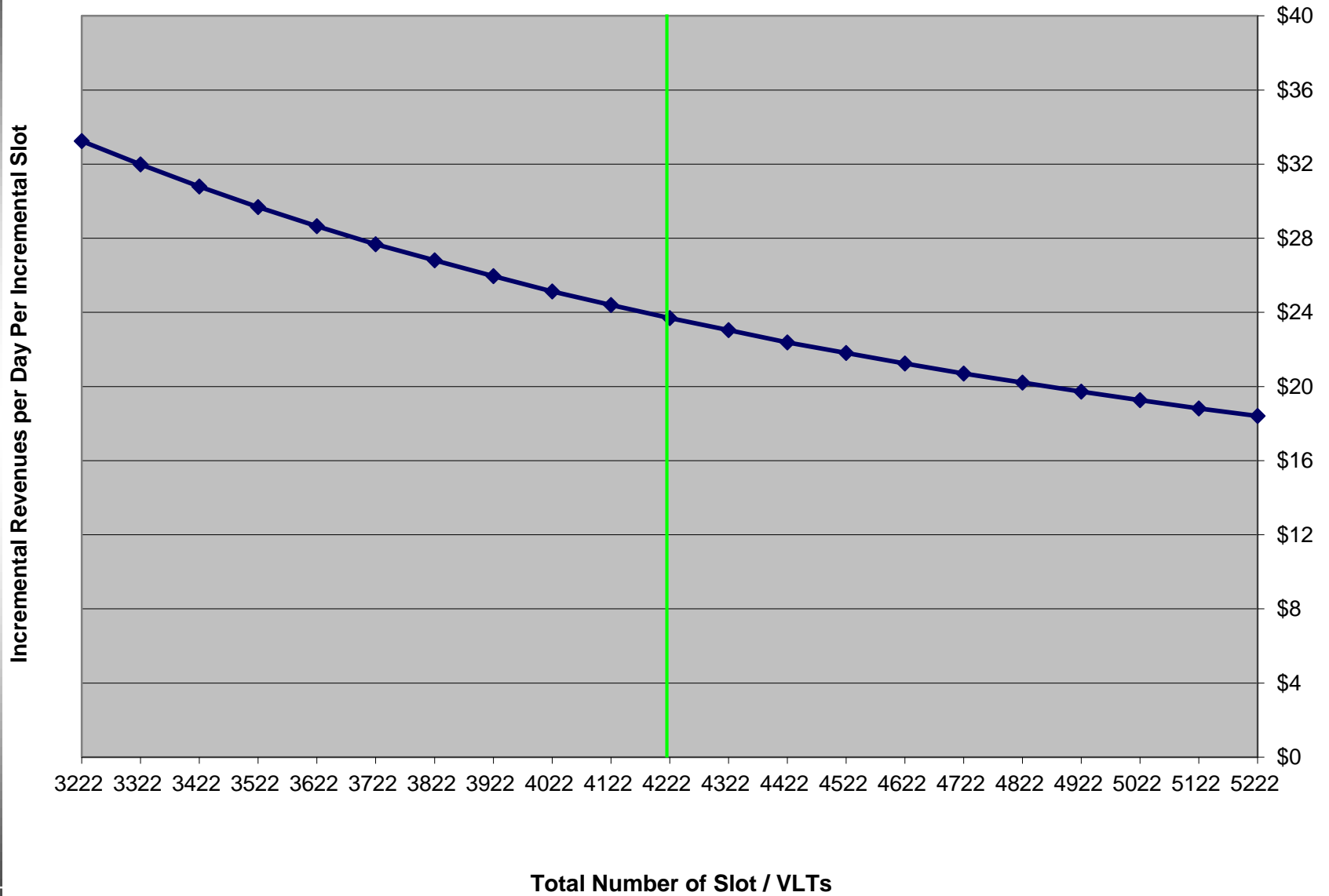


Exhibit 16: Estimated Direct Marginal Costs - Long Term

	Per Year Per Machine	Basis / Comment
Slot Machine	\$3,800	\$18,000 average – some more, some less
Furnishings & Fixtures	\$800	\$3,000 bases, stools, signage, wiring
Surveillance etc.	\$400	\$2,000 cameras, wiring / wireless, radios
	-----	(all amortized over 5 years)
Equipment Costs	\$4,600	\$23,000
Cost of Capital	\$1,150	10% x net book value of the above (on average, 50%)
Updates / Conversions	\$1,000	\$2,000 roughly every 2nd year
Network etc.	\$800	includes slot data system
Machine-Related Payroll	\$820	roughly 3 FTE per 100 machines (slot tech, EVS, count)
Miscellaneous	\$100	electricity, paper, count, etc.
State License Fee	\$450	provides revenue to the State, of course

