



TFA

Monthly Newsletter

February 2024

IN THE NEWS

A Tale of Two Cities...or as Dad would have said: "Take Care of your Stuff"

By William Newby

No, this month's newsletter is not a dissertation on Charles Dicken's renowned 1859 novel set in the time of the French Revolution. Although the book does begin with some of the greatest opening lines in literature--we won't tell you what they are but do recommend reading them—we're going to borrow the book's title to help us to illustrate the pitfalls of not reinvesting in your own casino.

In our example, we compare Newport Beach, California (shiny London in Dicken's work) to Los Angeles (the dystopian revolutionary Paris in the novel).

The purpose for the juxtaposition is to illuminate the complications that arise from a lack of timely reinvestments in each city's sidewalks. In our illustration, London (or Newport Beach) invests time and money smartly; Paris (Los Angeles) does not. London's sidewalks are fixed as needed with funds set aside to do so. Paris, in our example, does none of those things and therefore, a reign of terror (for those who consider walking on sidewalks an otherwise enjoyable pursuit) ensues.

In the summer of 2023, Newport Beach announced an ambitious and somewhat audacious plan to fix each damaged sidewalk in the entire city. The six-year plan is targeted to repair around 900 damaged sidewalk segments city wide and cost over \$6 million to complete. The City has set aside 100% of the funds required and targeted the beginning of 2024 to commence the project in the first neighborhood on the list.

In addition to an ambitious plan to keep up with repairs as needed to avoid a tidal wave of deferred costs later, the City's plan is also driven by the more self-serving objective of avoiding "slip and fall" lawsuits.

The city announced a start date of January 2nd of this year and on cue, City contractors began jack hammering broken sidewalk immediately following New Year's Day (at 7 am to be exact).

Now compare London to Paris: Newport Beach to Los Angeles.

In a November 2021 report, the LA City Controller described LA's sidewalk repair program as "broken". Through 2021 only 1% of

Lily Gladstone is the Golden Globes' first Indigenous best actress winner

1/7/2024 – apnews.com

Rocha: California Initiative Will Further 'Damage The Brand' Of Mobile Sports Betting

1/10/2024 – sportshandle.com

Indian Affairs announces the addition of two Tribes to the Tiwahe Program

1/11/2024 – bia.gov

Department of Homeland Security Advances Support for Tribal Nations, Receives Recommendations from Tribal Leaders

1/17/2024 – dhs.gov

U.S. Bureau of Indian Affairs unveils new Final Rule for Tribal land-in-trust process

1/18/2024 – naco.org

Arizona: Pascua Yaqui Tribe to build new casino

1/23/2024 – cdcgaming.com

N. Scott Momaday, Pulitzer winner and giant of Native American literature, dead at 89

1/29/2024 – abcnews.com

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LA's 640,000 sidewalks segments had been repaired with no hope that current efforts to do more would yield a fruitful outcome. Simply, the lack of focus and attention at the City Hall level over the decades has meant that the problem has snowballed to the point where there is little hope it can be fixed. Moreover, over the last five years, LA has paid out over \$35 million in claims for sidewalk related injuries. The cost of neglect is indeed high.

Clearly, Newport Beach is only a fraction of the size of Los Angeles, but the real point is that Newport Beach kept up with repairs as needed while LA turned a blind eye. The result is chaos on the streets (well, sidewalks) of LA.

So, what does this analogy have to do with casinos?

The answer is that TFA has overheard an alarming number of conversations about rising costs generally, but also specifically of interest rates on debt and how that has translated into increased debt service on loans. The takeaway is that properties are adjusting to a rise in costs by making spending adjustments elsewhere. Some of those adjustments are ill-advised. At the top of the list of "no-no's" is a deferral in maintenance capital expenditures.

Whatever the reason for cutting back on capex, the consequence of doing so is obvious. Years ago, a Louisiana area casino that we knew of deferred maintenance on the property's cooling system which resulted in a major equipment failure during the summer. The heat inside the building got so bad that the facilities crew had to

drag hoses onto the roof to cool the casino below by hosing down the roof above.

And that's on the outside—what about the parts the customers can see? We're referring to all the little things inside the box that add up to bigger things. A dirty restaurant bathroom, worn carpet on the casino floor, nicks in the hotel hallway wallpaper, trash in the elevator from the room parties the night before are all noticed by patrons and may influence their decision to visit a property.

Jody Lake, *Warner Gaming's* Chief Operating Officer, suggests that the "slippery slope" problem exists beyond the physical assets to include employee mindset: once employees get out of the mode of thinking and acting on keeping the inside of the property neat, clean and in good repair, they begin to not notice the degradation around them. Lake says that although the employees no longer notice, the customers do and that's a real problem.

Warner Gaming adheres to a standard of Four Diamond quality and service and the key, according to Jody, is staff accountability. Warner staff looks for issues and are empowered to resolve them—he joked that his managers carry around "stain pens" with which to touch up nicked and scratched base boards and molding. He calls it a culture of "attention to detail" the result of which are properties that always look like they just opened their doors for the very first time.

Ray Pineault, the President, and CEO of *Mohegan*, put the need to focus on the condition of the company's properties and

the link thereby to the customer even more forcefully. Said Mr. Pineault, "Our philosophy is that a well-maintained property is an essential element of a great guest experience. The condition of the property should always be an enhancement to the guest experience and never a detractor because the property is not maintained to our high standards."

A walk through any of the Warner managed properties as well as Mohegan's iconic *Mohegan Sun* in Connecticut, exemplifies these companies almost Zen-like adherence to the mantra of "respect for the property is respect for the guest".

Neither company sets a budget per se for maintenance capex. Rather, if team members see a need for repair or upkeep, they engage in the work immediately. It's more than just a matter of business—it's a pride in giving the customer the best they can offer. Both recognize that a deferral of essential upkeep creates the opposite of a "good experience."

It's what my now 94-year-old dad used to tell my brother and me years ago: "take care of your stuff, and it will take care of you". Of course, he wasn't talking about a casino or hotel—rather our bikes and baseball gloves—but the principle is the same. I don't recall if Dad has read [A Tale of Two Cities](#). If you ask him, he will probably say, with a twinkle in his eye, "...I don't recall reading the book but that Dickens fellow certainly was a lot of fun to be around...". One thing I know he would say: "Be London, boys, not Paris..."

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