

STAFF AGENDA MEMORANDUM

DATE OF MEETING: November 20, 2013

AGENDA ITEM: **Maryland Live VLT Reduction Request**

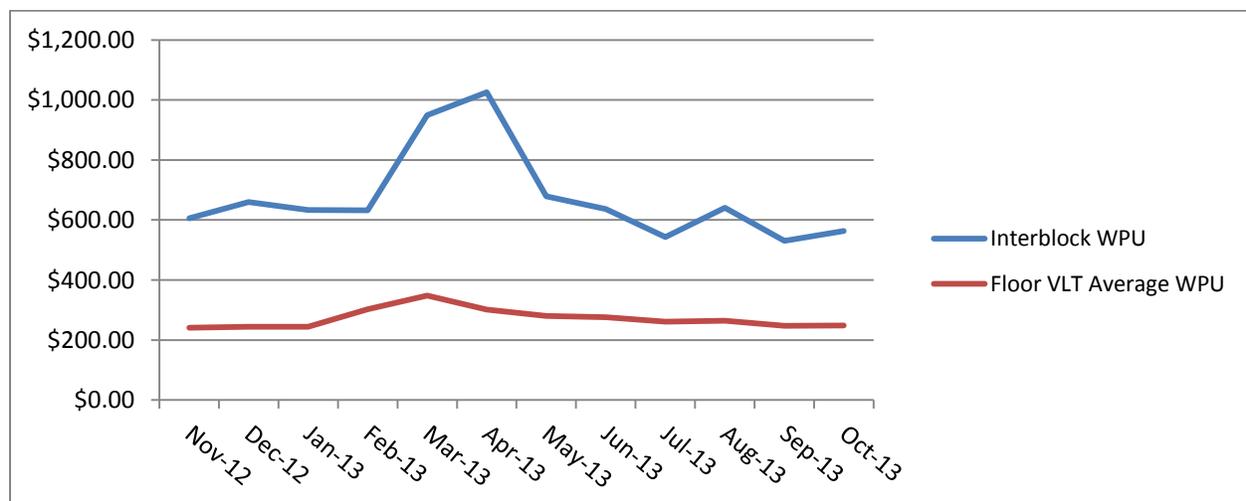
PRESENTER: Charles LaBoy, Assistant Director for Gaming
Representatives from Maryland Live

ISSUE SUMMARY:

Maryland Live! (Facility) is seeking a permanent VLT reduction for 57 Interblock devices (electronic table games) located at and around their "R Bar." The R Bar is a central attraction at the Facility utilizing multiple monitors, center bar stage and LED lighting to create a high energy focal point and, since its opening, the Interblock VLT's located at the R Bar have been very successful, averaging 2.5 times the floor VLT average. The Facility is seeking to convert these VLT's to table games in accordance with the regulations adopted by the Commission at the September 2013 commission meeting. COMAR 36.04.02.02, Request for Reduction, allows the commission to approve of a reduction request if it is determined to be in the best interest of the State.

The Graph 1 displays the actual performance on a win per unit (WPU) basis of the Interblock VLT units and the floor average for all VLTs over the past year.

Graph 1



Maryland Lottery and Gaming Control Agency

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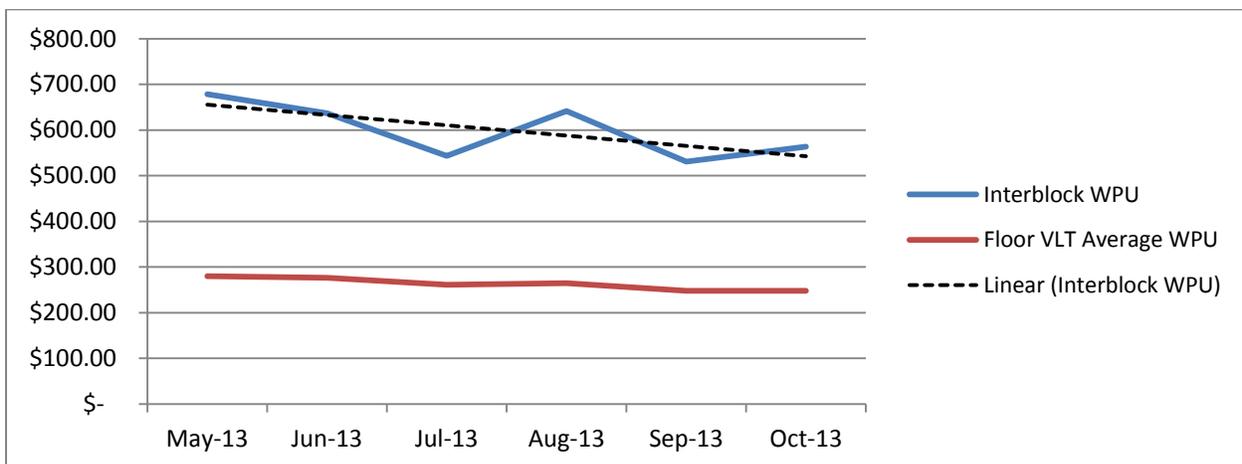
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As displayed on Graph 1, March and April numbers spike right before/during the opening of dealer operated “live” table games and come back down in May.

