Analyzing Potential Challenges, Opportunities Facing Indiana's Casino Industry

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SPECTRUM GAMING GROUP®
Independent Research and Professional Services

1201 New Road, Suite 308
Linwood, NJ 08221 USA
609.926.5100
www.spectrumgaming.com

Executive Summary

Indiana, which has grown increasingly dependent on its casino industry as a source of tax revenue, faces the likelihood of expanding and intensifying competition from other states in coming years that will lead to significant revenue declines.

- Among Indiana's gaming sub-markets, the most at risk is the Southeast, comprised of Belterra, Grand Victoria, and Hollywood Lawrenceburg, and the threat is largely from Ohio. In the unlikely worst case, this market could conceivably see its annual gaming revenue decline by as much as $390 million — more than half its pre-competitive level. State gaming taxes could drop by as much as $122 million annually.
- The Southwest Indiana sub-market of Casino Aztar, French Lick, and Horseshoe S.I., is at risk, mainly from Kentucky. If two Kentucky properties open across the river from this market, gaming revenues could be cannibalized by as much as $97 million annually, or 18.2 percent. State revenue from this market could dwindle by about $30 million per year.
- In Northwest Indiana — part of the existing Chicagoland market — robust competition with Illinois continues, and Michigan tribal operators have also increased their presence. Northwest Indiana (Horseshoe Hammond, Ameristar, Majestic Star, and Blue Chip) gaming revenues will decline by at least $8 million per year due to a new casino in Des Plaines, IL (less than 1 percent of pre-competitive levels), but could eventually lose $72 million more annually (over five percent) to a large casino in downtown Chicago. State revenues could decline between $2.8 million and more than $24 million per year as a result of these changes.
- Indiana's smallest and newest gaming sub-market, the central, Indianapolis region, comprised of Hoosier Park and Indiana Live!, is somewhat more insulated from the likely competitive threats. Still, new developments, again mainly those in Ohio, could erode this market by more than $29 million per year, or about 7.3 percent. The state's gaming taxes would decline by at least $8 million annually, likewise about 7.3 percent.

With such prospects in mind, Indiana public officials and industry leaders need to recognize that:

- The status quo could prove to be the least palatable option, leading to the most serious revenue declines.
- Indiana needs to foster the evolution of its gaming industry into more of a regional destination, with more amenities and marketing tools to help maintain a competitive position.
- State policy toward gaming should be interwoven with other state policies, ranging from the promotion of tourism to job creation to urban revitalization.
- Statutory and regulatory requirements to operate a casino in Indiana should be examined to determine whether or not their original rationale remains supportable in a changing economic environment.

The most viable option for Indiana to protect its gaming revenue is to help its industry evolve into more of a regional hub, in which operators are encouraged to strive toward a goal of making their casinos more attractive than offerings in neighboring states. Such a goal would be difficult to achieve in the absence of policies designed to encourage capital investment.

The casino industry and the state should identify their common interests and develop joint policies that advance those parallel interests. Policies should then be developed to create a series of incentives and actions that advance parallel interests while meeting their parallel responsibility: to protect and advance the public interest in Indiana.

From the standpoint of the state, the goals would be:

- To encourage capital investment in new and improved amenities.
- To ensure that all gaming policies in Indiana are sufficiently coordinated and are designed to advance the same goals.
- To ensure that any financial incentives inure to the benefit of Indiana, rather than to other states where operators may have an interest.
- To maximize revenue from all sources, not just the gaming tax.

That latter point is acutely critical, considering that the status quo will certainly result in reduced tax revenue from all sources. The state can help ensure that such goals are met, in part

by requiring that operators who seek to participate in any incentives must develop plans as to how they intend to invest in their properties, or otherwise advance public policy in Indiana. Regulators could be empowered to approve such plans.

Indiana lawmakers should consider and measure the impact of any potential incentives based on some broad parameters that could include:

- Will incentives cannibalize, protect or grow existing tax revenues?
- Will incentives lead to additional capital investment in Indiana?
- Would such incentives increase employment, promote tourism or advance other policy goals?

Wherever possible and practical, the burden should be on participating casino operators to demonstrate that incentives would create employment in their region, make them more attractive — and ultimately help to ensure their success in an increasingly competitive environment.

PART I: EXAMINING GAMING POLICY IN INDIANA

Introduction

Spectrum Gaming Group ("Spectrum" or "we") was retained by the Casino Association of Indiana to analyze the future prospects of gaming in Indiana. This analysis includes quantitative projections of revenue in light of the likelihood of expanded gaming in states that border Indiana.

At the same time, Spectrum examined statewide gaming policy from the standpoint of how it has evolved, and how it could evolve in a manner more likely to advance the public interest in Indiana.

While we are suggesting a framework in which gaming policies can be examined and developed, we are refraining wherever possible from suggesting specific statutory or regulatory changes that should be implemented.

Such detailed suggestions would not be appropriate, in part because the interests of the casino industry itself are so divergent that any detailed policy changes will likely have a disproportionate benefit for some operators. Additionally, we are not in a position to fully appreciate all the political, social and other concerns that are reflected in existing gaming policies.

Much of our research included detailed interviews and discussions with a variety of stakeholders and observers in Indiana, including numerous industry executives. This analysis, in large measure, reflects a synthesis of this wide variety of opinions and insights.

Overview

Any discussion of gaming policy in Indiana should be guided by certain precepts or principles:

- The interests of the gaming industry and the interests of the public sector should be parallel, i.e., the public clearly benefits when the gaming industry succeeds.

- Going forward, the gaming industry's ability to succeed in the face of potentially significant competition from other states will be largely dependent on its ability to attract capital investment.
- The state is more likely advance public policy when it creates a positive investment climate in which the rules are certain.
- Wherever practical and appropriate, state policy toward gaming should be interwoven with other state policies, ranging from the promotion of tourism to job creation to urban revitalization. The ancillary benefits of such policies must likewise be considered when measuring the economic and fiscal impacts of gaming.
- All statutory and regulatory requirements that impose material costs on operators should be examined to determine whether or not their original rationale remains supportable in a changing economic environment.

In our experience, such a framework makes political and economic sense in any environment, but its necessity is particularly acute at the present time in Indiana. As this analysis concludes, the most viable option for Indiana to protect its gaming revenue is to help its industry evolve into more of a regional hub, in which operators are encouraged to strive toward a goal of making their casinos more attractive than offerings in neighboring states.

Such a goal would be difficult to achieve in the absence of policies designed to encourage capital investment.

The efficacy of such a framework has been borne out in the history of gaming in various states, but such rules have not always been considered or followed. For example, some past legislative changes in Indiana — such as the authorization of dockside and round-the-clock gaming — have been balanced by rules that added graduated tax rates[1]. Such balancing acts, which may have worked in the past, will be less likely to advance public policy in the changing competitive climate. With that in mind, Spectrum suggests that the political calculus be adjusted. Rather than look to balance the interests of the state and the casino industry, policymakers should look to rule changes that advance their parallel interests.

[1] *Indiana Business Review*, Spring 2009, "The Two-Sided Coin: Casino Gaming and Casino Tax Revenue in Indiana," by Jim Landers, PhD

For example, the state could examine maritime requirements for riverboats that are neither required nor expected to move from their docks. Spectrum offers no expertise in this area, and thus offers no opinion. We simply suggest that such requirements be examined on the simple test as to what public benefits they offer, measured against their costs.

Those are the big-picture themes that guide this analysis of gaming in Indiana. They should, in turn, guide state policy as Indiana's gaming industry faces a future that is uncertain and potentially quite troublesome.

In one important sense, Indiana lawmakers displayed foresight in establishing a gaming industry in key locations that could easily tap gamblers from other states. All other things being equal, a casino is more likely to advance public policy and serve as a more vibrant economic generator if it attracts revenue from outside the area, and outside the state.

However, those very same geographic benefits can turn into vulnerabilities as gaming expands in other states. Spectrum has been studying gaming policy across the United States for more than three decades, and notes that certain political themes are more likely to resonate. In particular, the notion that states need to retain dollars from their own residents is likely to gain traction, and will increase the likelihood of gaming's expansion in states that border Indiana.

That likely expansion reveals a very real vulnerability in Indiana's own gaming policy. Indiana's success in gaming has been significantly dependent on policies that were established outside its borders. The reluctance of Ohio and Kentucky lawmakers to approve casinos, coupled with Illinois's imposition of a smoking ban and strict limits on licenses and gaming positions, have collectively inured to the benefit of Indiana.

This status quo — which was largely established by decisions made in other states — will inevitably shift, as policies in those states change. That means that the status quo would not be a palatable option for Indiana lawmakers, since it will clearly translate into significant declines in revenue and profitability.

The challenge then is to modify gaming policy in Indiana in a way that protects the public interest while helping the gaming industry to protect itself against inevitable external challenges. Another complicating factor is that the gaming industry is already highly competitive within the

state, and most major policy shifts run the risk of assisting one segment of the industry at the potential expense of another.

Within that context, any efforts to improve Indiana's competitive posture would neither be simple nor do they offer any guarantees of success. Spectrum simply suggests that these precepts and themes should be considered as lawmakers consider any modification of gaming policy.

We also note that the gaming industry itself — which, unlike almost any private industry in Indiana, has been granted monopolistic protections — bears a concomitant responsibility in any efforts to advance the public interest in Indiana. This means that, wherever possible, any modification of gaming policy that offers relief to casino operators should come in the form of incentives.

The goal would be to help ensure that operators respond to incentives in ways that are more likely to promote the public interest in Indiana.

One way to ensure a positive response is to require that operators put forth specific plans and goals that require regulatory approval in order to qualify for such incentives.

