

**Senate Community, Economic & Recreational Development Committee**  
**Wendy Hamilton, Sugarhouse Casino Testimony**  
**June 3, 2014**

My name is Wendy Hamilton, and I have been the General Manager of Sugarhouse Casino since before we opened in September of 2010. Thank you to the Chair and Members of this Committee for allowing me to testify today.

**Southeast Competition**

You have asked me to speak about my perspective on the state and the Southeast's competitive atmosphere. Ten years ago, this legislature smartly created what has become one of the most successful gaming jurisdictions in the country. Yet you could not have known then the fate of the national economy and the state of regional gaming competition today, and so please consider that twelve casinos is enough.

I was disappointed to read the head of Econsult state that "we do believe that the Philadelphia metropolitan area market can have more supply without having anywhere near a net cannibalization." I recognize that they have clients that are seeking additional casino licenses in this state, but this statement flies in the face of all the known current facts.

Just this past Sunday, a New York Times article entitled "*Another Casino to Close, Hinting at Gambling Glut*" stated, "There may be too many casinos chasing too few gambling dollars." Two weeks ago Goldman Sachs had this to say: "The US regional gaming market is on its third year of ongoing deterioration driven by several factors, chief among which is an undesirable supply/demand environment. Importantly, we expect this weakness to continue as the underlying fundamentals continue to worsen with yield/productivity of regional casino floors continuing to decline. Supply is too high for this mature market, and its getting worse."

Both Goldman Sach's report and Deutsche Bank's May analysis concurred that Pennsylvania's revenue continues to decline and that the Mid-Atlantic region is over-saturated. With New York, Baltimore and D.C. all expanding gaming and New Jersey and Delaware having launched online gaming, Pennsylvania has seen over a year and half of straight slot declines.

In their own way, each of the applicants for the remaining Philadelphia license acknowledged this, when they testified that their business plans depended upon cannibalizing the existing casinos by between \$50 and \$100 million a year. Similarly, from 2012 to 2013, the Southeast casinos gave up a combined \$46 million to allow Valley Forge to grow by only \$38 million.

At Sugarhouse, we are about to break ground on a \$165 million expansion, not to service a growing market, but instead to provide a richer entertainment experience to help compete in this already hypercompetitive marketplace. Look at what happened at Revel, where \$2.4 billion was spent to build a beautiful facility without any demand to support it.

Legislators and officials have asked if we have a preference on where the second license should go in the city, as if a South Philly location might be better for us. We are talking about

five sites all within five miles of each other. Our daily business covers a twenty mile radius, and South Philly represents a very significant portion of our business. There is no “better” option.

If this committee wants to fight off out-of-state competition and have Pennsylvania remain a nationwide example of how to do gaming right, then the premeditated weakening of the current operators is not the right strategy. Creating cash strapped competitors scrapping it out month after month isn’t good for anyone.

The second Philadelphia license should be reissued to no one, because this action right now will decimate the Southeast Pennsylvania casino industry. Similarly, our sister casino Rivers in Pittsburgh is troubled at the prospect of a casino license being issued in Lawrence County. They have seen similar saturation and increased competition, and what’s worse, the host county is subsidizing its construction.

### **Category 3 Entry Fees**

The discussed prospect of Valley Forge Casino being able to expand and not charge for admission is also very unsettling in this environment. The Econsult report rightfully points out that removing the Category 3 entry fee will come at the expense of the surrounding Pennsylvania casinos, and notes the inequity that Category 1 and 2 casinos paid a license fee of \$50 million for their slots, whereas Category 3 operators only paid \$5 million.

Econsult summarized this issue exactly: “Changing fundamental rules that benefit some casinos mostly at the expense of others creates regulatory uncertainty. Casinos may wonder whether other fundamental rules may change and disadvantage them. Casinos facing this kind of uncertainty may be less likely to make revenue enhancing investments. In the long-run, the risk of these costs to the state are potentially significant.”

### **Online Gaming**

Internet gaming is off to a very slow start in all three states that have legalized it. On behalf of two of the twelve existing Pennsylvania casinos, we recommend that its progress be monitored for a year to see the impact before Pennsylvania considers legalizing it.

### **Regulatory Reforms**

Sugarhouse and Rivers Casinos welcome a review of the existing regulatory structure, in particular, as summarized in the Econsult report: licensing of non-gaming employees; license duration for casino operators; restrictions on credit/cash advances and third party check cashing; restrictions on smoking and alcohol sales; and requirements for on-site police and Gaming Board officials’ presence.

### **Conclusion**

The Gaming Board and General Assembly have done this right so far. In order to ensure the economic viability of gaming for the foreseeable future, please take a pause, and consider the facts. Do not proceed with further expansion until warranted by demand.