

COMMONWEALTH OF PENNSYLVANIA

GAMING CONTROL BOARD

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IN RE: MOUNT AIRY #1 LLC,  
PETITION FOR APPROVAL OF GAMING FLOOR

\* \* \* \* \*

PUBLIC INPUT HEARING

\* \* \* \* \*

BEFORE: Gregory C. Fajt, Chairman  
Raymond S. Angeli, Jeffrey W. Coy,  
James B. Ginty, Kenneth T. McCabe,  
Gary A. Sojka, Kenneth I. Trujillo; Members

HEARING: Thursday, December 16, 2010  
10:05 a.m.

LOCATION: Pennsylvania State Museum Auditorium  
300 North Street  
Harrisburg, PA 17120

WITNESSES: James Tuthill

Reporter: Cynthia Piro Simpson

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I N D E X

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CHAIRMAN:

You guys are going to be sworn in,  
please.

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WITNESSES SWORN EN MASSE  
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CHAIRMAN:

Thank you. And again, just before  
anybody speaks, if you could please state and spell  
your name for the stenographer, that would be  
appreciated. Before we begin, I would note that Mount  
Airy has two petitions before the Board today. One  
seeks a reduction of 26 slot machines and is not  
objected to by OEC. That petition will be voted upon  
later today. It is not the subject of these  
proceedings. These proceedings pertain to Mount  
Airy's second petition seeking, as I mentioned  
earlier, a reduction of 300 slot machines, which  
represent a little over ten percent of the machines  
presently in place at Mount Airy. And with that being  
said, Mr. Sklar, you may begin.

ATTORNEY SKLAR:

Okay. Thank you. Good morning. Michael

1 Sklar, S-K-L-A-R. As you've said, the pending  
2 petition before you is requesting a reduction in the  
3 slot machine count by 300. Currently Mount Airy is  
4 operating 2,451 machines. And the rationale for this  
5 request is economic. And the testimony from the  
6 witnesses will show that Mount Airy simply has an  
7 excess supply of slot machines. And we've done an  
8 analysis of the occupancy and utilization of the slot  
9 machines that are on the floor, and they'll  
10 demonstrate that there's just simply an oversupply of  
11 machines. And secondly, we did an analysis on a win-  
12 per-unit basis compared to other facilities in  
13 Pennsylvania and comparable facilities in other  
14 states, to Mount Airy, and that'll, again, demonstrate  
15 that Mount Airy simply has an oversupply of machines.

16           There's just generally some simple gaming  
17 principles that the slot machines don't generate  
18 revenue; it's the people who do. And the Board has  
19 recognized this previously in the Category 2  
20 adjudication for Philadelphia casinos. The Board said  
21 that the machines don't necessarily translate into  
22 more revenues if market demand isn't present. It's  
23 really a function of people. And as long as you have  
24 a sufficient supply of machines to accommodate the  
25 people, then that's what the driver is. There's no

1 translation from --- more machines don't equal more  
2 revenue. And we certainly believe that any --- this  
3 reduction will impact overall GTR at Mount Airy one  
4 bit.

5                   And then real quickly, here's a couple  
6 slides that just demonstrate that the transition from  
7 either an increase or a decrease in machines, there's  
8 really no rhyme or reason. Sometimes there's an  
9 increase in --- if there's an increase in machines,  
10 there's a decrease in GTR, and vice-versa. And with  
11 that, I'll turn it over to Matt Landry from Innovation  
12 Group, and he can go through the slot occupancy  
13 calculations.

14                   MR. LANDRY:

15                   Good morning. My name is Matthew Landry,  
16 M-A-T-T-H-E-W, L-A-N-D-R-Y, with the Innovation Group,  
17 and we were retained by Mount Airy to provide some  
18 analysis on the reduction in slot machines. We very  
19 much agree that there isn't necessarily a correlation  
20 between the number of machines and the level of  
21 revenue when you're making adjustments within the slot  
22 floor at this percentage, at this level. We did look  
23 at some numbers that came directly from Mount Airy's  
24 system and --- to evaluate sort of the patterns, if  
25 you will, the peak times and the patterns that exist

1 within their customer base and at their facility  
2 specifically. These figures were over a six-month  
3 period, so we feel like we had ample data in terms of  
4 a statistical analysis to evaluate the operations.