Graph 2 focuses on the performance post-opening of live table games as these are the primary competitors of the Interblock product and are likely to have a direct effect on their performance. During this period, you can see that the Interblock WPU is more volatile than the floor average with amounts fluctuating between \$530 and \$678 and exhibits a downward trend. It should be noted that this graph only takes into consideration the results as seen in May through October, which are traditionally slower months for gaming activity overall.

Graph 2



I inquired with our other electronic table game vendors as to their experience related to the impact of live table games on electronic table games, and they noted that in an environment where electronic table games are introduced to competition from live table games there can be an immediate 75% to 89% decline in performance. They went further to state that you could have a scenario where if live table game limits were very high, the electronic table game performance drop off would be less if their limits were on the low end. At the Facility we may be experiencing the latter scenario where live table games betting limits are extremely high – \$50 and \$100 minimum wagers – while the Interblocks have much lower limits – \$5 and \$10 minimum wagers. Additionally, the Facility has stated that they have started to lower limits at the live table games during off-peak hours and will continue to do so as demand softens. The Facility’s management believes these continued changes are likely to have an increasingly negative impact on Interblock performance.

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The following projections show what the impact to State revenue could be under two different scenarios. The first shows the impact if the commission approves of the VLT reduction and the Interblock units continue to perform as they have over the past 12 months. The second shows the impact if the commission approves of the VLT reduction but revenues follow the declining trend line noted in Graph 2.

Forecast A - Revenues remain the same

		1 Year Impact	Ed Trust Fund
Current Tax Receipts @67%		\$9,407,185.03	\$ 6,914,983.02
Tax Receipts @ 20%		\$2,808,114.93	\$ 2,808,114.93
VLT Cost Savings		\$1,352,325.00	
Reduced to State		\$5,246,745.09	\$ 4,106,868.09

Forecast B - Revenues decline along trend line

		1 Year Impact	Ed Trust Fund
Current Tax Receipts @67%		\$5,507,632.11	\$ 4,048,520.62
Tax Receipts @ 20%		\$1,644,069.29	\$ 1,644,069.29
VLT Cost Savings		\$1,352,325.00	
Reduced to State		\$ 2,511,237.82	\$ 2,404,451.33

The Facility believes that the trend line noted in the Graph 2 will come to pass as live table game demand continues to decline and minimum betting limits decrease accordingly. Additionally, the Facility believes that converting the Interblock units to live table games will counter the negative trend and stabilize their revenue. Under this scenario we may see the following.

Forecast C – Revenue decline is reversed only if the Interblocks are converted to live tables

		1 Year Impact	Ed Trust Fund
Current Tax Receipts @67%		\$5,507,632.11	\$ 4,048,520.62
Tax Receipts @ 20%		\$2,492,127.41	\$ 2,492,127.41
VLT Cost Savings		\$1,352,325.00	
Reduced to State		\$ 1,663,179.70	\$ 1,556,393.20

As you can see there is quite a variance between the three forecast models, and staff suspects that in actuality the results will fall somewhere in between with a reduction in VLT tax receipts of approximately \$3.4 million, which includes a \$2.8 million reduction to the Education Trust Fund.

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The Facility is estimating that the transition of the Interblocks to live table games will generate an additional 34 jobs and add \$1.8 million to its payroll. The Facility also believes that the transition will attract new players who will positively contribute \$1 million to VLT proceeds and \$180,000 in other taxes. The Facility has also committed to paying all costs associated with transition of the Interblock VLTs to live table games to include the ongoing lease payments.

COMMISSION ACTION REQUIRED/REQUESTED:

Consideration of the permanent VLT reduction of 57 VLTs as noted in Maryland Live!'s request.

STAFF RECOMMENDATIONS:

As one of the Facility's main arguments for this request is based on prospective analysis of continued declining revenues for the Interblock VLT product and its desire to not be in a reconfiguration state when new competition is introduced into the market next year, staff recommends that this item be tabled until the first quarter of 2014 to allow for continued analysis of actual performance and sufficient time for a reconfiguration prior to the introduction of additional competition in the region.