Gaming policy background

Indiana's gaming policies were established relatively recently, and in a relatively uncoordinated fashion. That is, to be sure, the norm among most states. Gaming legislation — whether related to the legalization of casinos, lotteries or pari-mutuel wagering — is historically considered and approved in an ad hoc fashion, often in response to very specific concerns, such as addressing an immediate budget deficit.

Consider that, slightly more than two decades ago, Indiana policymakers and citizens undertook a decisive policy shift, going from a state that had no legalized gaming to a state that, within a brief period of time, added three major forms of gambling: casinos, pari-mutuel tracks and a lottery[2].

At the outset, Indiana — like many states — displayed serious misgivings and reluctance about developing a gaming industry. Indeed, such reluctance was initially evidenced in 1993 when the Legislature overrode a gubernatorial veto in the initial authorization of its casino

[2] Ibid.

industry[3]. This reluctance is also evidenced by various restrictions that were initially imposed, such as limiting gaming to riverboats, and the initial imposition of cruising requirements. While many of these requirements have been modified or eliminated, the reluctance to fully embrace gaming has, in large measure, been a driving factor in how the industry has developed and evolved.

Spectrum does not suggest — nor would it be appropriate to suggest — that policymakers adopt a laissez-faire attitude toward gaming. Indeed, a full embrace of gaming — say, by issuing additional licenses — could itself prove to have an adverse impact on gaming's development. Rather, our goal here is to point out the nexus between such policies and the ultimate development of gaming.

Gaming has quickly risen to become Indiana's third largest source of tax revenue[4], behind only the sales and personal income taxes, edging out the corporate income tax. A decade ago, gaming was the fifth largest source[5], and its relative rise has increased Indiana's dependence on maintaining a healthy gaming industry.

Policymakers and industry leaders correctly recognize that — with such a dependence on the health of one industry — they need to understand what steps can be taken to help ensure that continued health.

Spectrum does not recommend specific state policies that should be adopted. Gaming policies have to be considered in light of values and principles that have little or nothing to do with the economics of gaming, and it is not our role to either discuss or suggest changes to such concerns.

Rather, we suggest that whatever policies may or may not be adopted should be weighed in terms of what advances the parallel interests of the industry and the people of Indiana.

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[3] "Gambling in America: an Encyclopedia of History, Issues, and Society," 2001, by William Norman Thompson, p. 195

[4] "State, Cities Win Big with Casino Taxes," by Dan Carden, September 27, 2009, http://www.nwitimes.com/news/local/article_24536aac-37a1-52aa-93ea-71c10b2e8cae.html (accessed October 7, 2009)

[5] "Gambling and the Law: Status of Gambling Laws," by I. Nelson Rose http://www.gamblingandthelaw.com/status.html (accessed October 7, 2009)

The state can indeed provide powerful incentives to help Indiana's gaming industry improve its competitive posture and protect the public interest. However, it should rely to a great extent on the regulatory approval process to help ensure that those incentives are channeled in the proper direction.

Capital investment: potentially powerful tool

A core theme of this report is that the expected impact of competition from outside Indiana can best be addressed through the encouragement of additional capital investment in gaming properties.

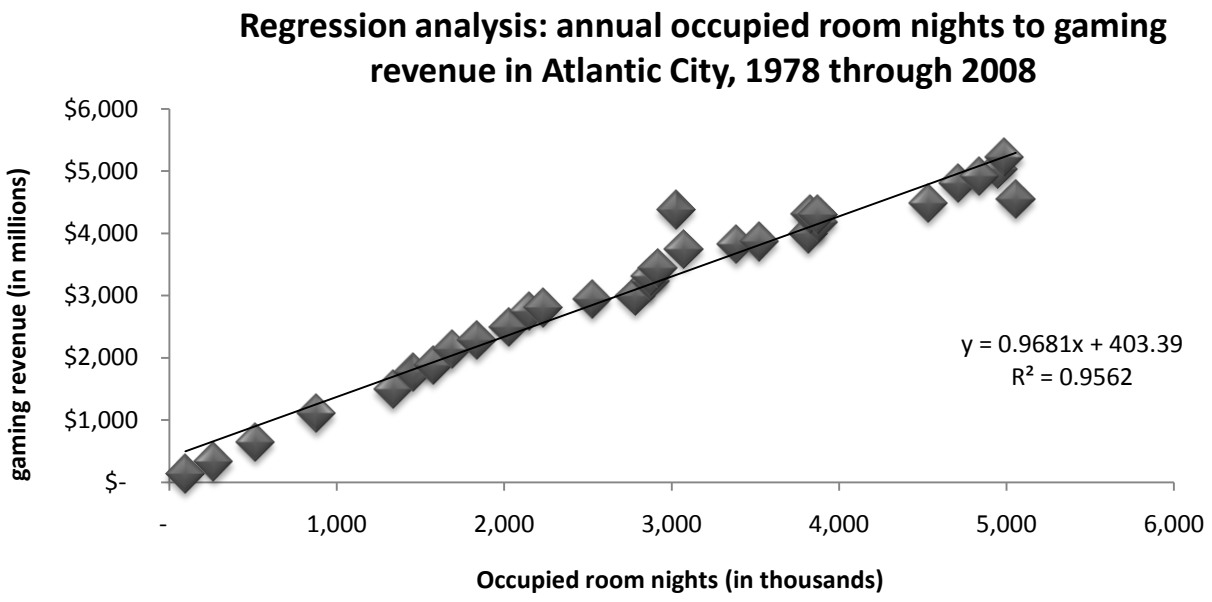
Well-planned capital investment in the gaming industry can advance public policy in different ways:

- It can extend both the demographic and geographic reach of casinos. Gaming properties that are more attractive, with a wider range of amenities, are more likely to reach adults who would be more willing to travel greater distances, visit more frequently and stay longer. Such properties can also prove more attractive to some adults who would otherwise not be likely to visit a casino simply to gamble.
- Capital investment is a proven generator of incremental employment, and it also can attract incremental capital from third parties, such as restaurants or retailers who would have an incentive to invest in the hope of realizing a favorable return on that investment.

Such impacts, when borne out, can then further advance a variety of other policy goals, such as reducing unemployment or helping to create or improve tourist destinations. For example, the addition of hotel rooms can enhance a property's appeal and fuel its marketing program, since hotel room nights can be an attractive incentive for profitable gaming customers.

Atlantic City, a regional destination in the East, offers one example of how capital investment can generate incremental increases in gross gaming revenue.

The following regression analysis demonstrates the close relationship between occupied room nights and gaming revenue in Atlantic City, with each occupied room night adding nearly $1,000 in GGR.



The incremental revenue does not necessarily come from the adults who occupy each hotel room. Rather, we suggest that this illustrates a wider relationship between capital investment and gaming revenue. The addition of hotel rooms further enhances the viability of additional capital projects — from restaurants to retail stores — that could be developed in response to the likelihood of more adults visiting Atlantic City.

Clearly, the prospect of a shift in gaming revenue — either increasing or decreasing — can have a profound effect on decisions made by operators in any market as to whether or not they should pursue additional capital investment.

This has proven true in markets large and small, ranging from Atlantic City to Dover, Del. The latter example is significant because Dover Downs — which operates a racino in that market — made a conscious marketing decision to add hotel rooms to enhance its property in the face of growing competition.

Case study: Dover Downs Hotel & Conference Center

Notably, Dover Downs — one of three racinos in Delaware — is in a relatively rural area that depends largely on adults from Delaware, Maryland and to a lesser extent, Pennsylvania. However, Dover Downs is not the closest racino to either Maryland or Pennsylvania, with competitors that are materially closer to those border states.

The property has responded by building a hotel and conference center, and has enhanced its retail product as well.

In early 2002, Dover Downs opened a 232-room hotel and conference center, along with a combination ballroom/concert hall, a new fine-dining restaurant, pool and spa. The property also added a 425-seat buffet, among other investments. The hotel was the only facility in the Dover area to receive the AAA Four Diamond Award,[6] and has done so for six consecutive years.

As the company reported in its 2005 10-K filing with the Securities and Exchange Commission: "With this facility, we are capitalizing on the need for luxury hotel accommodations in the Dover area and offering a wider range of entertainment options to our patrons, including concerts featuring prominent entertainers, live boxing, gourmet dining, trade shows and conferences. The facility allows us to attract new patrons and lengthen the stay of current patrons. Since opening the Dover Downs Hotel and Conference Center, we have managed its operations ourselves. In 2004, hotel occupancy averaged almost 95 percent."

More recently, Dover Downs opened its sixth expansion, the Colonnade, which includes more gaming positions, retail space, restaurants and a lounge[7].

An estimated 65 to 70 percent of Dover Downs' slot play comes from rated customers in its database, which is an increase of at more than 5 percent since the first year hotel opened.

Loyalty programs at Delaware racinos cannot be as generous as those at Atlantic City properties, due in large measure to the tax differential — Atlantic City casinos pay 8 percent on gross gaming revenue, plus an additional 1.25 percent in reinvestment obligations. Until December 2004, Dover Downs could not offer cash back or free casino play. Now, the Capital Club program offers both, plus free room nights at its hotel, along with some other benefits.

The Capital Club presently has about 150,000 active members, and Dover Downs overall hosts about 3.2 million annual visitor trips[8]. Hotel occupancy remains at about 95 percent, with about 80 percent of its room nights offered as complimentaries to gaming customers[9].