5           What we found is that on an average day,  
6 the utilization on the slot floor is 36.8 percent. So  
7 this is the number of machines at, you know, the  
8 average --- the average point in time, the average  
9 hour. This is how this slot machine on this floor  
10 operates. Obviously, at early morning or late nights  
11 on weekdays and things, this peak, you know, it comes  
12 and goes, but on average, they're at 36.8.

13           At a peak time on a weekday, which, you  
14 know, we evaluated each weekday and we considered the  
15 weekdays Monday through Thursday and looked at the  
16 peaking times, which tend to be in the early afternoon  
17 periods, the highest occupancy --- or the average peak  
18 is 31.1 percent. So, you know, your business is  
19 skewed towards the weekend. Obviously, if I'm at the  
20 peak during the week, you're lower than the average,  
21 and this is common across the casino industry. On the  
22 weekend, the average is 53.9 percent. And again, you  
23 see, you know, with those three days weighted against  
24 the four days, how we get to the average of 36.8  
25 percent.



1                   But potentially the most telling figure  
2 was the highest peak occupancy that we observed on the  
3 floor. So over all that entire period of time, there  
4 was at no point a utilization higher than 69.3 percent  
5 on the floor. Based on our experience with other  
6 operations, again, you know, most of that information  
7 is confidential. But in knowing a number of  
8 operations, seeing operations here in Pennsylvania and  
9 across the country, that level of occupancy is not  
10 optimal. You know, what you're really looking for is  
11 closer to 80 percent, and that, you know, accounts for  
12 the fact that some people are moving between machines.  
13 The people are looking for the machines that they  
14 would like to play. Almost like they say, you know,  
15 that four-percent unemployment is essentially full  
16 employment because there's that frictional factor on  
17 the floor where people are moving around, searching  
18 for opportunities, looking for what they might like to  
19 play and moving between different amenities within the  
20 facility. So, you know, this is part of our analysis.  
21 I'll speak a little bit later on some other elements  
22 that we conducted, but for right now, that's this peak  
23 analysis that came, again, directly from their data  
24 base and their systems.

25                   I'll speak now --- sorry. We also looked

1 at comparables in terms of win per unit. And we  
2 looked at other facilities that we basically evaluated  
3 as being somewhat similar, you know, places with a  
4 full casino offering in term of table games and slot  
5 machines, looking at, you know, serving a similar  
6 customer base under similar conditions where there's a  
7 limited level of competition. And if you look at the  
8 units --- or the examples here and their win per unit,  
9 you can see that the average win per unit is  
10 significantly higher than the Mount Airy win per unit,  
11 which is approximately \$165 to \$168 over the last two-  
12 year period. So you can see in this analysis, they  
13 would rank essentially the third highest, and there's  
14 the opportunity to move up in this \$200 range, which  
15 is where Sands Bethlehem is in the similar market.

16           Okay. This slide is specifically related  
17 to Sands Bethlehem and the competition that's been  
18 introduced into the market, and we think that this is  
19 a key reason why win per unit has come off since the  
20 early --- earlier days in the facility prior to their  
21 opening. If you look at the concentric rings here,  
22 these are 30-mile rings around each facility. And you  
23 can see that where the Sands Bethlehem --- their  
24 primary cash win area and the primary cash win area  
25 for Mount Airy overlap in the area of those two

1 circles. Typically a property like this could be  
2 running north of 50 percent of their revenue from this  
3 immediate area. And we believe that this is a primary  
4 reason for the loss on a win-per-unit basis.

5           The two facilities, aside from pulling  
6 from this common market area, also to the east and to  
7 northern New Jersey and towards New York, are  
8 competing for these customers. And the next slide  
9 shows that overall, from the State's position, this  
10 has been a net benefit. If you look at the shaded  
11 area, to the left are the quarters leading up to that  
12 opening. And then starting with Q1 is when the Sands  
13 Bethlehem property opened. If you consider the Mount  
14 Airy figures, you see where the decline on a win-per-  
15 unit basis is taking place. And if you look at the  
16 net result of Mount Airy plus Sands Bethlehem, you can  
17 see where overall the State has benefited, where  
18 revenues have run from roughly \$50 million a quarter  
19 up --- approaching \$100 million a quarter. On a win-  
20 per-unit basis, you can see where the Sands facility,  
21 with slightly better access for that customer base, is  
22 right in the area of \$200 per unit, and where the  
23 Sands Bethlehem unit --- I'm sorry, the Mount Airy  
24 property, again, is in that \$165 to \$168 range on  
25 average. So, what's really happening here is a net

1 addition of 3,000 machines, and Mount Airy is  
2 requesting a ten-percent reduction on that amount in  
3 terms of sharing the market.

