

Newsday

Suffolk OTB counts on a casino in Islandia to counter bankruptcy

By Carl MacGowan
February 5, 2017

Suffolk County OTB executives say Long Island's first video lottery casino is the agency's last-ditch effort to emerge from bankruptcy and save itself — if the Islandia betting parlor can meet projected revenues.

OTB officials said the casino, to open this month in a hotel on the Long Island Expressway north service road, could generate \$2 billion a year in gross revenue, netting Suffolk OTB an estimated profit of about \$164 million annually. Out of that, OTB would make guaranteed payments to Suffolk County of \$13 million over the casino's first 10 years of operation and pay off \$15 million in outstanding debt. Its biggest creditor, the New York Racing Association, is owed \$3 million.

"We'd be out of business and doing something different," without the new revenues the casino is anticipated to generate, Suffolk County Regional Off-Track Betting Corp. president Phil Nolan said.

OTB executives said they anticipate the casino would create 250 new jobs and save an additional 250. The gaming facility is expected to open with about 250 terminals this month and is slated to have a total of 1,000 machines by summer. A date for the opening has not been announced.

Video lottery terminals, known as VLTs, are electronic versions of traditional casino games.

"The first 1,000 machines in Suffolk will not be sufficient," Nolan said. "There's going to be a clamor."

OTB officials arrived at their estimate of \$2 billion in annual gross revenue by using a standard gambling industry formula called "win per machine." Using that formula, they estimated that the win per machine in Islandia will be \$450 per day, 365 days a year. That \$450 represents 8 percent of revenue generated by each terminal, which is kept by OTB; the remaining 92 percent is paid to bettors.

However, Lucy Dadayan, who last year completed a nationwide study of gambling for the Rockefeller Institute in Albany, said her research showed VLT betting parlors are successful in their first years after opening, but revenues often decline steeply in succeeding years. Dadayan, who oversaw the study, predicted that would be the case in Islandia.

"Our research indicates that the growth of revenues are only short-lived . . . and very quickly they see declines in the revenues," Dadayan said. "The actual revenue collections are always below the expected revenue forecasts."

A lawsuit filed by Islandia casino opponents still could upend the project. The casino also faces skeptics who doubt it will succeed in the long run.

The opening of the Islandia casino culminates a four-year effort during which Off-Track Betting organizations in Suffolk and Nassau scrambled among four communities in both counties in search of places to build gambling

venues that they hoped reverse their failing finances.

Both OTBs faced stiff community opposition — Nassau in Westbury and Elmont, and Suffolk in Medford and Islandia. Nassau eventually gave up plans for its own casino and instead made a deal to share revenue with a Queens gaming facility.

After spending more than a year unsuccessfully seeking to build in Medford, Suffolk OTB executives won the approvals they sought in Islandia — the location they had considered their first choice all along, Nolan said.

The casino, which will operate in the Islandia Marriott Long Island hotel, has several advantages over Medford, OTB officials said: Because OTB will lease space in the hotel, rather than build a new facility, as was planned in Medford, the Islandia site will open sooner and therefore OTB will make money more quickly.

“It will dig us out of bankruptcy,” Suffolk OTB vice president Tony Pancella said. “Certainly we’ll be able to pay everybody. That’s the idea. And certainly we’ll be able to do better in Islandia than we would have in Medford.”

“We go to a place where they want us to come,” Nolan said.

Since then, OTB has closed 10 of its 14 locations and sold its Hauppauge headquarters. It also has installed QwikBetz online horse racing betting machines in 33 stores to raise new revenue.

“We’ve had to change our business model to reflect the reality,” Nolan said.

Suffolk OTB filed for bankruptcy protection in 2012, saying it would run out of cash in April that year if it did not receive protection from creditors. Officials say cutting costs barely put a dent in OTB’s debt, and that the casino’s revenues are key to saving it.

The search for a casino site was marked by raging debates in Medford and Islandia, with opponents in both places citing fears of crime, traffic and depressed property values, while supporters touted new jobs and lower taxes.

Executives at OTB, long derided by critics as a failed business model and a patronage mill

for Republicans and Democrats, have said Buffalo-based Delaware North — which bought the Islandia Marriott last year and will operate the casino — is in charge of hiring for the casino.

A Delaware North spokesman said company officials declined to be interviewed for this story.

Suffolk OTB officials had considered the Islandia Marriott when they first shopped for potential casino locations in 2014, but the hotel was not up for sale at the time, Nolan said.

OTB instead bought a 32-acre parcel in Medford, but quickly faced opposition from residents and civic leaders. Nolan and Pancella said Brookhaven Town officials appeared to be initially receptive to the idea.

But, “the community objected and we no longer were received positively,” Nolan said.

Records show Brookhaven Town and Delaware North officials began discussing the casino as early as June 2014. Many Medford residents said they felt they were not informed about OTB’s plans.

“This was in no way anything that we envisioned,” Medford casino opponent Don Seubert said.