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[6] Dover Downs Gaming & Entertainment, Inc. SEC filings.
[7] Dover Downs 2008 Annual Report
[8] Dover Downs 2008 Annual Report
[9] Interview with Dover Downs CEO Ed Sutor, September 26, 2009

As a result, Dover Downs has proven to be resilient in the face of growing competitive threats. Maryland is emerging as a gaming state, and Pennsylvania continues to expand its gaming industry as well.

The lesson from Dover Downs is that — whether out of necessity or of a desire to grow — capital investment remains one of the few weapons that an operator can wield in response to a changing external environment.

Spectrum has met with management and staff at all of Indiana's casino, and we suggest that the relationship between hotel rooms, along with other attractions, and the generation of incremental gaming revenue has validity.

Many general managers listed various amenities that would help them defend their existing revenue base in the face of expanding competition, and the wish list ranges from new spas to more hotel rooms to more golf courses.

Adding those amenities, however, requires that the potential returns on those investments are sufficiently attractive in order to justify those investments.

Corollary consideration: Dockside vs. Land-based Casinos

When Indiana eliminated cruising requirements and allowed for dockside gaming, it created an inevitable question: Why not allow full land-based gaming, which would allow casinos to invest capital in their facilities in a more effective manner, developing properties that theoretically could be larger, more attractive and more efficient? Put another way, the question is: If the rationale for cruising requirements no longer exists, is there still a rationale for limiting full-scale casino gaming to boats?

Mississippi, in response to the damage wrought to its gaming industry by Hurricane Katrina in 2005, eliminated its requirement that gaming be limited to riverboats, for operators in the Gulf Coast region.

For many operators in Indiana, however, the question is hardly academic, and raises basic questions of fairness: Such operators invested heavily in riverboats, based on a set of rules that existed at the time. If the rules change, and some operators are allowed to build more competitive facilities away from waterways, on sites that are potentially larger and/or offer more convenient access, then the level playing field would no longer be level.

A sense of fairness, along with a sense that the rules are relatively immutable, can be key ingredients in the success of gaming. Their absence, as noted, adds investment risk that, in turn, raises the cost of capital.

Policymakers, then, are faced with a difficult, Hobbesian dilemma: Do they maintain a commitment to fairness, which helps maintain a stable investment climate, or do they change the rules in a way that would potentially encourage more capital investment in profitable, land-based casinos?

Reconciling those seemingly conflicting scenarios requires the identification of incentives that would be available to all participants in the Indiana gaming industry, and that balances these incentives with a concomitant responsibility to invest capital and advance the public interest.

One point worthy of consideration is that policymakers should distinguish between rule changes that encourage capital investment and rule changes that discourage capital investment.

For example, when state law changed to allow dockside gaming, some operators were left with less than optimal investments. Casino Aztar, in one case, had an escalator that leads down from its second floor and points away from the casino entrance. This seeming design flaw, according to interviews with management at that property, can be attributed to the cruising requirements. The area closer to the casino was needed for so-called "cattle calls," in which patrons lined up in anticipation of the next cruise. Repositioning the escalator will require a capital investment that would not have had to be made had the timing been different.

As another example, Grand Victoria in Rising Sun found that the transition to dockside had another downside as well. When cruising requirements were in place, Grand Victoria staggered its boarding times to be 30 minutes behind those of Argosy (now Hollywood) in Lawrenceburg. As a result, Grand Victoria benefited from the overflow of adults who were unable to board Argosy. That benefit was eliminated with the advent of dockside.

Other states offer examples as well. In 1992, New Jersey eliminated a requirement that all Atlantic City casinos must have catwalks above their casino floors. This change was prompted by dramatic improvements in surveillance technology that made catwalks obsolete. Trump Taj

Mahal had opened one year prior to that rule change, and subsequent expansions or new properties have been relatively free to design more open, less-costly casino floors.

Such examples, of course, do not alleviate concerns about changing the competitive landscape. We offer them simply to illustrate differences between rule changes that either encourage or discourage capital investment.

Any consideration of allowing land-based casinos must consider the advantages and disadvantages. The advantages are:

- Properties would be more attractive, efficient and competitive.
- They could potentially draw from a wider area and, thus, generate more gaming revenue than riverboats.
- They would potentially employ more individuals, and generate incremental taxes in other areas ranging from sales to income taxes.

The disadvantages are:

- Some existing operators are locked into sites or acreage that does not allow for the consideration of efficient land-based construction.
- Operators that are able to relocate could find sites with improved access that could materially alter the competitive dynamics.
- Some existing operators have recently invested significant sums in their riverboats, and any change in rules could materially alter the value of those investments.

The most visible example of that latter point is the Hollywood Casino in Lawrenceburg, a $336 million boat that replaced the former Argosy boat at the same site. The Hollywood boat includes a $40 million system that ensures it will remain level and stable despite changing tides and winds.

Clearly, if the rules in place at the time had allowed land-based gaming, the investment would have been different. Changing the rules now could arguably put that property — which now has a competitive advantage, due in many ways to its significant capital investment — at a disadvantage.

With such an example in mind, if policymakers are to consider such a change, we suggest they take the broadest possible view. That means they should endeavor to couple any such change with tax or other incentives to ensure that the investment climate in Indiana does not suffer as a result.

Spectrum cannot envision scenarios or policy changes in which every participant would benefit equally, and some may not benefit at all. We simply point out that inaction by the state — which would then become the de facto policy — creates its own set of consequences.

Tax rates: Critical Role

Spectrum cautions that results demonstrated in the case studies that have been cited are hardly inevitable. Nor would capital investment have the same impact in different markets. Capital-investment decisions should be guided — as they usually are — by detailed analyses of each specific project in each specific location. The potential return on such investments, as well as the potential impacts of such investments, can differ widely.

Another factor that should be taken into account by Indiana policymakers is that, while states may compete against other states for gaming dollars, casino operators often have interests that cross state lines, and many operators can be expected to have operators in other, often competing states. Such a scenario is common, and must be considered in the development of gaming policy.

The gaming industry has evolved in recent years into two types of business models, and this evolution has largely been in response to how states have established their own gaming policies. Spectrum has termed this the "hub-and-spoke" business model. We define the "hub" business model as having the following characteristics:

- A relatively low tax rate.
- A relatively high degree of capital investment.
- A concentration of casinos in one location.
- A relatively broad demographic and geographic reach.

The "spoke" business model, by contrast, is characterized by:

- Relatively high tax rates that discourage significant capital investment.

- A limited number of licensees with a degree of geographic protection and separation.
- A focus on local, convenience-driven, gaming-centric customers.

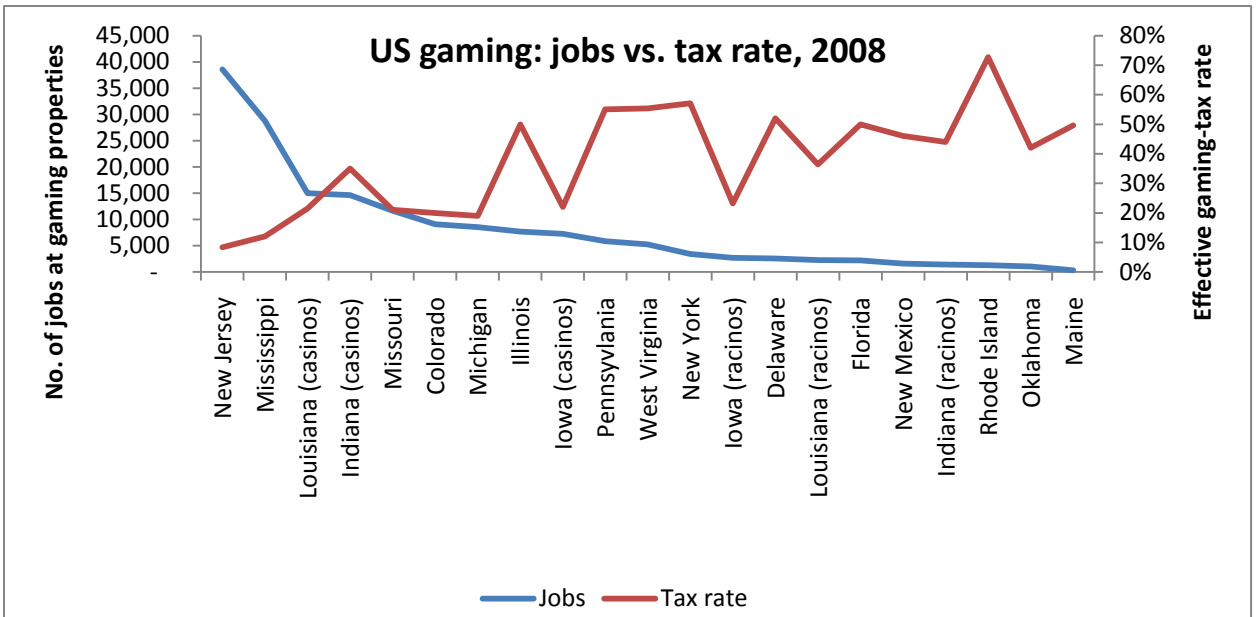
The gaming industry in most states — including those in much of the Midwest — has adopted the "spoke" business model. While it is neither practical nor likely that a "spoke" can be converted into a "hub" or "hybrid hub" (a term that might best characterize the gaming industry in states such as Connecticut or the commercial casinos in Michigan, where licenses are limited, but the tax rates are considered attractive), the benefits or drawbacks of each should be considered.