4 ATTORNEY SKLAR:

5 And just one other statistic to throw  
6 out, Matthew, is for the period from January to  
7 September 2010, on a win-per-unit-per-day basis, Mount  
8 Airy is at \$167, and the industry average in  
9 Pennsylvania is approximately \$251. And now I'm going  
10 to turn it over to James Tuthill, who is vice-  
11 president of casino operations. And he's going to  
12 discuss the cost savings if the Board approves this  
13 reduction.

14 MR. TUTHILL:

15 Good morning. I'm James Tuthill, T as in  
16 Thomas, U, T as in Thomas, H-I-L-L, vice-president of  
17 casino operations for Mount Airy. What the slide on  
18 the board represents right now is a capital savings of  
19 half a million dollars a year by virtue of the fact  
20 that casinos like to turn their floor over every five  
21 to seven years. Based on 300 games, 15 to 20 percent  
22 of those games not having to be replaced, and at the  
23 average cost of \$15,000 per unit, would save us  
24 between \$500,000 and \$700,000 a year, which we could  
25 redeploy into the physical property itself or to other

1 slot product upgrading with kits or the new slot  
2 product on the floor. The \$40,000 annually in  
3 operating costs saved results from the fact that the  
4 games that would be taken off the floor have virtually  
5 no value, about \$50 per unit on the secondary market.  
6 We would be cannibalizing those units and using those  
7 in the spare parts inventory to keep other parts up  
8 and running.

9 ATTORNEY SKLAR:

10 And just one last thing. Mount Airy  
11 would like to modify its request from the 300 and ask  
12 right now for a reduction of 150. We recognize that  
13 this is more art than science, and so what we would  
14 like to do --- we expect that we may be back before  
15 you asking for an additional reduction, but right now  
16 we're asking for 150. We'll see how the numbers turn  
17 out and we may come back before you.

18 CHAIRMAN:

19 Thank you. Office of Enforcement Counsel  
20 (OEC), do you have any questions?

21 ATTORNEY DAVENPORT:

22 Yes. Good morning, Commissioners and  
23 Chairman. Nan Davenport, Deputy Chief Enforcement  
24 Counsel for the OEC. Before I start with my  
25 questions, I just want to clarify something, and I did

1 send this to Mr. Sklar this morning. FIU reviewed the  
 2 PowerPoint presentation, and on slide, I believe it's  
 3 number six, although it looks like there were some  
 4 changes made in the interim, so it would be the one  
 5 with the Meadows and Parks numbers on it. That's the  
 6 impact and reduction or addition of slot machines at  
 7 other facilities. The number of machines for Parks in  
 8 May of 2010, it lists 3,291. It actually should be  
 9 3,299. So, therefore, the number in parens afterwards  
 10 would be negative 74. So I just would make that  
 11 clarification for the record. Okay.

12 -----  
 13 JAMES TUTHILL, HAVING BEEN PREVIOUSLY SWORN, TESTIFIED  
 14 AS FOLLOWS:

15 -----  
 16 EXAMINATION

17 BY ATTORNEY DAVENPORT:

18 Q. And then with respect to some questions, are all  
 19 the games proposed for removal the lowest-performing  
 20 games among the slot machines at Mount Airy?

21 A. Yes, they are. The games that were on the  
 22 original list earned from a few dollars a day up to a  
 23 \$60 a day range. All the games on the original list  
 24 are fewer than \$60 a day.

25 Q. Does Mount Airy own or lease those machines at

1 issue?

2 A. Those are all owned games.

3 ATTORNEY DAVENPORT:

4 With respect to --- and this will be to  
5 Attorney Sklar. With respect to the \$150 --- or 150  
6 slot reduction, does that violate section 1315(a)(7)  
7 of the Gaming Act? And if not, why doesn't it violate  
8 that section?

9 ATTORNEY SKLAR:

10 It doesn't violate the section because  
11 the rationale for the request reduction is for  
12 economic reasons. It has nothing to do with table  
13 games. It's purely an economic analysis, an  
14 oversupply of slot machines.

15 ATTORNEY DAVENPORT:

16 Is this request for reduction in any way  
17 related to the installation of table games at Mount  
18 Airy?

19 ATTORNEY SKLAR:

20 No.

21 ATTORNEY DAVENPORT:

22 And does Mount Airy foresee coming back  
23 to the Board in the near future, requesting additional  
24 table games?

25 ATTORNEY SKLAR:

1                   Not at this time. I mean, it's possible  
2 in the future, but not at this time.

3 BY ATTORNEY DAVENPORT:

4 Q. Will the slot reduction result in any layoffs?

5 A. Absolutely not. In the original petition, I  
6 authored a narrative which indicated that there would  
7 be no reduction in personnel as a result of this.