“I think that that was their ultimate downfall,” Suffolk County Legis. Rob Calarco (D-Patchogue) said. “It was their unwillingness to recognize that they were bound by the same laws as everyone else is.”

In January 2015, the town board voted 6-0 to oppose the casino, though the vote was nonbinding and allowed OTB to continue seeking town approvals.

In late 2015 or early 2016, OTB and Delaware North learned the Islandia Marriott was on the market. Records show Delaware North applied for a special permit for the casino with the Village of Islandia last March.

For several months last year, OTB pursued both the Medford and Islandia plans on “parallel paths,” Nolan said.

In Nassau, meanwhile, OTB officials considered potential casino locations in Westbury and Elmont before backing out of both. Last

March, state lawmakers announced a deal in which Resorts World casino at Aqueduct Race-track in Queens would expand by 1,000 VLT machines. As part of that deal, Resorts World would pay at least \$43 million to Nassau over the first three years.

Nolan said the timing of the Nassau announcement and Suffolk OTB's switch to Islandia was a coincidence, though he said he expects the Suffolk casino to benefit because there will be no casino in Nassau.

The Islandia proposal also faced resistance. Dozens of people — including Islandia residents and people from neighboring Hauppauge and Ronkonkoma — filled Islandia Village Hall last summer to protest the casino.

Other Islandia residents welcomed the casino.

"The main difference is, we already have a hotel that's been built and was standing there for 35 years. There was no new zoning," said village resident Rosemary Speciale, 65, a retired banker. "It's not like a brand-new, huge building being plopped down in a residential area."

Barbara Belz, 73, of Islip Terrace, said she called Islandia Village Hall last summer to express her support, because she looked forward to visiting a local betting parlor after taking buses for the past 20 years to Atlantic City and Connecticut casinos.

"Those people who are going to gamble are going to gamble," she said. "Why should Jersey get all that money? . . . I felt that this state should get a little something."

A week later, Islandia officials announced a "Taxpayer Relief Agreement" in which Delaware North agreed to pay the village \$47 million over 20 years. The agreement helped Islandia cut the village portion of property tax bills by 25 percent this year — or about \$200 for the average household — and Village Mayor Allan Dorman has promised another 25 tax cut next year. Dorman did not respond to requests for comment.

In addition to the tax cut, the village increased spending this year by 37.8 percent, thanks in part to the first \$2 million installment from Delaware North. Village officials have

proposed buying new vehicles, among other new spending.

Nolan said he could not discuss what Delaware North would be paid in rent and other income because a lease agreement has not been completed.

Opponents, including some Islandia residents, sued to block the casino in September, contending the village board voted without a written resolution and failed to seek traffic studies from the state, Suffolk County and Islip Town before voting. In a statement posted on the village website, Islandia officials called the suit "a scare tactic."

Village resident Jordan Pekor, whose wife, Fran, is a plaintiff in the lawsuit, said he expects to see his tax bill go down by about \$500, but he worries about crime and other problems only 100 feet from his home on Dawson Court, a cul-de-sac near the hotel.

"If I can trade in that \$500 a year in savings in taxes to not have the casino, I would do that in a second," he said.

Suffolk County is guaranteed a total of \$13 million for the casino's first 10 years of operation, including \$2 million the first year and \$3 million the second year. It could get more if revenue exceeds certain levels, officials say. The county is to receive \$1 million a year from the third to 10th years, but otherwise profits go to creditors until they're paid off.

About five years from now, Nolan said, "We will have paid off our creditors and we'll be operating a sound business operation."

Dadayan, of the Rockefeller Institute, said six of New York's nine VLT casinos showed declines in their average annual contributions to education and two others showed only modest increases. The only one showing substantial increases is Resorts World, and she said that poses a threat to Islandia.

"Because it's in close proximity, I really, really doubt whether it's going to generate much revenue," Dadavan said in an interview.

OTB officials said they are not worried about competition from Resorts World. They said they expect Long Islanders – and bettors from as far away as Connecticut – to come to Islandia rather than trek to Atlantic City.

“We have access to a very affluent market,” Pancella said. “We’re going to be in business there forever.”

Where it goes: Annual revenue and profit projections for the Islandia casino, and how some of it is distributed:

- \$2 billion: Expected gross revenue
- \$835.75 million: Winnings paid to bettors
- \$164.25 million: Expected OTB annual profit

OTB owes the following to Suffolk County:

- \$2 million in first year
- \$3 million in second year
- \$1 million in each succeeding year, up to eight years

What OTB owes creditors:

- \$15 million
- OTB also owes unspecified fees to contractors and employees, and will pay rent for the casino to hotel owner/casino operator Delaware North.

Here’s what OTB officials expect to pay out of the \$164.25 million annual profit expected to be generated by the Islandia casino:

- \$73,912,500: contribution to public education
- \$49,275,000: OTB share of casino operating costs, including payments to Delaware North
- \$16,425,000: New York State Gaming Commission
- \$16,425,000: marketing
- \$8,212,500: New York Thoroughbred Horsemen’s Association