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HEADLINE: Hefty upfront fees for slots sites may deter companies contemplating bids

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ROBBIE WHELAN Daily Record Business Writer January 28, 2009 6:00 PM Just days before the deadline for bids on five state slot machine gambling sites, developers are keeping mum about whether they are submitting proposals, but the hefty upfront fees that must accompany the proposals could deter them.

Bids to build video lottery gambling parlors in five locations across the state, including in Baltimore City, are due Monday. On Jan. 7, the Baltimore Development Corp. hosted a question-and-answer session on the site, which was attended by representatives of several Maryland companies, including the Cordish Co. of Baltimore and Camp Springs-based The Harbor Group.

Two representatives from The Harbor Group declined to tell The Daily Record whether they would submit a bid by Monday, and David Cordish, the Baltimore developer of Power Plant Live, declined multiple requests for comment.

But Johnnie D. Bond Jr., a Washington-based attorney who represents the Maryland Gaming Group, a partnership between casino operator Hard Rock International and Kenneth R. Banks, treasurer of the state Democratic Party and owner of Banks Contracting Co. Inc., said Tuesday his client intends to bid on one of the licenses, either in Baltimore City or Anne Arundel County. He also said that they have been in contact with Cordish about a possible partnership.

"Cordish is in talks with the group," he said. "To what extent, they've not formed a relationship as of yet."

Cordish has a relationship with Hard Rock — the company's flagship retail franchise, the Hard Rock Cafe, was one of the first tenants to take a lease in downtown Baltimore's Power Plant project.

On Tuesday, Cordish told The Washington Post, "We're definitely applying" for a license to operate a slots facility in Anne Arundel County. If so, Cordish will be competing with the Maryland Jockey Club, which owns Laurel Race Track, which is located within the state's allowable area for video lottery gambling.

The timeline for selecting operators and exact locations for slots parlors is not set in stone, but state officials have indicated that they hope to make their decisions this fall.

Once selected, the state will conduct an investigation into each licensee's finances and legal history, which will be paid by the applicant and may cost up to \$100,000.

But two of the state's five gambling sites, in Baltimore City and near a golf resort at Rocky Gap State Park in Washington County, require upfront licensing fees from bidders that could be prohibitive.

Both sites are owned by either city or state government, and therefore require applicants to pay an upfront fee of \$3 million toward the gambling license and commit to \$25 million in capital investments for every 500 machines they put in for, over the course of 15 years.

For Rocky Gap, which will have up to 1,500 machines, that could mean an upfront commitment of \$84 million. In Baltimore, which will have up to 3,700 machines, licensing will cost \$22.5 million, with a capital commitment of \$185 million.

Donald C. Fry, president of the *Greater Baltimore Committee* and chairman of a state commission on slots, said the purpose of the upfront fees is to attract "serious companies that have serious financial support."

"The legislative intent was to ensure that we had companies that were very serious and willing to make a significant commitment to the state of Maryland," he said.

Some developers have privately expressed apprehension at the size of the upfront fees, but at both sites, Rocky Gap and Baltimore, there are safeguards for both winning and losing bidders.

In Baltimore, for example, if an applicant wins the gambling license, but is unable to come to an acceptable leasing agreement with the city for the land by April, the upfront fees would be refunded. Losing bids will also have their money returned, Fry said.

In nearby states, the upfront commitments are less stringent.

Pennsylvania approved video lottery gambling in 2004 and handed out licenses for five sites around the state. Richard McGarvey, a spokesman for the state's Gaming Control Board, said that no upfront licensing fees were required from applicants, but that the cost of the license is \$50 million.

In West Virginia, there is no bidding process on licenses for casino-scale slots gambling, because state law allowed slots only at four existing race track sites. The race tracks, however, have to pay \$2.5 million yearly for the right to operate video lottery terminals.

West Virginia also has 1,640 "limited video lottery" terminals, placed off-site from the tracks, mostly in taverns, which require a \$10,000 upfront operation fee and a \$500 upfront fee paid by the owner of the bar or other establishment, a spokeswoman for the West Virginia Lottery Commission said.

Highlights: Greater Baltimore Committee