

STAFF AGENDA MEMORANDUM

DATE OF MEETING: February 27, 2014

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

PRESENTER: Charles LaBoy, Assistant Director for Gaming

ISSUE SUMMARY:

Maryland Live (Facility) is seeking a temporary VLT reduction of 100 low performing VLTs to accommodate an expansion of 12 table games with 68 gaming positions. This realignment is part of a larger re-organization of the gaming floor to include an Asian themed pit and Noodles Bar expansion. The Facility believes that the re-organization would drive increased revenues to both the state and facility. **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 Facility is seeking to temporarily remove 100 low performing VLTs and replace some of the VLTs based on an evaluation of the floor after the placement of the new tables. The Facility did not provide an estimate of how many VLTs may be returned to the floor but it should be noted that in accordance with regulations a temporary reduction shall become a permanent reduction if not placed back on the floor within one year.

One could assume that the number of VLTs directly impacts the amount of revenue they generate and that is true up to the point where your supply of VLTs equals your demand. Beyond that point the additional VLTs would dilute the win per unit and not add to the overall revenue generation. In order to test whether the Facilities supply of VLTs is at or less than the demand we can utilize a statistical tool called the liner correlation coefficient. This tool measures the relationship between two variables and lets you know if one variable (number of VLTs) has strong relationship with the other variable (VLT Proceeds). If the Facilities supply of VLTs was below demand we would expect to see a strong positive correlation (value near +1) between the number of VLTs and the VLT proceeds. The below chart lists the number of VLTs that were in operation during periods last year that had fluctuating VLT counts along with the related VLT proceeds and win per unit.

Maryland Lottery and Gaming Control Agency

Martin O'Malley, Governor • Stephen Martino, Director



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	VLTs	VLT Proceeds	WPU
January	4,750	\$ 35,943,756.19	\$ 244.10
February	3,991	\$ 38,335,308.92	\$ 302.28
March	4,129	\$ 44,613,545.21	\$ 348.55
April	4,217	\$ 38,165,153.38	\$ 301.68
May	4,319	\$ 37,492,688.87	\$ 280.03
June	4,314	\$ 35,763,994.79	\$ 276.34
July	4,323	\$ 34,962,148.03	\$ 260.89
August	4,339	\$ 35,589,072.25	\$ 264.59
September	4,341	\$ 32,248,325.14	\$ 247.63

The correlation coefficient between the number of VLTs and VLT proceeds for this period was **negative 0.46** indicating there was a moderate negative relationship which tells us that revenues typically went down as VLT count went up.

The Facility believes and staff concurs that its current VLT allocation of 4,341 exceeds what is needed to meet peak demand and as such the removal of the 100 low performing VLTs will not have a negative impact on gaming revenues. The Facility believes that the additional 12 tables will generate \$3.6 million in additional tax revenue. Additionally, the Facility has committed to paying all costs associated with the removal of the VLTs to include the ongoing lease payments which would save the state an additional \$600,000.

COMMISSION ACTION REQUIRED/REQUESTED:

Approval of the temporary VLT reduction of 100 VLTs as noted in Maryland Live!'s request.

STAFF RECOMMENDATIONS:

Staff recommends approval of the temporary reduction of 100 leased VLTs that are performing 35% below floor average as identified by the Facility and approved by staff to be replaced by 12 table games. Upon removal, the ongoing costs of the VLTs will be the responsibility of the Facility.