From the standpoint of the state, the "spoke" model is desirable because it offers a higher tax rate, while the "hub" offers less visible benefits that can offer far more material long-term benefits, including:

- Greater employment opportunities
- Greater protection against external competition
- Broader demographic and geographic reach
- Wider variety of revenue sources

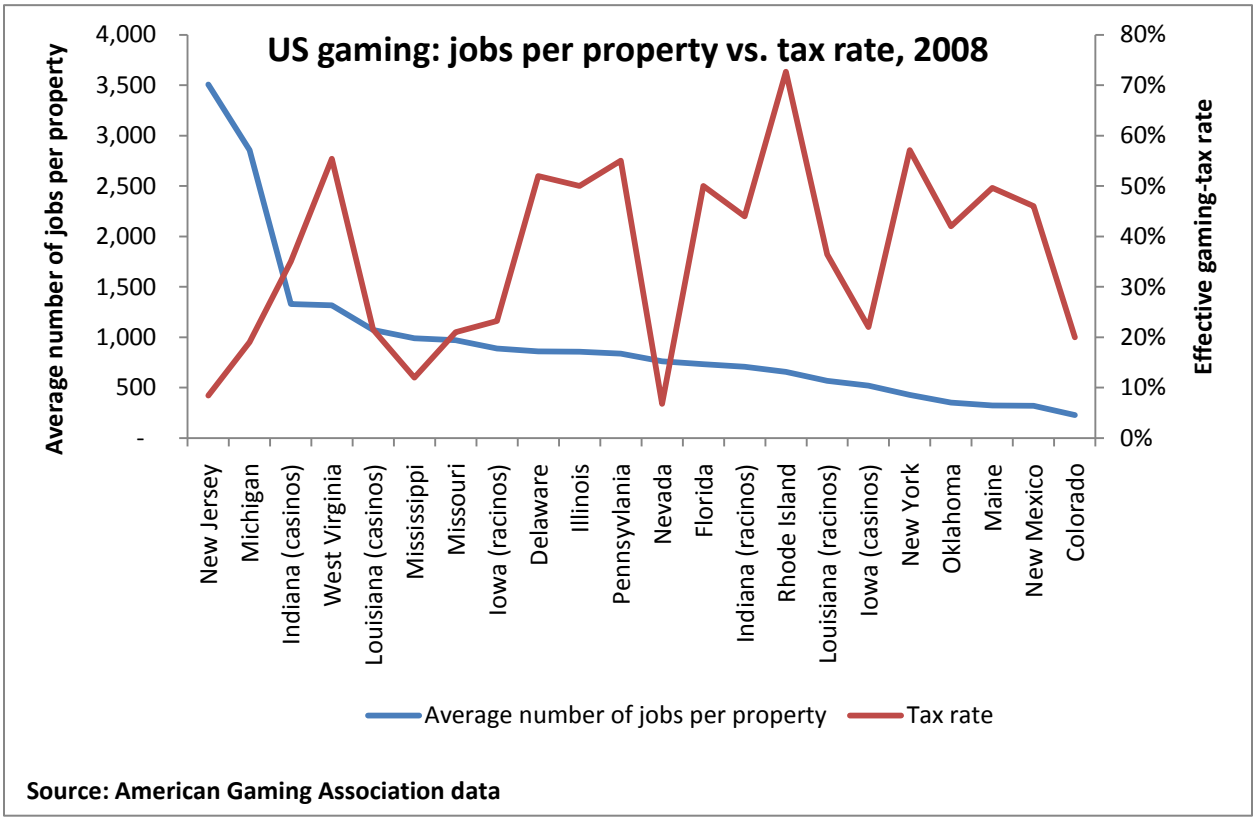
Given the option, operators and public officials should be more inclined to encourage the development of the "hub" model, since it offers such benefits. However, most states elect to pursue the "spoke" model, in large measure — according to our observations over a wide array of states — because higher tax rates are simply more politically palatable.

However, we note that few states consider revenue generation from multiple sources, including the benefits to the public sector from greater employment opportunities. The following charts illustrate the relationship between tax rates and employment. The first chart lists various states with commercial gaming by both the tax rates and the total number of jobs within the gaming industry:



Note: Nevada, with 202,216 jobs and a tax rate of 6.75 percent, is not included
Source: American Gaming Association data

The next chart refines the comparison somewhat by showing the average number of jobs per property:



Source: American Gaming Association data

Note that Nevada, which is not included in the first chart because the number of gaming jobs in the state would simply be out of proportion, has the lowest number of jobs per property. This is reflective of the nature of gaming in Nevada, which has unlimited licenses of various types, ranging from some of the largest casino hotels in the world to some of the smallest non-hotel casino properties.

Intuitively, the relationship between capital investment and employment is clear and comprehensible. Hotel rooms, restaurants and retail space create demands for a variety of service jobs. Less clear but no less significant, however, is the relationship between tax rates and capital investment, which in turn creates a clear nexus between tax rates and employment — as evidenced in these charts.

Capital investment is also essential in delineating the differences between hubs and spokes. Gaming customers cannot reasonably be expected to bypass a relatively convenient spoke property to visit a more distant, less convenient spoke property in the absence of some catalyst.

The catalysts can range from a more desirable promotional package to a more robust loyalty program. In Spectrum's view, however, the most effective catalyst would be a well-capitalized property with multiple attractions.

Changing tax rates: intended and unintended consequences

Tax rates on gross gaming revenue represent the most readily available and effective tool that policymakers can wield in shaping a gaming industry. An increase or decrease in tax rates has an immediate dollar-for-dollar impact on an operator's bottom line, but can also have an immediate, discernible impact on other areas as well, ranging from employment to the cost of capital.

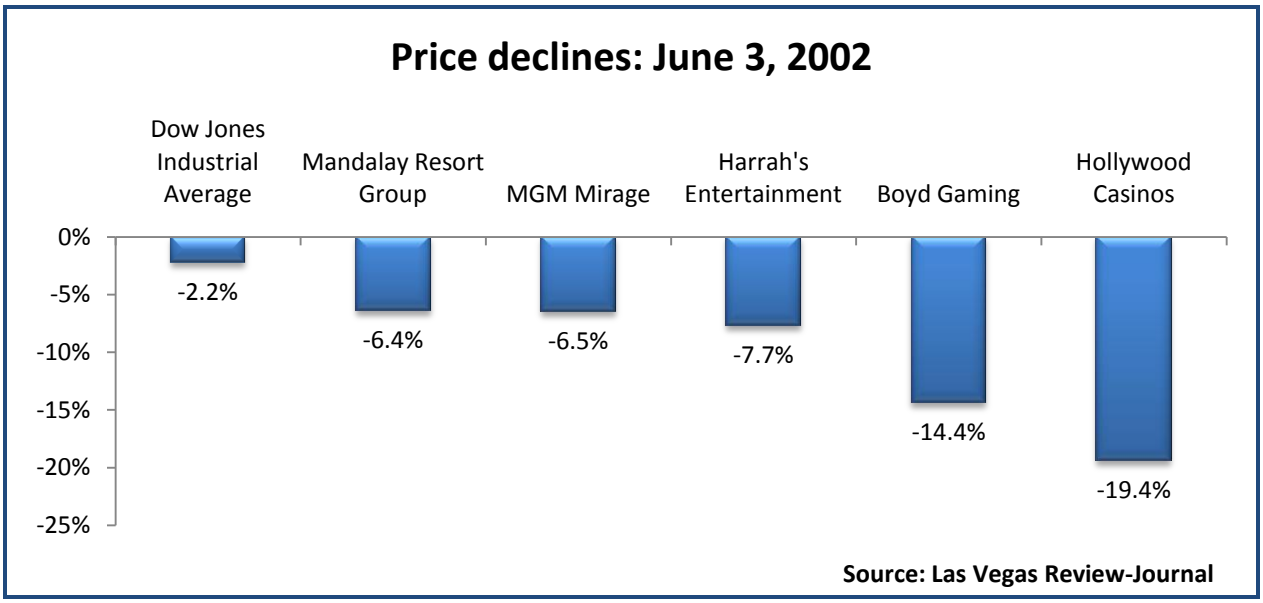
The latter example has been borne out in two additional case studies in which states either implemented or suggested the implementation of tax increases. The two examples demonstrate how capital markets viewed potential changes in tax rates as material impacts on risk, and risk is an essential element in determining the cost of capital.

Illinois case study

Spectrum has regularly cited the example of a 2002 tax increase in neighboring Illinois to demonstrate how the capital markets can react negatively to an unforeseen risk.

In mid-2002, Illinois eliminated a five-step graduated casino tax system with a maximum rate of 35 percent, and replaced it with a seven-tiered system with a maximum rate of 50 percent.[10] The highest rate under the new system was imposed on annual casino revenue that exceeded $100 million. The admission tax was also raised from $2 to $3 per patron.

On Monday, June 3, 2002, when the Illinois Legislature approved the tax increase, the impact on gaming stocks was immediate, as demonstrated in the following chart:



Notably, MGM Mirage had no gaming investment in Illinois, but had submitted a bid of $615 million to acquire a casino license in the Chicago suburb of Rosemont. On that same Monday, MGM Mirage withdrew its bid. "We believe that our development efforts should focus on jurisdictions which offer a stable and reasonable tax environment," MGM Mirage said in a statement that day[11.]

The tax increase created other unintended consequences. Harrah's Entertainment, for example, canceled plans for a $40 million hotel to support its riverboat in Metropolis.[12]

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[10] Illinois Riverboat Gambling Act (230 ILCS 10)
[11] "Gaming Giant Withdraws Offer for Illinois Casino," *Las Vegas Sun*, June 4, 2002
[12] Harrah's Entertainment, conference call with investors, July 17, 2002

Argosy Gaming, then a major casino operator in Illinois and other riverboat states, was also negatively impacted by the tax increase. On June 3, 2002, Argosy issued a statement that, because of the tax increase, "its previously announced 2002 earnings guidance of $3.10 to $3.25 a share would be reduced by up to 22 cents a share in the second half of the year. Free cash flow would be slashed by 24 cents a share from previous estimates of $4.21 to $4.30 a share.[13]"

Like Harrah's Entertainment, Argosy also reconsidered pending capital investments in Illinois. Originally, Argosy planned to spend between $75 million and $80 million on capital improvements to its Empress Joliet property, which it had estimated would generate a return on investment of at least 15 percent.