8 Q. And just to go over, again, the impact, if any,  
9 the 150-slot reduction would have on Mount Airy's  
10 gross terminal revenue.

11                   ATTORNEY SKLAR:

12                   I'm sorry. What's the ---?

13 BY ATTORNEY DAVENPORT:

14 Q. Will the 150-slot reduction have any impact on  
15 Mount Airy's gross terminal revenue?

16 A. Our speculation, and from what we've seen in the  
17 past of other properties is we would highly believe  
18 that the revenue would be redistributed amongst the  
19 other assets on the floor. And again, as I noted,  
20 with the capital savings, redeploying the capital into  
21 a product, we would have the opportunity to put newer,  
22 more current titles on the floor, which would be more  
23 desirable for the customers that came on the floor. I  
24 don't see any reduction.

25 Q. I'd just like to review the storage of the slot



1 machines offsite. I believe you intend to store them  
2 at the Strickland Building; is that still correct?

3 A. That is correct.

4 Q. Has any modifications been made to that building,  
5 with respect to surveillance, security, key access?

6 A. We've done a site survey. However, we've made no  
7 plans at this point, pending approval from the Board.

8 Q. And I believe you stated that you intend to  
9 cannibalize the machines that are taken off the floor?

10 A. Yes.

11 Q. At some point, do you intend to sell those  
12 machines?

13 A. The machines on the secondary market are worth  
14 about \$50 a unit. We'd be far better served taking  
15 monitors, boards, other components out of the games to  
16 be taken off of the floor and using them for spare  
17 parts inventory. They have a much higher value in  
18 that regard.

19 Q. Okay. And I just want to point out for the record  
20 that prior to storing the slot machines offsite Mount  
21 Airy must receive approval from the Executive  
22 Director?

23 A. Correct.

24 Q. If the market demand warrants it, would Mount Airy  
25 seek to add additional slot machines in the future?

1 A. Absolutely.

2 ATTORNEY PITRE:

3 Based on their amendment to their  
4 petition to reduce the number of slot machines by 150  
5 rather than 300, I think it's reasonable, and we  
6 wouldn't have any objection, subject to the normal  
7 conditions.

8 CHAIRMAN:

9 Thank you. Does OEC have a presentation  
10 or did your questioning suffice for your presentation?

11 ATTORNEY DAVENPORT:

12 My questioning suffices. And then  
13 attached to our Answer is FIU's report, which is  
14 confidential.

15 CHAIRMAN:

16 Okay. Thank you. Questions from the  
17 Board? Commissioner Trujillo?

18 MR. TRUJILLO:

19 Just a couple. Ms. Davenport asked one  
20 of the questions I had. But with respect to table  
21 games --- well, let's take the 150 now. How will that  
22 space be utilized?

23 A. We've taken a look at a couple of operating plans  
24 and designs. At this point, what we would be  
25 expecting to do is relieve some of the --- we call

1 them pinch points around the center bar that become  
2 very congested on the weekends. The area to the left  
3 of the center bar, down the center, this is OP6,  
4 currently they are comprised of just row after row  
5 after row of games. If you look at the OP6 up here,  
6 we've designed carousels into the flow plan. And it's  
7 proven over the years in virtually any casino that has  
8 done this or studied this, carousels typically produce  
9 a higher win per unit than rows of table games.

10 MR. TRUJILLO:

11 More circulation, as I understand it; is  
12 that right?

13 A. Exactly. Exactly. Also, by relieving the pinch  
14 points and opening up the floor, it's a more gracious  
15 gaming environment. It's more conducive to people  
16 relaxing. Right now we've got them pretty packed in  
17 row by row. Additionally, across --- it's tough to  
18 describe. If I had a laser pointer, I could show you,  
19 if you have one. But along --- well, up higher, just  
20 above there, that row all the way across the casino,  
21 we'd be taking two to four games off of each row  
22 that's there, opening up the aisle ways and really,  
23 truly making it a more comfortable environment for  
24 people.

