

Ohio's four casinos will open next year with 7,400 fewer gambling seats than originally projected - potentially cutting millions of dollars from new tax revenue to the state's cities, counties and schools.

The implications could be felt across the state, as officials debate using casino money for new textbooks, arts enhancements, economic development - perhaps even the

streetcar in Cincinnati.

Developers Rock Gaming and Penn National Gaming had projected that 18,960 seats would produce \$2 billion in gambling revenue in the first year casinos were open in Cincinnati, Columbus, Cleveland and Toledo. Those figures were part of the developers' campaign in 2009 to persuade voters to approve the casinos.

New numbers, however, suggest the casinos will open with just 11,519 gambling seats. Analysts say those seats are likely to produce between \$1.2 billion and \$1.6 billion in annual gambling revenue, falling short of the earlier estimate.

Penn National chief financial officer William Clifford said he's confident that his company's casinos in Columbus and Toledo will meet revenue projections, if not in the first year, then shortly after. But he said the casinos could under- or over-perform by 10 to 15 percent.

"It's an educated guess. We're not so full of ourselves that we say we're going to nail it," he said.

All 88 Ohio counties, public school districts and casino host cities are to receive tax money from gambling revenue. Under current projections, they would receive between \$390 million and \$520 million in tax proceeds in 2013, compared to \$650 million originally projected for the casinos' first year.

"Ohio is a \$2 billion market - but not in 2013," said Steve Gallaway, principal of Denver-based Gaming Market Advisors.

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He and other gambling analysts say developers are being cautious by not investing early in too many table games or slot machines, which can cost \$20,000 each. It's likely they'll add gambling seats as the casinos mature and their popularity proves out, experts say.

### Changing environment

Officials with Penn National say competitive pressures never envisioned in 2009 have forced them to cut back on the number of slot machines at their casinos. Ohio officials are once again discussing legalizing video slot machines at the state's seven horse tracks, which could flood the state with alternative slot betting.

Clifford said casinos typically increase their slot and table offerings over time to allow the marketplace a chance to absorb them. He said the casinos in Columbus and Toledo likely will add seating after they open.

"We always open with less to build a sense of excitement," Clifford said. "If people see empty machines people think it's not a happening place."

Rock Gaming officials deferred comment to their casino operator, Caesars Entertainment Corp. Rock Gaming and Caesars will build and run the casinos in Cincinnati and Cleveland.

- [Photos: Horseshoe Casino Hammond: What Cincinnati's might look like](#)
- [Photos: Groundbreaking for Cincinnati casino](#)

Caesars officials pointed out that the 2009 projections were produced before Caesars became involved in the project. They said Caesars casinos tend to operate with fewer slot machines and tables than competitors with similar-sized properties.

Projections of seats in 2009 were "pretty high for us," spokeswoman Jacqueline Peterson said. "It's a common misconception that more positions means more revenue, and Caesars has proven that time and again."

## Local impact

Locally, casino money already has been a source of great debate.

Last fall the Cincinnati City Council passed a series of motions aimed at setting preferences for the best ways to spend the money, originally expected in the range of \$20 million a year. Current projections estimate the tax receipts at \$12 million to \$17 million.

City proposals for using the money have ranged from outdoor sculptures to building pads over Fort Washington Way to the streetcar planned to link Downtown to Uptown.

One proposal calls for using 50 percent of the tax revenue to bolster the work of the Port of Greater Cincinnati Development Authority. Under the proposal, dollars equal to 50 percent of Cincinnati's casino revenue would be committed to the port from the city's general fund - and reimbursed to the city as the tax revenue trickles in.

Bonds could be issued for economic development projects based on the city's committed general fund dollars. Backers of the plan say the port needs between \$100 million and \$150 million over 10 years to take on a range of projects, including purchasing real estate it can use to attract growing companies.

"The whole goal has been to generate a substantial source of funds to begin aggressive economic development so we can get deeper into job creation," City Councilman Chris Bortz said.

The fact that revenues could be less than originally projected "doesn't change the strategy," Bortz said. "Whatever the number is, is what the number is."

Roxanne Qualls, vice mayor and chair of the council's Finance Committee, noted that nothing has been finalized.

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"It's foolish to count chickens before they're hatched," she said. "The council has expressed interest in areas of investment, but we haven't spent the money - we're not counting on that."

Hamilton County Commission president Greg Hartmann said commissioners have discussed using casino money to help close future deficits for Great American Ball Park and Paul Brown Stadium.

But no money has yet been committed, and, "It would be a huge mistake to spend the money before we receive it," Hartmann said.

Original projections gave the county \$12 million a year in tax revenue in 2013. That could drop to between \$7 million and \$10 million if current analysts' projections hold.

School leaders, too, say new revenue sources are notorious for not living up to original projections. Jonathan Boyd, treasurer of the Cincinnati Public Schools, said the district's budget forecasts through 2015 don't include any casino revenues.

"You have to be cautious," he said. "If you plan on those dollars and they don't come in, then you might have to cut something."

### **The numbers**

Original projections for gambling revenue and tax receipts were based on estimates of daily revenue per casino seat. A study by the Innovation Group, an industry research firm, for Rock Gaming and Penn National in 2009 estimated daily revenue at about \$285 for 18,960 seats.

Fewer slots and table games will drive up revenue per gambling seat, simply because players will spread their bets at fewer stations. But analysts are skeptical that original revenue projections can be met the first year. For Ohio's casinos to hit their original projections with 11,519 gambling seats, they'd have to generate \$476 daily per seat, a high return in the industry. Even if each casino added 500 seats, the necessary unit revenue would be \$405.

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By comparison, Caesars' Horseshoe Casino in suburban Chicago generates about \$368 per seat and Penn National's Hollywood Casino Lawrenceburg generates about \$288 per seat. Both of those casinos are the most prosperous in their markets.

Clifford said Penn National's casinos expect to earn rich unit revenues. He said his casinos will add 50 to 100 positions, most likely slots, as demand dictates.

David Schwartz, director of the Center for Gaming Research at the University of Nevada-Las Vegas, estimated that Ohio's casino revenue the first year will be closer to \$1.2 billion - cutting the statewide tax proceeds to less than \$400 million.

"It doesn't look like they're going to hit it (the \$2 billion in the first year) to me," he said.

## **Starting smaller**

Bill Eadington, chair of gaming studies at the University of Nevada-Reno, says starting smaller is a shrewd strategy in a new gambling market. He noted that regions with no previous exposure to casinos take at least three years to develop as markets.

"If you undershoot a market, you can always expand," he said, adding that overshooting leads to cost overruns, layoffs and even worse.

Eadington said the gambling industry also has been forced to play it more conservatively by their lenders - banks that have been burned by one too many sure bets that turned bad.

Thomas Zitt, an analyst with the Innovation Group, said Ohio "might have a harder time" reaching the original \$2 billion mark. But he also noted that developers have changed their plans to accommodate the wishes of local residents and officials in two of the cities.

"Those are outside the parameters of the study," he said, adding that a worse-than-expected recession, tight credit markets and potential racino competition also were not factors considered

in 2009.

Still, Zitt stressed that Ohio has great potential. He cited similar-sized Pennsylvania, which has quickly become one of the largest gambling states in just a few years. Pennsylvania opened its first casino in 2007 and is now competing with Indiana to become the nation's No. 3 gambling state behind Nevada and New Jersey.

Zitt said the new playbook for opening a market is to open with fewer seats, keep costs low, get cash flow coming in, then expand.

"That's very standard in current conditions," he said.

*Staff writer Lisa Bernard-Kuhn contributed.*

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