

## Wrangling success

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started on a dude ranch  
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COVER STORY

## CASINO CROSSROADS

Black Hawk hopes its fortunes will improve after investing more than \$20 million in amenities to diversify its economy.

David Farahi is the chief operating officer of Monarch Casino Resort.

## Investors are doubling down on Colorado's underperforming gaming industry. Will the bets pay off?

BY ED SEALOVER  
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David Farahi is a gambling man, as is appropriate for someone who is the chief operating officer of Monarch Casino Resort. But while card and slots players have dropped money for 27 years in Black Hawk, no one has ever laid down a bet like the \$442 million Farahi is wagering on the future of the Colorado gaming economy.

This, after all, is a sector that was supposed to boom to new levels after voters in 2008 passed Amendment 50, which raised the maximum bet in the state's three casino towns from \$5 to \$100, added more table games and allowed for around-the-clock operations. Yet, casinos in Black Hawk, Central City and Cripple Creek did not top the \$816 million combined revenue they made in 2007 again until 2017, their best-laid plans felled by the



Digital roulette table at Monarch Casino Resort.

twin blows of a smoking ban and the Great Recession that have left revenue expectations greatly unfulfilled.

Farahi, however, looked beyond this underperformance and beyond Colorado's \$100 bet limits – which rank as by far the lowest of any gambling jurisdiction in the United States and continue to be a sore spot

for casino operators – when his company (Nasdaq: MCR1) purchased the former Riviera property on Black Hawk's Main Street in 2012 and began a makeover that will lead to the opening of a 516-room casino resort hotel this fall. The Monarch will have four full-service restaurants (up from one in the property now), will grow its slots by two-thirds to some 1,250 and will grow its table games by one-third to roughly 45.

To Farahi, the wager is not that Monarch will steal the majority of the \$626.9 million in adjusted gross proceeds that Black Hawk's casinos took in as a whole during the 2017-18 fiscal year – a total that represented 74.7% of all gaming revenues in the 12 months that ended in June of last year – but that his big investment is going to help the town and the Colorado market grow in a way it never has before. It comes at the same time that the town of Black Hawk itself has invested more than \$20 million itself to create an extensive hiking-

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and biking-trail system and to add retail and restaurants to secondary artery Gregory Street to diversify its economy and make the town more attractive to a greater range of visitors.

In many ways, the state's gaming industry is at a crossroads, having grown slowly in 10 years under the looser rules of Amendment 50 and staring now at the possibility of growing again if Colorado voters approve a November ballot initiative that would legalize sports betting and tax it at a rate of 10%. Analysts are watching the polls, other casino operators are watching Monarch's return on its major investment and Farahi is watching for the reactions of each of them, supremely confident – even for a gambling man – that a sleepy industry that first took root in 1992 is on the cusp of becoming a significant growth engine, despite the past and the odds that still may be stacked against it.

“We believe we're a stimulus project,” he said recently while sitting at a back table in his casino's buffet. “We're not investing this money to take market share. We're doing it to grow the market.”

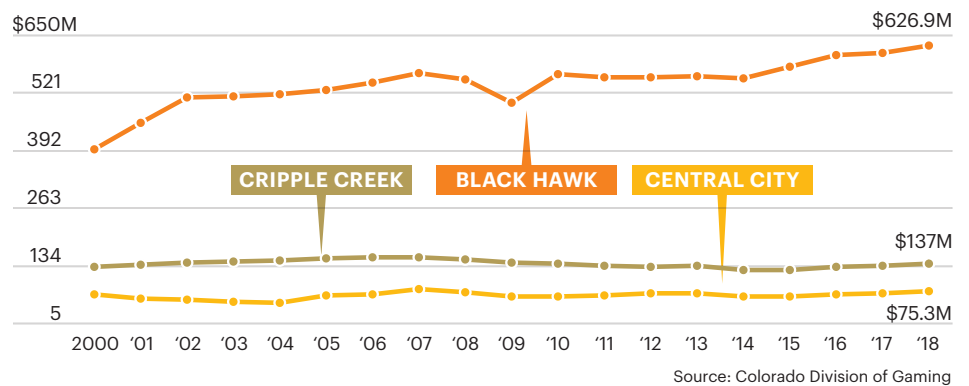
### Drivers of growth

Growth has come in fits and starts so far for the three former mining towns given permission by voters to reawaken their economies through limited-stakes gambling. From fiscal year 1993 through fiscal year 2002 – the first 10 full years of gaming – adjusted gross proceeds jumped 212% to \$707.8 million. In the 16 full fiscal years that have passed since then, they've grown by just 18.5%, despite a 1,000% increase in bet limits and the 2009 opening of the Ameristar Black Hawk, a 536-room hotel that stands now as the only casino resort hotel in the market and that single-handedly was responsible for the growth in revenue to the industry immediately following the passage of Amendment 50.

