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Gambling projections for Mass. no sure bet

Casino estimates based on old study

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Massachusetts policy makers are basing their hopes for the gambling market in large part on a consultant's analysis that views the ongoing recession as an economic blip and assumes consumer spending will resurge by the time casinos are established in Massachusetts.

That study, first produced in 2008 and updated in 2010, also assumes Massachusetts casinos could not only reclaim money state residents now cross the border to bet in Connecticut and Rhode Island, but also entice them to spend much more.

Neither is a sure bet, economic analysts say.

In fact, Moody's Investors Service issued a special report yesterday warning that Massachusetts casinos will not necessarily attract new gamblers or higher levels of spending. More likely, Massachusetts will compete with casinos in neighboring states for existing gambling dollars and share the take, just as Pennsylvania's new casinos have cannibalized Atlantic City's profits in recent years, they said.

"It's a new era of gaming,'' said Keith Foley, senior vice president of Moody's Investors Service, and one of the report's authors. "Atlantic City has gotten hurt, Pennsylvania has done well; it's been a little bit of a zero sum game over the past four years.''

That could still be good for Massachusetts, Foley said; but the state has no assurances that its untapped market will live up to past high expectations. And economists remain skeptical about consumers' willingness to gamble their dollars in the future.

"I think the recession has fundamentally changed consumer behavior. I would expect to see that future growth in casino spending is going to weaker than what we saw prior to the recession,'' said Gus Faucher, director of macroeconomics for Moody's Analytics. "Overall, consumers recognize the need for more saving. Consumers are cutting back across the board.''

Governor Deval Patrick and legislative leaders finally appear poised to enter the casino market at a moment when the market has changed dramatically and with no new economic analysis to support their plans. Patrick's economic development secretary cited the 2010 report from a gambling consultant as his evidence that "long-term prospects for gaming success were as promising as they were before the recession.''

That report says the recession is not a significant factor in long-term projections because the consultants “anticipate a return to normal growth patterns.’’ But it goes on to say that the recession could in fact have major consequences for casinos - if casino developers can’t access affordable capital.

“These folks are saying, ‘We believe the recession is in the rear-view mirror and we anticipate a return to normal growth patterns,’ ’’ said Gregory Bialecki, state housing and economic development secretary. “But, ‘Let’s keep an eye on the fact that the recession might not be a short-term phenomenon. It might have long-term consequences.’ ’’

Bialecki said the report is not the only factor giving him confidence. He also cited as evidence a state recovery that has been outpacing the nation’s; encouraging signs that casino spending is beginning to recover; and early interest in the market expressed by casino developers and investors.

Last week, developers leaped at the news that Massachusetts wants to enter the game and issued immediate proposals to build casinos in the untapped market. However, they have not yet revealed the financing commitments that would be needed to move forward, and some appear to be scaling back or at least reevaluating plans introduced in past years.

Suffolk Downs owners, who floated a $750 million gaming and entertainment complex last year, now say they’re re-examining plans in the context of the new legislation, though they’re confident they can meet the minimum $500 million investment the bill will require.

Mohegan Sun Tribal Gaming Authority, which previously proposed a $700 million casino complex in Palmer, is now discussing a project in the range of $500 million to $600 million.

“Over time as the economy has changed, we’ve been working on scaling back to a level commensurate with the market in Western Massachusetts,’’ said Mitchell Etess, chief executive of the authority.

Much like the broader economy, the gambling industry has gone through a period of extreme volatility in recent years, with many of the largest operators struggling with diminishing revenues and huge levels of debt.

Those conditions, combined with a risk-averse lending environment, have made it increasingly difficult for gaming operators to get loans to finance ambitious development proposals like those now being rolled out in Massachusetts.

“Finances in the industry have changed in a big way,’’ said David G. Schwartz, director of the Center for Gaming Research at University of Nevada Las Vegas. “It went from a situation where if you were an experienced casino operator and wanted to build more casinos and hotel rooms, people couldn’t get you debt fast enough. Now it’s the opposite. It’s a lot harder to get a loan.’’

Consumer spending at casinos tumbled with the economy in 2007, and revenues have plateaued over the past four years, according to industry groups. Gamblers are still going to casinos, but spending less when they show up, according to the American Gaming Association. No longer psychologically buoyed by inflated housing values, credit lines, and retirement funds, they arrive far less willing to part with their money.

“There have been some structural shifts in the economy. I think consumers are going to have less access to home equity,’’ said Faucher. “We’re not in the same world that we were in 2008. I wouldn’t be comfortable assuming that the projections made then are valid now.’’

Though revenues nearly doubled at tribal casinos between 2001 and 2007, they have hovered around $26.5 billion since then. Likewise, spending at commercial casinos dropped off in 2007 and inched up only 0.9 percent last year, according to the gaming association, which represents non-tribal casinos.

New England casinos have faced particular hardship. The Twin River gambling complex, which provided Rhode Island its third-largest revenue source, filed for bankruptcy in 2009. In Connecticut, Foxwoods laid off 700 people and faced a 13 percent drop in revenue in 2009 and is still trying to restructure its $2 billion in debt.

The American Gaming Association is hesitant to predict a return to peak revenues and instead warns that a casino comeback still depends on a broad-based increase in discretionary spending.

“As the economy and consumer spending goes, so goes our industry,’’ said Holly Wetzel, communications director for the American Gaming Association.

Given all the uncertainty, casino proponents on Beacon Hill have been careful not to overstate the economic potential of their projects.

Past projections for casino revenue and job growth are out-of-date since the Spectrum report was based on three $1 billion casinos; the plan now calls for developers to invest at least $500 million in each of three casinos.

The House has accordingly halved its job estimates, saying casinos could create 7,000 permanent jobs, 3,000 jobs at businesses that support casinos, and 6,000 temporary jobs during construction (down from nearly 20,000 casino jobs and 12,000 construction jobs). The estimate is conservative because this proposal also includes a slot-parlor, which would be licensed for at least $25 million and create jobs as well.

Gambling opponents, who already worry that analyses of casino proposals ignore the social costs of gambling, highlighting only the benefits, are all the more skeptical about economic potential in the current economy.

“No matter where you look across America, the government policy to expand gambling has failed to deliver on its revenue promises and its job promises,’’ said Les Bernal, executive director of the national group Stop Predatory Gambling. “It has left us with a smaller middle class and hundreds of thousands of Americans in much deeper debt.’’