After the announcement, Argosy significantly scaled back the level of investment in its project to $40 million, a minimal level that was deemed "absolutely necessary" to make the project competitive. With the tax increase, a larger investment could not be justified since it would not generate sufficient returns.[14]

As part of its original study of the Illinois tax increase, Spectrum interviewed investment professionals at CIBC World Markets (now Oppenheimer & Co.), which produced a detailed analysis of the tax increase in Illinois that concluded that the increase actually cost the state tax revenue because riverboat operators had no incentive to invest additional capital in their facilities or target new markets because the highly graduated system eliminated any incentives to do so.[15]

New Jersey case study

New Jersey became the first state outside of Nevada to legalize casino gambling when voters approved a 1976 constitutional referendum that limited casinos to Atlantic City. Spectrum professionals have been studying, observing and (as regulators) participating in that market since 1978. In our experience, the constitutional protection that limits casinos to Atlantic City has been an important factor in promoting investor confidence in that market, i.e., investors know that the rules are fixed, which provides some level of assurance that new, unanticipated in-state competition will not threaten Atlantic City investments.

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[13] "Argosy Gaming Lowers Guidance Due to Illinois Tax Hike," www.thestreet.com, June 4, 2002
[14] Interview with Michael Liebman, CIBC World Markets, March 4, 2003
[15] CIBC World Markets, data sheet prepared March 4, 2003

At the same time, the tax rate on gross gaming revenue — set by statute, and not by the 1976 constitutional amendment — has remained unchanged since 1978.[16] While there have been some additional obligations imposed on casinos over the years, including a 1.25 percent reinvestment obligation that began in 1984 and subsequent parking and other fees, these were largely viewed by investors as immaterial. For example, the reinvestment obligation allows casinos to realize a return on such reinvestments, albeit a below-market return. Additionally, the obligation simply restated the terms of a more generic reinvestment obligation that was already in the Casino Control Act. Similarly, subsequent additional fees — such as a parking tax — were passed on to customers, and thus would arguably not be viewed as tax increases on casinos.

History, however, suggests that material changes in the core gaming tax would be perceived as a significant risk factor that would impact the cost of capital.

On February 4, 2003, various media covering New Jersey reported that then New Jersey Governor James E. McGreevey was considering a 2 percent increase in casino revenue taxes, as well as other potential tax hikes, such as a tax on complimentaries, as part of a broad-based effort to address a $5 billion shortfall in the state budget.[17] On that same day — Tuesday, February 4, 2003 — the market value of public casino companies with assets in Atlantic City declined by more than $500 million collectively. The next day, the stocks lost another $290 million in value.[18]

The New York Times reported: "When Mr. McGreevey originally proposed $135 million in tax increases on casinos in his budget plan early this year, the financial and political fallout was swift and severe. The stock market value of resort companies operating in Atlantic City fell by more than half a billion dollars the first day and Bally's postponed a major construction project.[19]"

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[16] The tax rate in the original 1977 Casino Control Act, 5:12-144, was set at 8 percent. The state Legislature temporarily raised the 8 percent tax on casino revenue to 12 percent in early 1979. The legislation allowed for a reduction in that rate as more casinos opened. The rate declined to 10 percent in 1980, and to 8 percent in 1981 after the city's fifth casino hotel opened. The rate has remained unchanged since then.

[17] Laura Manserus, "McGreevey Offers a Budget With No New Taxes but Much Austerity," *New York Times*, February 4, 2003

[18] "Examining impacts on Atlantic City of proposed tax increases, VLT competition," Spectrum Gaming Group, April 2003

[19] David Kocieniewski, "In a Tax Battle, McGreevey Criticizes Casino Executives," New York Times, June 12, 2003

Around the same time, McGreevey signed an executive order creating a commission to study the possibility of allowing VLTs at the Meadowlands Racetrack.[20] On February 26, 2003, *The Press of Atlantic City* reported that a variety of events created certain risks that affected the ability of Trump Entertainment Resorts to obtain debt financing:

> "Donald Trump was supposed to have alleviated a $475 million headache by now.
>
> "Instead, a series of events and conditions beyond Trump's control have complicated his gaming company's ability to sell bonds critical to the future of Trump Marina Hotel Casino.
>
> "First came Gov. James E. McGreevey's Feb. 3 bombshell that he wants to raise the casino-revenue tax, tax casino complimentaries, create a hotel-revenue tax and consider putting slot machines in northern New Jersey racetracks.
>
> "Potential Trump Marina bond investors now also have to consider the impact of rising gasoline prices, declining stock prices, war looming in Iraq, a possible smoking ban in casinos, and the opening of Borgata Hotel Casino & Spa perhaps less than four months from now[21].
>
> "'It's going to be tough,' said Jane Pedreira, Lehman Brothers high-yield gaming analyst. 'Most people don't like to buy during periods of uncertainty. My sense is the whole thing is going to be halted."
>
> "Trump Hotels & Casino Resorts had planned to complete the $475 million bond sale "within a few days" of Jan. 31, a company executive testified last month. Exactly where the deal stands today is unclear."[22]

It should be noted that, to date, neither the tax increase nor the prospect of in-state VLTs at tracks has come to pass in New Jersey. The case, however, illustrates that capital markets can react immediately and powerfully when new risk factors emerge.

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[20] "New Jersey panel to study VLT feasibility," *Thoroughbred Times*, February 10, 2003
[21] Borgata opened in July 2003 as the first new casino hotel in Atlantic City to open in 13 years.
[22] Joe Weinert, "$475m. Question Still Lingers: Can Trump Refinance? / Bonds Are Becoming An Even Tougher Sell," *Press of Atlantic City,* February 26, 2003, p. B6

Lessons to be learned

Illinois and New Jersey offer graphic examples of how changes in tax rates can signal increased risk, which adds to the cost of capital. They are not the only examples, however, of how operators consider tax rates when capital investment decisions.

Tax rates were increased in Delaware on May 28, 2009. The effective rate (fees to vendors, racing interests and others included) went from about 54 percent to more than 60 percent.

Dover Downs, which as noted earlier has managed to compete in large measure by adding a hotel, conference center and other amenities, had to shelve a planned $40 million parking garage, which would have ultimately accommodated up to 3,000 cars, because the numbers no longer worked, once the tax increase went into effect[23].

The parking garage — an important competitive weapon, particularly when catering to older customers who don't like the greater distances between car and casino that must be traversed by surface parking — no longer made sense. That is a very telling example that, when coupled with the previous case studies, illustrates how tax increases can impact planned capital projects in two ways:

- Tax increases represent a material shift in the investment climate, which capital markets interpret as a sign of increased risk. This, in turn, requires that investors get greater returns on their investment to compensate for that risk, which translates into a higher cost of capital.
- Tax increases adversely affect the profitability of an operation, which means that the potential returns on an investment will decline. Such declines could mean that investments no longer make sense, and will not be made.

Closer to home, examples can be found as well. For example, management at Indiana Live!, one of two racinos in the state, has indicated that it would benefit from the addition of a hotel, conference center and possibly a live entertainment venue. The property was designed in anticipation of a hotel, and has set aside an area that would accommodate a front desk and other hotel assets.

[23] *Gaming Industry Observer*, vol. 14, no. 12, p. 8

At this writing, however, the property is struggling under a debt burden that requires it to channel as much of its cash flow as possible toward servicing its debt. Capital investment in other assets — despite the potential for an attractive return on that invested capital — has to wait.

That offers another important lesson for Indiana policymakers. Indiana Live!'s inability to fund an otherwise profitable expansion means that the state is losing potential revenue that could be generated from such an expansion — a particularly acute concern as the likelihood of increased competition grows.

Spectrum, however, suggests that the reversal of these scenarios — the potential for tax rates moving in a more favorable direction — offers the possibility of an enhanced investment climate, which could translate into reduced risk and a lower cost of capital.

Disinvestment: undesirable alternative

Examples from other states are particularly important, in part because they demonstrate the potential relationship between capital investment and public policy. However, they also need to be heeded because capital investment is an easily transferable, fungible commodity. Capital can be invested easily in other states — or other industries — if there is a perceived material difference in the potential risk and the potential return.

Gaming communities can experience significant benefits when capital is invested in their communities. However, they can suffer significant pain as well, when the perception of risk and reward turns, and they are no longer viewed as attractive investment opportunities.

"Disinvestment" is a term that characterizes the process when the views of operators and investors turn sour on a community's potential. Disinvestment equates to a lack of economic confidence. It is a belief by investors and owners that an existing investment may have a bright past, but a dismal future. These investors and owners will take profits out of an investment that might have been profitable for years, if not decades, and not put that money back in.

Disinvestment can be insidious because it feeds on itself, becoming a self-fulfilling prophecy. Spectrum suggests that the potential for disinvestment in Indiana's gaming industry is real, and the likelihood would increase in the absence of any state policy designed to attract capital investment.

Considering tax incentives

In Spectrum's judgment, the casino industry and the state of Indiana should work in a collaborative effort and combine their resources to maximize the potential of the casino industry in the state to their mutual benefit. It is undeniable that a healthy, prospering casino industry is an invaluable economic tool for the state, particularly in these trying economic times. Accordingly, from a policy perspective, it behooves the lawmakers to consider measures that could enhance the industry's growth and foster employment opportunities without impacting on integrity issues.