Despite those numbers, Farahi argued that Amendment 50 did what it was supposed to do. It worked to offset partially both the incredible economic downturn and the smoking ban that passed in 2007 and took effect at the start of 2008 – a change in law that historically has dropped gaming towns' revenues between 20% and 30% immediately. And while slots revenues still have not reached the \$785 million mark they hit in 2007 – they

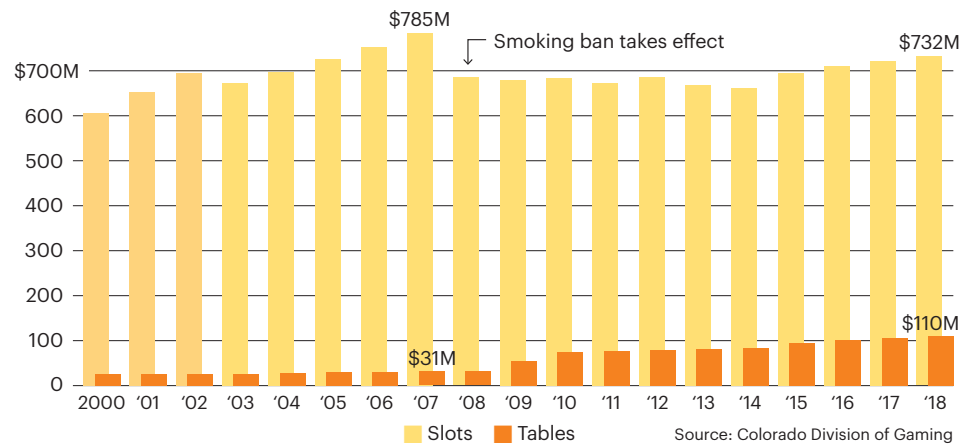
### COLORADO GAMING REVENUE ADJUSTED GROSS PROCEEDS BY CITY

Black Hawk provided 69% of statewide casino revenues in 2018. Adjusted gross proceeds from casinos grew by just 18.5% from fiscal years 2000 to 2018. This is despite a 1,000% increase in bet limits and the 2009 opening of the Ameristar Black Hawk, a 536-room hotel that stands now as the only casino resort hotel in the market.



### COLORADO GAMING REVENUE BY TYPE OF GAME

Table-game revenue increased faster than slots, thanks to higher limits and expanded games



were just \$732 million in 2018, according to figures from the Colorado Division of Gaming – table-game revenue has jumped from \$31 million in 2007 to \$110 million last year, thanks to the higher limits and expanded games.

Proposition DD – which, if passed, would allow licensed casino operators to offer sports betting in their facilities and through online

sites – is viewed as a potential boost to the gaming industry, though certainly not a huge one. The practice accounts for just 2 to 3% of most casinos' revenues in jurisdictions where it's now allowed, Farahi said.

### Lodging is key

What he and other industry leaders see as the great potential of the Colorado gaming

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David Spellman has been Black Hawk's mayor for 13 years.

sector is not bets that could go higher but the number of customers who currently aren't being reached. And the ability to reach them starts with giving them a place to stay nearby after they drink, dine, gamble and enjoy entertainment – something that isn't happening a lot in a Black Hawk/Central City market that only includes about 1,500 hotel rooms right now.

On most weekend evenings, trying to find a place to stay anywhere near the casinos for the average Denver resident is a difficult task, as the Ameristar often is sold out on Fridays and Saturdays and other casinos reserve a good portion of their rooms for valued high-rollers. Because of the lack of hotel rooms, this market ranks second in the world – behind only the autonomous Asian region of Macau – in terms of its gross gaming revenue per available room, Farahi said.

The Monarch will offer fine dining, the largest spa in town and a pool deck sitting atop the 23-floor hotel to give visitors options that don't involve betting. Farahi's company operates just one other facility – in Reno,

Nevada, which like Black Hawk/Central City is a regional market attracting gamblers only from the vicinity rather than being a fly-in destination – and Monarch will take its learnings from that city and apply to them to the Denver market.