Direct Operating Costs	\$2,970	
Customer-Service Payroll	\$232 *	1.0% x incremental GGR (beverage, tech & count)
Marketing & Promotion	\$348 *	1.5% x incremental GGR (out-of-pocket costs only)

Associated Direct Costs	\$581	
Facility Expansion / Contraction		None Assumed
Facility Overhead		No Charge
Management Time & Attention		No Charge

Total Direct Costs	\$9,301	per year per machine
	= \$25.48	per day *

* actually varies in proportion to incremental GGR; figures shown are at
the optimum number of slots and the average for both facilities

Exhibit 19: Maryland Live's Marginal Revenues vs. Long-Term Marginal Costs

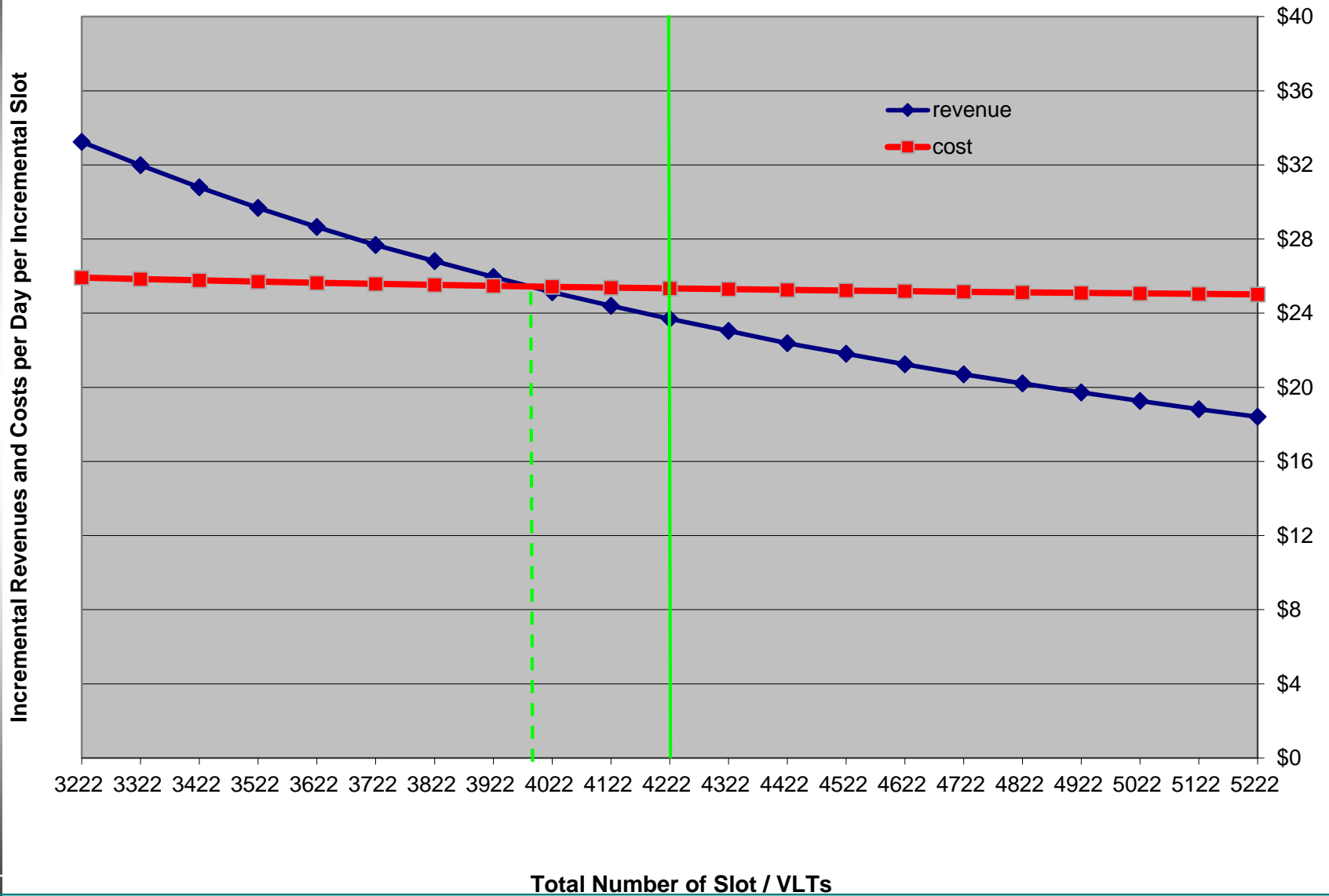
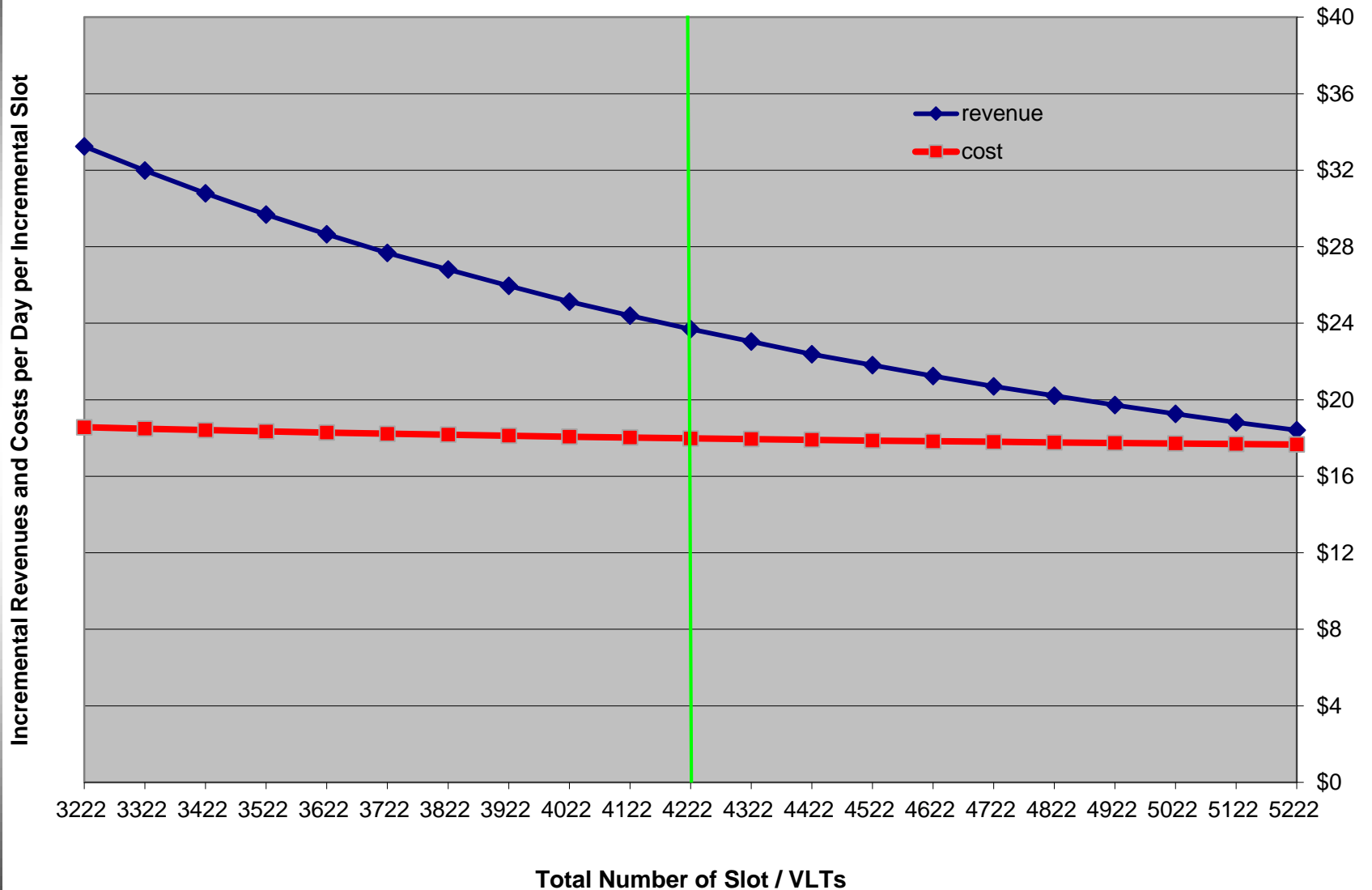


