

The Adams Analysis

- A Monthly Analysis of Gaming News and Trends by Ken Adams

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July has been an interesting and at times an exciting month. Tom Watson, at 59 years old, came within one hole of winning the British Open; a not so old Lance Armstrong, but still aged for a world class cyclist, seemingly came within one hill of winning the Tour de France. The world gathered around its collective television set to watch the eclipse of a career and a star; Michael Jackson slipped off the stage of life and the shadow of the moon slipped over the sun – 30 million people experienced the eclipse directly without the aid of a television set or a commentary – probably closer to 300 million people chose the television and the commentary for the Jackson funeral. We remembered two moon walks in July, Michael's and Neil Armstrong's, Neil did his walk on the surface of the moon 40 years ago; Michael did his moonwalk just 26 years ago. Gaming had its won moon walk in July, Darvin Moon, a logger from Maryland, emerged after 50 days of poker in Las Vegas in the lead of the World Series of Poker and walked right onto the final round, a mere \$24 million in chips ahead of second place. Probably more people watched the other events of the month, but ESPN is going to air some 24 hours of the tournament every Tuesday until the final round begins in November, giving anyone who wants to see high level tournament poker can watch Darvin's Moon walk.

In the real every day world, the business and economic news was not as spectacular or as exciting, but it may be getting a little brighter as the economy shows some signs of getting better. GM emerged from bankruptcy a smaller, leaner company ready to tackle the economy and the competition with brand-new [pun intended] strategies and products. Goldman Sachs is not bankrupt, and in fact earned a whopping \$3.4 billion and with that helped boost the market value of the whole banking sector. Still, the economic news is mixed -the jobless rate has continued to climb with unemployment now over 10 percent nationally, but the languishing stock market

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is also climbing pass 9000 for the first time since January, the price of oil is reasonably stable, housing starts are up, but so are foreclosures. An earnings season is just beginning, so it will be a while before anyone can characterize the state of business, but we do know that things are not all rosy and perfect, yet. In gaming, only Pennsylvania reported more casino revenue in June than the previous year, and Pennsylvania has added significant capacity – individual properties did not necessarily see any growth.

The month was interesting for political reasons, too. Alaska Gov. Sarah Palin resigned, hinting that she was off to do something very exciting and meaningful, and there were several major scandals, a Nevada senator and the governor of South Carolina admitted to knowing women other than their wives – it was all very titillating; in New Jersey federal officials arrested 43 people, including three mayors, two state assemblymen, five rabbis and many other public officials in a money laundering investigation.

But the most interesting political news for me has been the budget debates. Political, heated and intense the debates have been in California, Ohio, Illinois, Pennsylvania and Nevada. In California Gov. Arnold Schwarzenegger faced down the legislature over the state's \$26 billion deficit. The details of the debate are complicated, but simply stated the governor wanted the legislature to make major cuts in all government services and he would not agree to any new taxes; Nevada's budget debates were based on the same issues, although the details were as different as the dollar amounts. During the intense debate, Schwarzenegger took or promised to take measures nearly unheard of before the current crisis. The governor also proposed selling some state parks, cut back on the hours of state agencies, sent employees home without pay and paid the state's debts with IOUs. The Terminator used his bully pulpit and the state's money to run a media campaign promising to stop any tax increases and in the end won the day, when the legislature agreed to a compromise with him.

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Ohio and Illinois both fought the same war, except the governors in those states choose slot machines to help solve the problem, an option Arnie apparently did not consider. Arizona, Alabama, Arkansas, Delaware, Florida, Georgia, Iowa, Kansas, Maryland, Massachusetts, North Carolina and Rhode Island are also adding or debating the addition of slot machines (or additional casinos and other forms of gaming) to help solve the states' budget problems. Pennsylvania is thinking of using both table games and slot machines – just as Illinois did - Gov. Rendell wants to put an estimated 14,000 slot machines in bars and social clubs around the state. The governor's opponents are accusing him of arranging a sweetheart deal for friends of his at GTECH to provide the machines; opponents are also saying that any revenue from table games or slot machines will take too long to materialize and will do nothing to alleviate this year's budget short fall.

The story of gaming expansion in 2009 is not new, nor are the budget debates; most of the story has been ongoing the entire year, only when Ohio's governor did an about face and put slots in the mix at the last moment did something really new happen. And even in Ohio, the story of expansion is ongoing; there has been at least one proposal a year of late and there will be another casino initiative on the ballot in November. A recent study predicts Ohio will become the third largest gaming market in the United States if the casino initiative passes and an estimated 15,000 slot machines are installed at the racetracks.

The important story for me is the intensity of the debates as the economic downturn continues and the pressures mount; increased unemployment, and reduced tax income is acting like a pressure cooker. It is also interesting to note that for the first time all the surrounding states are tracking each other's legislation and planning counter moves. Indiana formed a study commission as soon as Illinois and Ohio passed new gaming legislation. South Dakota and West Virginia produced studies to show how damaging

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new gaming would be to them in Iowa, Ohio, Pennsylvania, Illinois and the rest. New Jersey has not done anything yet, but there is talk of sports betting and slot machines at the racetracks. Unfortunately for New Jersey, there is much to do; the majority of Atlantic City's customers come from states that have recently added gaming, are adding more gaming or are planning to add gaming. The battle for the gaming dollar is becoming an all out war – I am not sure if I have ever seen such open animosity developing between states, except in history books describing the years leading up to the civil war.

It is not over yet, nor will it be over next year. As long as the current economic downturn's effect is being felt in the individual states and impacting revenues and thereby budgets, it will continue. Only at some point, there will not be much expansion possible. Nevada as an example does not have much, except possibly a state lottery to add. When that happens to a state, the inevitable happens, and gaming revenues will no longer grow within any one state. Reno, Nevada is still the poster child for the damage that expanded gaming next door can do. Since California introduced a lottery in 1985, there has been a continual growth of gaming in all of Reno's feeder markets, California, Canada, Oregon and Washington. Today there are approximately 25 fewer casinos in Reno than in 1985, 2 to 3 million fewer visitors come Reno now than came in 1985. In 2009, gaming represents about 15 percent of the local economy, down from 25 percent in 1985. That does not mean every casino always loses money, but it does mean that competition is very, very intense. Reno gives us a glimpse of the future, we can expect something similar to happen in Atlantic City and eventually in every jurisdiction as the gaming expansion fulfills its manifest destiny.

But then again, Lance Armstrong will be back on the Tour de France next year with a new team and training regiment; Tom Watson shot a 3-under

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67 in the first round of the Senior British Open the weekend after his dramatic loss, and even some of the scandal ridden politicians are promising to remain in office and even run again. Darwin Moon is just 90 days from his date with destiny, the final table and 8 other very good poker players; the other moons and moon walkers may not be back on stage, but someone will replace them and life will go on for the rich and famous, the gaming industry, the stock market and the rest of us. Hell, my IRA account may even recover, if I live long enough.

But, then that is just my opinion, isn't it?

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