If it were the only player investing in Black Hawk, Farahi's cause might seem particularly futile. But it has a partner in the city that is laying down significant funds to make itself less a town of casinos and more of a "gaming-centric resort destination," as 13-year mayor David Spellman puts it.

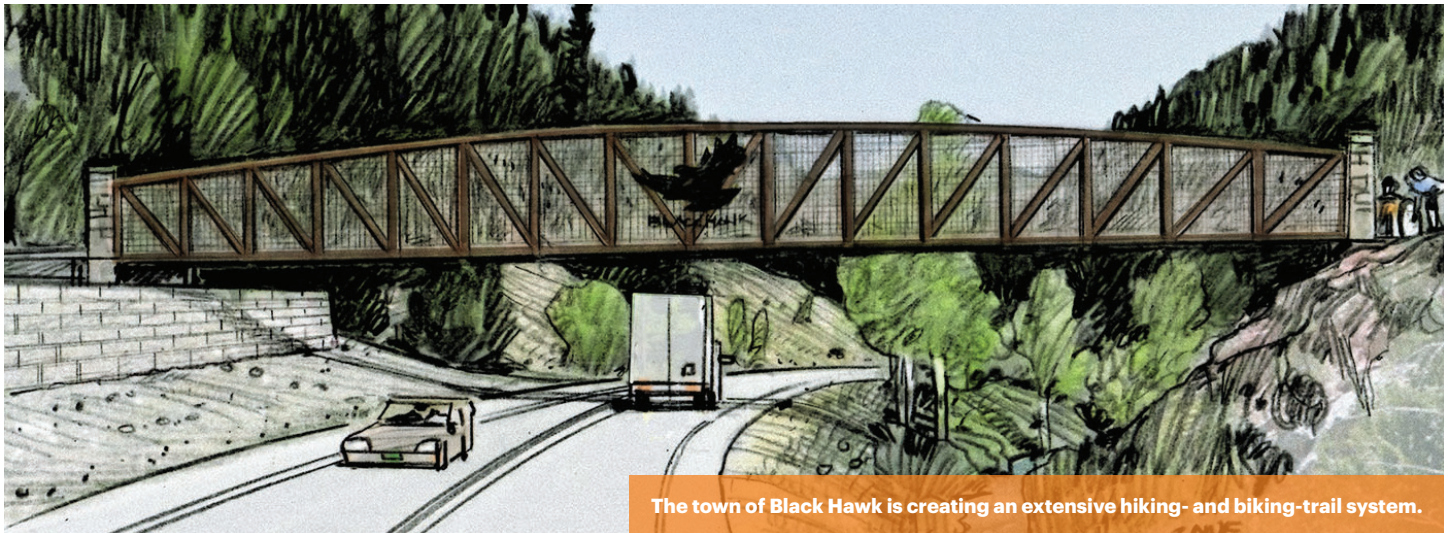
Town officials have purchased 600 acres that they are transforming into hiking and biking trails, a project that is expected to break ground in August and be completed by November. And they have spent \$20 million buying most of the parcels along Gregory Street – the road that connects Black Hawk to Central City – and are looking to redevelop the property into 70,000 to 100,000 square feet of retail and restaurant space that would, in their eyes, also include options like a brewery and a distillery.

## From day trip to destination

The idea is that, after 27 years of being a town known only for having slots and table games, Black Hawk is seeking to become a place where couples and families can visit and have a wider range of entertainment options – a transition that would broaden its economy slightly but also potentially generate significant revenue as more people consider visiting. This transition is tied closely to the pending addition of hotel rooms at the Monarch, and Spellman said he believes that the town that now has just about 1,500 hotel rooms should be home to double that number by 2030.

Black Hawk, which is largely hemmed in by mountains, has natural barriers to its growth, and Spellman acknowledged that it likely will never see a significant population boom or be home to amenities like a grocery store or a health-care campus. But he believes that if a transportation system can be developed to ferry workers from Denver and other surrounding communities, it can become an employment center and vacation hub.

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The town of Black Hawk is creating an extensive hiking- and biking-trail system.