From our vantage point, it is readily apparent that there are opportunities to protect the casino industry in Indiana. One critical component involves the ability of current casino operators to expand and improve their facilities through the addition of hotel and meeting rooms, as well as customer-friendly amenities such as entertainment venues, restaurants, golf courses and health spas. Casino operators may be reluctant to make such investments during this period of economic turmoil, and the likelihood of increased competition. They may need added inducements to invest needed capital to improve their venues.

To provide such incentives, the Indiana Legislature may consider the efficacy of allowing for tax reductions on casino revenues or tax credits in proportion to investments made during a calendar year for capital expenditures. The Indiana Gaming Commission could be entrusted with the statutory authority to approve the expenditures and verify the amount, determining the eligibility of such investments for the purpose of allowing the tax incentives. Depending on the amount expended, the tax rate could be adjusted accordingly.

Tax incentives — a tool that is readily available and has the potential to be effective — could take one of two forms:

- Reducing the gaming tax rate, or at least the incremental tax rate
- Offering other tax incentives to developers, such as reductions in sales taxes

In either case, however, incentives can only serve the public interest if:

- They ultimately grow gaming and non-gaming revenues in Indiana.
- They encourage capital investment in Indiana.

- They are used to encourage investment and employment growth in Indiana, and are not used to subsidize investment in other states or regions.

Many gaming states, when faced with an external challenge to the status quo, tend to react in one of two ways:

- They consider expanding their revenue reach, by either approving new licenses, adding new forms of gaming or increasing taxes.
- They follow the political adage of "circling the wagons" to protect their existing operations.

In Spectrum's experience, states that follow the first approach appear to overlook one important consequence: Such actions, as noted earlier, will alter the investment climate and add risk. This, in turn, diminishes potential profitability for the gaming industry and reduces opportunities for incremental capital investment.

Those states that follow the second approach have tried approaches that range from regulatory relief (which could take various forms) to, in rare cases, offering tax incentives.

New Jersey offers some experience in both categories. Atlantic City's monopoly on East Coast gaming ended in the 1990s with the establishment of Indian casinos in Connecticut and racinos in Delaware. New Jersey's response included a broad assortment of legislative and regulatory changes, starting in 1990, that have encompassed everything from removing limits on the number of licenses that one operator can hold to expanding gaming hours and removing a variety of roadblocks.[24]

In the beginning of this decade, New Jersey took additional steps to create incentives that were largely designed to broaden Atlantic City's appeal by encouraging the construction of non-gaming attractions.

The most telling sign of political and legislative relief is the legislation, known as the Gormley-James bill, which encouraged non-gaming development through tax incentives. The preamble to the legislation, introduced in February 2001 states:

> "The Legislature finds and declares that:

[24] "Years of Change: 1990-1994," New Jersey Casino Control Commission

"Legalized casino gambling was approved by New Jersey's voters in 1976 as a "unique tool of urban redevelopment" to facilitate the revitalization of Atlantic City and other distressed municipalities throughout the State;

"The Legislature created the Casino Reinvestment Development Authority (the "CRDA") to oversee the investment of casino gambling revenues for development projects in Atlantic City and other areas throughout the State;

"During the past 25 years, the development of Atlantic City's multi-billion dollar casino industry and the CRDA's investment of hundreds of millions of dollars in housing, commercial and nonprofit projects have greatly benefited the people of New Jersey and have served as a model for many other states and countries that wished to emulate Atlantic City's successful record of casino development and economic growth;

"It is altogether fitting and proper on the occasion of the 25th year of legalized casino gaming in Atlantic City to establish a new program to facilitate the next phase of Atlantic City's development into a regional, national and international "destination resort" and at the same time, to insure that substantial commitments are made to projects to revitalize urban areas and promote continued economic growth throughout the State.[25]"

The Gormley-James legislation[26] created up to 11 "entertainment/retail districts" in Atlantic City. Qualifying projects:

- Are exempt from construction sales tax
- Receive a rebate on sales taxes, up to $2.5 million per year for 20 years
- Receive a rebate on incremental unique local entertainment taxes generated for 20 years

The incentives have encouraged several major expansion projects in Atlantic City. The following table lists the approved projects under this program:

[25] New Jersey Senate Bill S-2173, introduced February 26, 2001
[26] The principal sponsors were former New Jersey state Senators Sharpe James, D-Essex, and William Gormley, R-Atlantic.

PROJECT	RETAIL (sq. ft)	HOTEL Rooms	PARKING Spaces	COST ($millions)	JOBS (permanent)	START Date	END Date
Tropicana	179,000	500	2,400	$230	2,000	1/02	11/04
Caesars	415,000	0	3,000	$215	1,190	9/03	6/06
Resorts	168,000	1,159	1,500	$108	514	3/02	n/a*
A.C. Outlet Shops	670,000	0	1,600	$205	1,348	5/02	7/04
Borgata	179,000	800	1,400	$563	1,725	3/05	6/08
Harrah's/Showboat	257,646	1,360	3,697	$688	1,088	5/02	5/08
Trump Plaza	504,000	4,612	9,850	$1,542	2,662	n/a	n/a*
Revel	420,000	1,822	7,793	$2,300	5,457	11/07	10/10*
TOTALS	2,792,646	10,253	31,240	$5,743	20,307		

*Source: New Jersey Casino Reinvestment Development Authority / * - Project not yet started*

The success of such legislation extends beyond its ability to attract capital investment by reducing the risk in such investments. The non-gaming investment that was fueled by this legislation has quietly but materially expanded the Atlantic City market.

Retail is proving to be an important secondary driver of visitation to the market. By that, we suggest that most people still visit Atlantic City to gamble, but the retail, dining and entertainment options that have been developed are proving to be vital in improving the quality of the visitor experience and extending the length of stay.

The Atlantic City Outlets/The Walk, developed by the Cordish Companies, is 100 percent leased and occupied in its first two phases, and the third phase is 100 percent committed. "There aren't any more outlets left. Tenant demand is overwhelming," company Chairman David Cordish said in an interview last year.[27] Sales per square foot at The Walk are well over $500, Cordish said. Leatherware company Coach, which was doing "way north" of $1,000 per square foot, tripled its square footage in phase two, and other tenants are likewise expanding their footprint, he said.

Atlantic City retail has grown, and continues to grow, more upscale, in essence mimicking, although lagging, the trend in Las Vegas. The catalyst for this trend in Atlantic City was the November 2004 opening of The Quarter at Tropicana. The 200,000-square-foot retail, dining and entertainment complex ("RDE") includes both mid-market and high-end retailers such as Brooks Brothers and Swarovski. The Pier Shops at Caesars continued this trend, attracting retailers such as Apple, Armani, Bebe, Louis Vuitton, Movado and Tiffany.

[27] *Gaming Industry Observer*, March 24, 2008

High-end casino retail has proven successful. Borgata in its first year reported retail revenue of $1,400 per square foot. One RDE at an Atlantic City casino reported to us sales per square foot of $890. The Pier at Caesars had revenue per square foot of approximately $550 in 2007.

In the recent Visitor Profile Study that Spectrum conducted for the Atlantic City Convention & Visitors Authority, the shopping experience ranked 3.12 on a satisfaction scale of 1-5, while the dining and restaurant experience scored 3.89.[28]

Case Study: The Quarter

Consider The Quarter, which includes new retail, dining, entertainment and other offerings, which opened November 2004 at Tropicana Casino Resort in Atlantic City. At the time of the investment, the present value of the rebates that the Tropicana was eligible for under Gormley-James has been estimated to be $60 million[29].

In examining The Quarter at the Tropicana, we focused on the second quarter of 2004 and compared it to 2005, rather than the third quarter to minimize the potentially distorting effect of construction disruptions, which would have been more pronounced in the third quarter.

Tropicana Analysis ($ in thousands)			
Capacity change	**2nd quarter 2004**	**2nd quarter 2005**	**Period-to-period change**
Total casino square footage, end of quarter	144,779	149,291	3.1%
No. of slots, end of quarter	4,372	4,304	-1.6%
No. of tables end of quarter	171	193	12.9%
No. of hotel rooms	1,624	2,129	31.1%
Changes in key metrics	**2nd quarter 2004**	**2nd quarter 2005**	**Period-to-period change**
Casino revenue	$ 88,651	$ 108,617	22.5%
Cash hotel revenue	$ 6,755	$ 9,607	42.2%
Gross operating profit	$ 21,820	$ 31,843	45.9%
Win per square foot (not in thousands)	$ 614	$ 744	21.2%
Daily win per unit (slots)	$ 162	$ 194	19.8%
Est. average monthly win per FTE	$ 7,356	$ 7,471	1.6%

*The Quarter includes 200,000 square feet of retail space, 502 additional hotel rooms, a 2,400-space parking garage; and 20,000 square feet of meeting and convention space.

[28] Atlantic City Visitor Profile Study, September 2008, Spectrum Gaming Group
[29] Aztar Corp., form:10-Q Filing Date:11/2/2004

Note also that the Tropicana had significant excess gaming capacity prior to its expansion, largely in anticipation of The Quarter, which had been in various stages of planning for years prior to its November 2004 opening.

More dramatic, however, than the 45.9 percent increase in gross operating profit was the increase in visitation to the Tropicana. Spectrum, which tracks visitation to Atlantic City properties through its *Gaming Industry Observer* newsletter, estimates that visitation to the Tropicana from the second quarter of 2004 to the second quarter of 2005 grew by 54 percent.