25 MR. TRUJILLO:

1                   Incidentally I commend you to a max.  
2 Thank you.

3 A.    Thank you.

4                   CHAIRMAN:  
5                   Commissioner Sojka?

6                   MR. SOJKA:  
7                   No.   I'm fine.   That answered my  
8 question.

9                   CHAIRMAN:  
10                  Commissioner Ginty?

11                  MR. GINTY:  
12                  I just have a comment.   In your filing,  
13 you mentioned that there's an industry standard of 80-  
14 percent utilization.   Is that a fairly standard or a  
15 regular statistic that's published?

16 A.    It's commonly used.   I can't find it published  
17 anywhere, but typically the operators that I know  
18 range between 80 and 90 percent.   Actually, if we were  
19 to use 90 percent, it helps our case even more, but 80  
20 percent is a more reasonable way to look at it.

21                  MR. GINTY:  
22                  The reason I raise it is we're confronted  
23 often with requests to reduce, and I don't think we've  
24 had any adds recently, but at least to reduce.   And,  
25 you know, it would be helpful to have some kind of a

1 guideline, so I mean, I'm very interested in that  
2 statistic, how it's arrived at, if there's something  
3 published about it. And it's not really germane to  
4 this issue, but it would be helpful if you could  
5 provide us with that information.

6 ATTORNEY SKLAR:

7 We did research, essentially, to try to  
8 provide some documentation of that number, and we  
9 couldn't find anything in our studies. You know, the  
10 number does fluctuate a little bit. It depends on the  
11 characteristics of the facility. But this number is  
12 very reliable and widely used for a regional property  
13 like this. You know, where you might experience or  
14 target a higher utilization would be business --- you  
15 know, for comparison purposes, for your edification, a  
16 business that's a little bit more skewed towards  
17 weekend or, you know, one point in time. If it's,  
18 let's say, an island-type destination like the  
19 Atlantis facility in the Bahamas or something, they  
20 might look at a stronger peak on weekends, where, you  
21 know, the average trip down there is about three days  
22 and largely takes place during those weekend periods.

23 MR. GINTY:

24 Now, I'm just looking for something  
25 that's going to make these decisions a little bit less

1 ad hoc than they tend to be now. So, you know, if you  
2 ever find anything or develop anything of a standard  
3 with background and studies that --- you know, if you  
4 can make that available to the Board, we'd appreciate  
5 it. That's all I have.

6 CHAIRMAN:  
7 Commissioner Sojka?

8 MR. SOJKA:  
9 Just one comment related to Mr. Ginty's  
10 desire to get things lined up and get benchmarks. Mr.  
11 Sklar, you did mention that this business is sometimes  
12 more art than science. I would like to commend you  
13 for your modification of your petition because it  
14 admittedly is not an elegant experiment. You know,  
15 this is only two points, but it is, in fact, an  
16 experiment and you will have data, and we will be  
17 looking very hard at your GTR number and, in fact, be  
18 looking to see if it does exactly what you say. A 150  
19 reduction, if it doesn't touch your GTR, that would  
20 certainly, I think, make us much more amenable to a  
21 subsequent petition.

22 CHAIRMAN:  
23 A couple of questions. Mr. Tuthill, you  
24 may be the best person to answer this. How many  
25 machines did Mount Airy have on October 1st of 2009,

1 in other words, the line in the sand date for  
2 reductions?

3 A. 2,501.

4 CHAIRMAN:

5 2,501. And Mr. Sklar, what did I hear  
6 you say that you have now? 2,543?

7 A. 2,451 right now. I believe, prior to my joining  
8 Mount Airy, we exercised an option or a request to  
9 reduce the floor by one percent or two percent, which  
10 was granted.

11 CHAIRMAN:

12 So, again, the net of all of this is  
13 you're going from 2,501 to 2,301, if I did my math  
14 right?

15 A. Essentially, from the day we opened, yes.

16 CHAIRMAN:

17 Okay. All right. Thank you. Any other  
18 questions? Okay. Thank you. That concludes our  
19 first hearing.

20 \* \* \* \* \*

21 HEARING CONCLUDED AT 10:30 A.M.

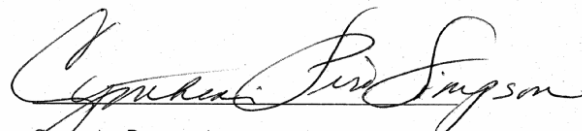
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I hereby certify that the foregoing proceedings, hearing held before Chairman Fajt, was reported by me on 12/16/2010 and that I Cynthia Piro Simpson read this transcript and that I attest that this transcript is a true and accurate record of the proceeding.



Cynthia Piro Simpson  
Court Reporter