“At first the industry was not really buying into it, as the market hasn’t grown as quickly as we would have liked it to,” the mayor said of the reaction to his town’s plans, particularly in the aftermath of Amendment 50 not meeting expectations. “But I believe the large players in Black Hawk realize we have to offer these other amenities. Still, it won’t happen overnight.”

Other casinos already have made investments in recent years, possibly spurred by the money going into the Monarch. The Ameristar has put “millions of dollars” into remodels that include a remaking of the casino floor that’s made it easier for players to get around, said Troy Stremming, a spokesman for the facility’s parent company, Penn National Gaming (Nasdaq: PENN) of Pennsylvania. The Lodge Casino upgraded its gaming floor and restaurants. The Isle Casino has improved its hotel rooms and is working on its gaming floor.

But Farahi has heard several other local casino operators say at public forums that they are waiting to see whether Monarch’s big bet generates its expected returns before they spend significant money in the market. And, in that sense, Black Hawk really could be on the cusp of a building boom.

## Opportunities and challenges

Colin Mansfield, gaming analyst at Fitch Ratings, said that national investors recognize

the upside that Colorado’s gaming industry has. The Denver metro area has a high level of income that makes nearby casinos very attractive, and it’s growing at a much faster rate than most gaming areas.

However, Mansfield, Farahi, Stremming and Spellman are all quick to note that the \$100 betting limit is a major impediment to increased investment in this region, particularly with Deadwood, South Dakota, having the second-smallest betting limit in the U.S. at \$1,000. It keeps big bettors from wanting to travel to Colorado, despite the state’s many amenities, and it keeps national casino operators with property here, such as Penn National, from being able to market trips to their Black Hawk properties to high rollers who could add serious jolt to local gaming revenues.

But while everyone talks about the obstacle the limits present, no one is quite ready to push for a raising or elimination of the limits yet. Stremming particularly emphasized that Penn National wants to focus on getting voters to back legalized sports betting in November before it seeks bigger changes like a limit hike or the introduction of more games that are not allowed currently, such as baccarat.

Still, Spellman said that if Black Hawk and its fellow gaming towns are ever to experience the boom that some believe they can have, they will either need to get voter approval to ditch limits or to boost them significantly, or

they will have to seek a change in state law that can allow the Colorado Limited Gaming Commission to set those limits independently.

“Although it certainly was beneficial to go from \$5 to \$100 [in Amendment 50], Colorado is still the most restrictive gaming limit,” Spellman emphasized.

## Impact of sports betting

Sports betting is not expected to radically transform the industry if approved by voters. The non-partisan Legislative Council has estimated the change could raise just \$10 million or \$11 million a year in taxes, meaning that casinos could bring in about \$100 million a year in revenues – a boost of more than 11% over their adjusted gaming proceeds of last year.

But when Colorado House Majority Leader Alec Garnett, the Denver Democrat who cosponsored the bill to put the betting and taxation question before the voters, pitched the idea to his colleagues in the Legislature, his emphasis was less on the economic boost for casinos than it was on raising money for Colorado’s unfunded water plan and helping to eliminate the black market in sports betting that operates now. It’s likely those themes will dominate the messaging for Proposition DD this year – and portend that any future change that could boost casino revenues may have to be tied to some societal benefit in order to receive statewide approval.

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The view from the top floor of the new Monarch Casino Resort in Black Hawk. The 516-room hotel will open in the fall and feature a total of four full-service restaurants.

Farahi is confident that even if bet limits don't rise and the whales don't come swimming to lay down money at Colorado's blackjack tables, he can fill the 516 new rooms at the Monarch with Denver-area and drive-in traffic alone. That is how far under capacity Black Hawk hotels are now, he said.

But with fly-in traffic and more rooms, Colorado's casino towns could host families or groups that stay for multiple nights, visit the surrounding metro areas and take time to get into nature as well as playing games. Already, the Colorado market has growth of revenues that is slightly above average for regional gaming towns, even with

all of its restrictions, Mansfield said.

This is why Farahi is willing to bet big on Black Hawk and is happy to show his hand if it means drawing other big bets

as well. The next few years will begin to show just how good the odds are that Colorado's semi-sleepy gaming market is about to capture a lot more attention.

"We've got 3 million people

that live within an hour drive of here. And Denver is the fourth-largest feeder market into Las Vegas, so people are wanting to gamble," Farahi said. "If we build it, they will come."



Black Hawk plans to add retail and restaurants along Gregory Street.