Lessons to be learned

We do not suggest — nor should anyone reasonably expect — that such results are easily transferable to Indiana. Rather, we suggest that Indiana lawmakers should consider and measure the impact of potential any incentives based on some broad parameters that could include:

- Will incentives cannibalize or grow existing tax revenues?
- Will incentives lead to additional capital investment in Indiana?
- Would such incentives protect — and perhaps expand — gaming revenues in Indiana?
- Would such incentives increase employment, promote tourism or advance other policy goals?

Wherever possible and practical, the burden should be on participating casino operators to demonstrate that incentives would create employment in their region, make them more competitive — and ultimately ensure their success in an increasingly competitive environment.

Case Study: New Jersey Economic Stimulus Act of 2009[30]

The New Jersey Economic Stimulus Act of 2009 (A-4048) was signed into law on July 27, 2009 by Gov. Jon Corzine[31]. This recent piece of legislation provides for a new tax increment grant/financing program to be known as the Economic Redevelopment and Growth Grant ("ERGG") program.

[30] This section was written and researched primarily by James Kennedy, former Executive Director of the New Jersey Casino Reinvestment Development Authority
[31] "New Jersey League of Municipalities press release July 28, 2009

The law is broad-based and, while it includes casinos (confined to the city of Atlantic City) it encompasses a wide variety of potential projects throughout the state. Indeed, while casinos potentially benefit, the law was designed in some degree to mirror the more attractive aspects of the Gormley-James legislation cited earlier.

Attorney Jack Plackter of the Fox Rothschild law firm wrote: "This Act is a tremendous incentive to developers in the targeted areas and is similar to laws we have used to help finance major casino expansions in New Jersey."[32]

Under the Act, a casino or other economic development project is eligible for a state ERGG to close a project gap that remains to be financed after all other sources have been accounted for, including, but not limited to, developer contributed capital, which shall not be less than 20% of the total project cost. (The cost of the casino floor and directly related back-of-house space cannot be included).

According to Fox Rothschild, the following criteria would be used to determine the eligibility of a particular project[33]:

- "The economic feasibility of the redevelopment project;
- "The extent of economic and related social distress in the municipality and the area to be affected by the redevelopment project;
- "The degree to which the project will advance state, regional and local development and planning strategies;
- "The likelihood that the project will generate new tax revenue in an amount in excess of what is necessary to reimburse the developer for project costs incurred as provided in the redevelopment incentive grant agreement;
- "The relationship of the redevelopment project to a comprehensive local development strategy, including other major projects undertaken within the municipality;
- "The need for the redevelopment incentive grant agreement to the viability of the project; and

[32] http://njrealestatepropertylawanddevelopment.foxrothschild.com/2009/07/articles/land-use-development/economic-stimulus-act-of-2009/ (accessed October 9, 2009)
[33] http://www.foxrothschild.com/Newsstand/News.aspx?id=10546 (accessed October 9, 2009)

- "The degree to which the redevelopment project enhances and promotes job creation and economic development."

The law allows up to 75 percent of the casino projects' projected annual incremental revenues (primarily sales and luxury tax) to be pledged toward the state portion of an incentive grant. The increment is calculated as being the difference between the amounts collected in any fiscal year from any eligible revenue source included in the redevelopment incentive grant agreement, minus the revenue increment base for that eligible revenue. For a new project, the incremental revenue base is set at zero.

The decision whether or not to enter into a redevelopment incentive grant agreement is solely within the discretion of the New Jersey Economic Development Authority and the State Treasurer.

The governing body of a municipality that includes a qualifying ERGG grant incentive area is empowered to adopt an ordinance to establish a local ERGG program to encourage redevelopment projects in that area by providing incentive grants to reimburse developers for certain project financing gap costs.

As much as 75 percent of the incremental local revenues could be pledged toward the municipal portion of an incentive grant. The increment is calculated as being the difference between the amounts collected in any fiscal year from any eligible revenue source included in the redevelopment incentive grant agreement, less the revenue increment base for that eligible revenue.

This means a casino's property tax could be pledged as a contribution, along with state tax revenue to close a project's 20 percent funding gap. Practical political realities, however, mean that such an option is not likely to be exercised. However, a municipality may also commit up to 75 percent of the incremental local revenues to municipal infrastructure that would support the casino project. The use of public dollars to provide for roads, green space and other public amenities' such as Boardwalk and beach pavilions are permitted.

Lessons to be learned

The Economic Stimulus Act, while not limited to casinos, joins other legislation, such as the Gormley-James Act, to provide a powerful incentive. A casino project can leverage the

combined statutory incentives to fund 20 percent or more of a casino project's development cost that is not directly related to gaming, and can provide for a dedicated revenue source for supporting municipal infrastructure.

The two laws have a similar rationale — leveraging future government revenues to assist private developers by reducing risk and providing financing — and, from the standpoint of the casino industry, can have a similar effect: Helping casinos evolve into regional destinations.

The stimulus legislation, however, is not risk-free. The *Philadelphia Inquirer* noted in a recent editorial titled "Risky Incentives"[34]:

> "New Jersey has had little success with an economic development tool known as tax-increment financing that it began using in 2002, but its new, "improved" TIF program raises some scary possibilities.
>
> "Unfortunately, the Economic Redevelopment and Growth Grant program was signed into law last week. Only introduced in the Legislature in June, it was put on a track so fast its detractors could barely lay a glove on it.
>
> "That shouldn't happen in a state that got its reputation for corruption the old-fashioned way: It earned it. Some of those crimes involved kickbacks and schemes tied to economic development.
>
> "The new, more lucrative TIF program will be tempting to any who might try to offer an, ahem, incentive to public officials involved in handing out tax breaks. That may never happen, but the ERGG program has other problems that will be hard to avoid.
>
> "The state's old TIF, the Revenue Allocation District program, allowed up to nine local sources of revenue to be diverted and used to help developers complete a project. ERGG increases the revenue sources to 22 state and local taxes and fees, including the corporation business tax, the sales and use tax, and the property tax.
>
> "No other TIF in the nation taps as many sources of revenue to provide incentives to developers. And it is risky for New Jersey to do that, even in its understandable zeal to counter the recession. In fact, the recession makes this move even riskier.

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[34] "Risky Incentives," *Philadelphia Inquirer*, August 5, 2009 http://www.philly.com/inquirer/opinion/20090805_Editorial__Risky_incentives.html (accessed October 9, 2009)

"The ERGG program allows the state and local governments to divert up to 75 percent of the revenues generated by a mall, office building, residences, etc., and use those funds to issue grants to developers that can total up to 20 percent of the project's cost.

"As New Jersey Policy Perspective analyst Sarah Stecker said, 'With falling tax revenues forcing state and local governments to make deep cuts to public services and furlough employees, New Jersey and its municipalities can ill-afford to funnel needed tax revenue to private developers.'

"New development usually requires additional public services, including police and fire protection and sanitation, as well as public schools, if new houses are what's built. Will only 25 percent of revenue generated by a new development after it gets its ERGG grant be enough to pay those costs?

"As this program goes forward, state and local officials who will decide which developers get ERGG grants must avoid the Legislature's haste as they assess the impact of each request. Keep the process transparent, and don't hand out money to projects that should stand on their own."

The next section of this report will analyze various scenarios to better understand the relationship between tax incentives, capital investment and revenue growth.

Adjusting tax rates

Public officials in Indiana have a clear, defensible goal in any discussion of gaming tax policy: They want to ensure that any adjustment of tax rates does not result in a reduction of revenue from what it would have been otherwise.

With that in mind, policymakers have a number of options that could be considered, including:

- Marginal tax rates can be adjusted to encourage capital investment.
- Operators could receive other incentives, such as a five-year, 10-year or other limited period of reduced taxes in order to reduce the cost of such investments.

As an example, a hypothetical $1 billion capital expenditure may result in a reduced tax rate of a certain percentage, while an expenditure of $500 million may result in a reduction of a

lesser percentage. Alternatively, the tax rate deduction could be established as a flat rate dependent on reaching a specified threshold. As we note in this report, the New York Legislature recently enacted a law that allows for significant tax rate reductions upon the infusion of $600 million of capital into the casino facility. In this context, the Indiana Legislature may decide that this is a positive approach worthy of consideration.

Spectrum, based on its work in a number of domestic gaming markets, fully understands that political concerns are often paramount in any discussion of tax rates, and most states — with few exceptions over the last three decades — have tended to impose higher and higher tax rates. From the standpoint of a reasonable political stance, that makes sense. Spectrum points out, however, that the same would not necessarily hold true from an economic standpoint.

This could be particularly true in states, such as Indiana, that offer graduated tax rates. The apparent assumption is that greater revenue should be taxed at a greater rate. The rationale for that would vary from state to state, and perhaps from legislator to legislator, but would be largely tied to the view that such a tiered structure would be akin to a "windfall profits tax" that would be imposed, say, on the oil industry.

However, we suggest that such a rationale may be inappropriate and potentially counter-productive. The traditional gaming business model does strive to maximize revenue as a means of maximizing profit at an even greater rate. Since so much of gaming's costs are fixed, incremental revenue tends to increase profit margins, when all else is equal. However, graduated tax rates mean that all else is *not* equal. As a result, management of a property in which revenue is approaching a higher rate might make management decisions that keep that marginal rate in mind. For example, decisions as to whether to add gaming positions or not could be impacted, as could decisions as to whether or not to add tables or slots, or to shift the position mix. Tables, by definition, are more labor intensive and, thus, operate at lower profit margins than slots.

This leads to the question as to whether lawmakers have the ability to offer incentives for operators to aggressively pursue that incremental revenue. One possible incentive would be to offer incremental tax rates that are lower — not higher — than existing tax rates.