Exhibit 21: Maryland Live's Marginal Revenues vs. Near-Term Marginal Costs *



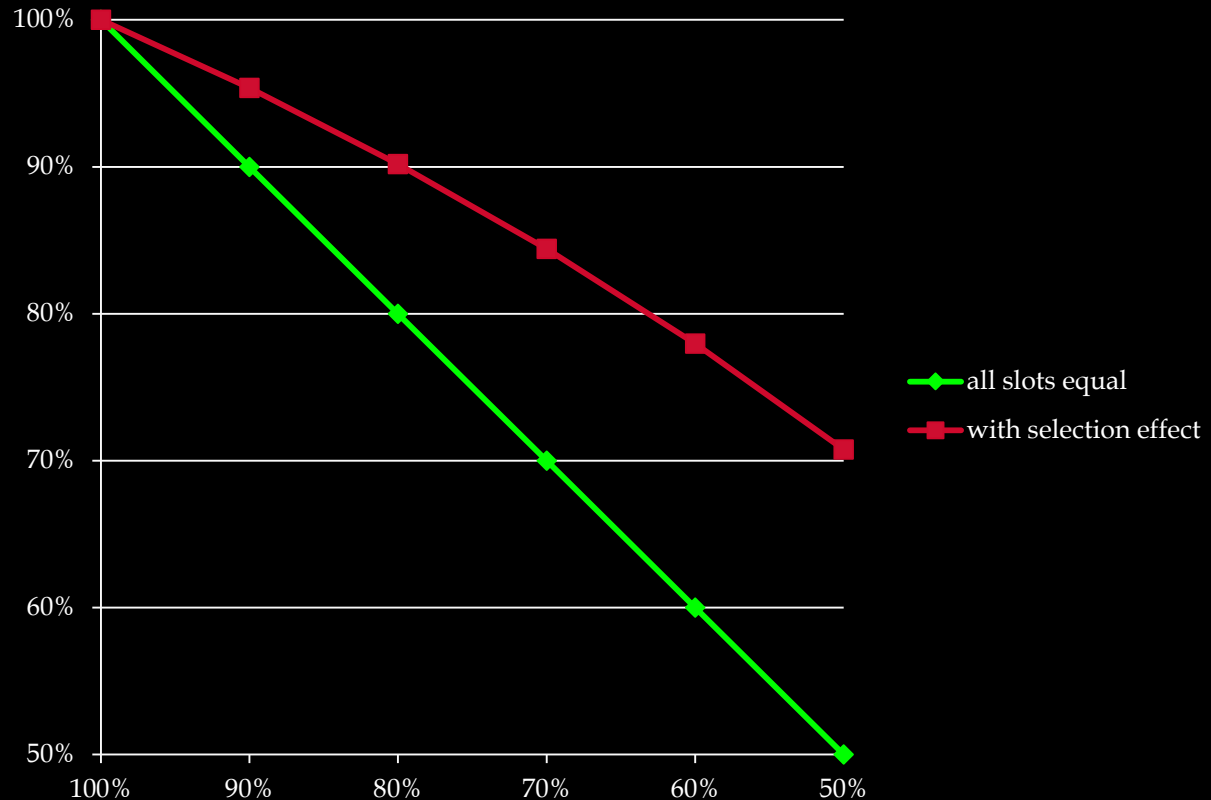
(Portion of graph above 4,222 VLTs is hypothetical -- slots not available at assumed price)

Impacts on State Revenues

- 59% effective tax rate on GTR
- \$425/machine annual assessment (RG)
- Offset* by small gains at other casinos
- Near Term: Offset* by “selection” effects
 - these evaporate over the long term
- Long Term: Offset* by improved economic efficiency + better “tuning” to the marketplace

* To some extent

Near-Term “Selection” Effects



More Tables at Maryland Live

- Add 13(+) banked table games $\approx +16\%$
 - 20% Tax rate, but high utilization
 - Capacity-constrained at peak periods
- No comparably-detailed table analysis
 - Have assumed ratio of incremental table win to current average table win \approx corresponding ratio for slots
 - Very conservative relationship

Bottom Line

	# Slots	Impact on State \$
Current	4,222	\$ 0
Near Term *	3,922	- \$1,441,000
Offset: add 13(+) Table Games		+ \$ 944,000
Near-Term Net Impact *		- \$ 498,000
Long-Term		more positive

* Annual Rate for Next 12 Months (total does not tie due to rounding)

Sensitivity Analysis

- Consequences of “wrong” number are not dire
- After selection effects, etc., near-term impacts of variation by 100 machines (\pm from 3,922) \approx \$498,000 in net State revenues
- Mitigated (if not totally offset) over the long term by changes in productivity

Questions Please!

Will E. Cummings
Cummings Associates

135 Jason Street
Arlington, MA 02476
(781) 641-1215
cummingw@aol.com