Lower tax rates would alter the calculus in which certain management decisions are made. If operators understand that incremental revenue would be more profitable, it could mean:

- A more aggressive pursuit of table revenue, which would encourage more employment.
- An enhanced ability to spend marketing dollars in pursuit of that incremental revenue, since the lower rates offer more flexibility to spend money that might not otherwise be available.
- An increased likelihood of additional capital investment, since the incremental revenue would generate higher margins.

From a public-policy standpoint, lawmakers and others should consider certain guidelines:

- The incremental revenue to be generated and taxed at a lower rate should not come at the expense of existing revenue levels, i.e., the state's share should not be lower than it otherwise would be.
- The incremental revenue to be generated should inure to the benefit of Indiana.

The state would certainly have the authority, for example, to require that operators who seek to reach a lower-tax threshold develop a plan as to how they intend to invest in their properties, or otherwise advance public policy in Indiana.

If lawmakers in Indiana were to consider adjusting marginal tax rates, we respectfully suggest that they not necessarily adhere to the existing graduated scale of break points in revenue. The entire scale should be examined in an effort to identify an optimal, alternative scale.

Any consideration of changes in marginal tax rates cannot be separated from a discussion of changes in the overall tax structure, since properties that are less likely to cross revised thresholds might object to such changes in marginal tax rates as being unfair and anti-competitive.

The state has limited ability to address those concerns. It can maintain the status quo, which would likely ensure a bleak future for many of the existing operators. Or it can adjust overall tax rates at lower levels as well. That approach, however, would require — in our view – – a concomitant responsibility by participating operators to put forth plans on how they intend to

invest in their properties — either directly or through third-party participants, such as retailers or restaurant operators.

Additionally, the state could require that operators seeking any relief in tax rates put forth credible plans on how they intend to advance other state policies as well, most notably by promoting tourism and employment.

Indiana faces a number of tax options that could, in theory, make its gaming industry more profitable, which would in turn make it more competitive. These include allowing the deductibility of promotional play from gross revenue, which would encourage casinos to reinvest more dollars in generating repeat business from its existing customers.

Spectrum recognizes that consideration of a more competitive tax structure might, from a political standpoint, be anathema. Still, we suggest that it is worth considering since the status quo will clearly change regardless of what actions are taken — or not taken — by legislators or regulators.

Admissions tax and capital investment

Any consideration of adjusting tax policy to encourage additional capital investment must consider the admissions tax, and must include the asking of hard questions as to whether that particular levy has been rendered obsolete and potentially counter-productive in a more intensely competitive environment.

Unlike other relatively small levies such as, say, hotel room taxes or sales taxes, gaming operators — for competitive reasons and in the interest of customer convenience — do not pass on the admissions tax. The tax is assessed on the operators, who pay it.

The admissions tax not only creates administrative costs for operators who must monitor attendance, track admissions and pay the fee, but it also has created some unintended consequences that have particular resonance when considering additional capital investment.

Consider a scenario in which a hotel guest travels between the hotel and casino three times during the course of a single day, generating a $3 admissions fee each time. If the hotel guest spends$90 in the casino, he or she would generate approximately $30 in gaming taxes plus $9 in admission fees. From the operator's standpoint, that hotel guest is now worth barely $50, a difficult revenue level from which to generate a reasonable profit.

Capital projects that might generate even more foot traffic, such as a lifestyle center — complete with retail, dining and entertainment — could prove to be very costly to the operator.

Using the example of The Quarter in Atlantic City, the number of cars parked at the Tropicana increased by about 64 percent between 2003 (the last full calendar year before The Quarter opened) and 2005 (the first full calendar year with The Quarter open). During that same period, however, gaming revenue only increased by 19 percent[35].

If the Tropicana had to pay $3 per adult visitor to The Quarter, the incremental cost of the increased visitation would have been approximately $3.6 million[36] in 2005, a number that would have stayed relatively fixed in subsequent years. That annual cost would have materially reduced the one-time $60 million benefit supplied by the tax incentives.

The lesson is clear: If Indiana lawmakers elect to analyze their gaming taxation system to develop a system that encourages capital investment, they should not do so in isolation, but would be advised to look at all relevant taxes to ensure that they are not at cross-purposes.

Tourism Development

Gaming and tourism can be highly complementary, in some cases, and this would be particularly meaningful when considering the relationship between capital investment and gaming.

Spectrum believes that capital investment in a variety of attractions would improve the appeal of a gaming property, and at the same time, this potentially wider appeal would improve the potential return on investment for such attractions.

Additionally, a complementary relationship between gaming and tourism would translate into more employment and advance other public policies as well. The issue of tourism has particular resonance in Indiana because so many of the casinos are positioned near state lines, with easy access to more out-of-state visitors. Within the interior of the state, a property such as French Lick — which is positioning itself as a destination resort that offers gaming — are also well positioned.

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[35] New Jersey Casino Reinvestment Development Authority, parking data. New Jersey Casino Control Commission, revenue data.
[36] Spectrum uses a standard estimate of 2.3 adults per vehicle, a measure initially established by the South Jersey Transportation Authority.

According to the state's most recent (2006) visitor profile, Indiana drew record high of 62.8 million visitors in 2006.[37] Total tourism spending (including transportation) in 2006 was $10.36 billion, an increase of 7.8 percent from 2004.[38] The economic impact (Gross State Product) of these expenditures totaled $10.51 billion in 2006, an increase of 8.7 percent from 2004.[39] This includes $5.88 billion in direct economic impact, $2.01 billion in indirect economic impact (supplier effect), and $2.62 billion in induced economic impact (income effect).[40]

Traveler spending supported 257,785 jobs in Indiana in 2006, with 181,637 directly employed by tourism sectors and an additional 30,003 indirect jobs and 46,146 induced jobs.[41] Nearly $3.88 billion in wages were generated in 2006, a 7.5 percent increase from 2004, as a direct result of tourism with an additional $2.86 billion attributed to indirect and induced wages.[42]

Travelers generated federal, state, and local tax revenue totaling $2.69 billion in 2006, a 5.5 percent increase from 2004, including $1.66 billion in federal taxes, $901.8 million in state taxes and $125.9 million in local taxes.[43] Additionally, county occupancy taxes paid by travelers totaled $72.80 million and tourism sales tax receipts totaled $621.5 million in 2006.[44]

Visitation for the business segment was up by 2.9 million more business visitors than in 2004, with overall business stays up 15.7% to 10.4 million in 2006.[45] Overnight leisure stays, which account for 80 percent of all of Indiana's overnight stays, increased 6.1% in 2006 to 8.9 million, its highest level since 2000.[46] Overnight leisure spending increased a significant 20% from 2004 to 2006.[47]

Daily visitor spending in Indiana was up slightly in 2006 from 2004, however, it was substantially lower in Indiana compared to the typical United States destination.[48] The average

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37 Indiana 2006 Visitor Profile, D. K. Shifflet & Associates, Ltd, December 2007.
38 The 2006 Economic Impact of Travel & Tourism in Indiana, prepared by Global Insight in partnership with D. K. Shifflet & Associates, Ltd.
39 Ibid
40 Ibid
41 Ibid
42 Ibid
43 Ibid
44 Ibid
45 Indiana 2006 Visitor Profile, D. K. Shifflet & Associates, Ltd, December 2007
46 Ibid
47 Ibid
48 Ibid

business traveler to the typical United States destination spent $137 per day compared with $105 in Indiana and the average United States leisure traveler spent $102 per day in contrast to $77 per day in Indiana.[49]

Indiana Office of Tourism Development

The Indiana Office of Tourism Development (IOTD) is a stand-alone state agency overseen by Lt. Governor Becky Skillman and managed by Director Amy Vaughn. The agency implemented dramatic changes in its marketing program in 2006 with the development of a strategic brand campaign entitled *"Indiana–Restart Your Engines*." In 2007, IOTD launched a new creative designed to improve the image of the state as a leisure destination. The 2007 campaign utilized radio and television advertising as well as an expanded print component and a new online presence. The budget for overall campaign costs of all mediums increased from $679,941 in 2006 to $931,553 in 2007, an increase of 37 percent.[50]

However, the agency's total operating budget was recently reduced by 50 percent, from $4.8 million in Fiscal Year 2008/2009 to $2.4 million in Fiscal Year 2009/2010.[51] In comparison to other states, Indiana now ranks 43rd in the amount of state spending on tourism development.[52] These budget cutbacks have resulted in the elimination of radio and television advertising previously targeted to the out-of-state markets of Chicago, Cincinnati and Louisville as well as in-state markets of Indianapolis and Fort Wayne.

In regard to state tourism trends, IOTD Director Vaughn said "family attractions have held their own recently, with the Fort Wayne Children's Zoo up approximately 15 percent and Holiday World up two percent over last year while the hotel and restaurant sectors are struggling." She also pointed to other amusement parks and sports and recreation tournaments as growth areas in Indiana tourism. She said even in a tough economy, "people are still taking their children to baseball, softball and soccer team tournaments in Indiana."

Director Vaughn said her agency is actively seeking "a stronger relationship with the state's gaming industry" and pointed to the state's website that includes casino-related trip

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[49] Ibid
[50] Indiana Office of Tourism Development, Advertising Effectiveness, Strategic Marketing & Research, November 2007
[51] Indiana Office of Tourism Development
[52] Ibid

suggestions. The IOTD's website contains a "trip planner" tab that features "trip ideas" including family fun, romantic retreats, outdoor recreation, girlfriend getaways, arts and culture, casinos and sports & recreations. The "casinos" tab emphasizes that "from north to south, Indiana is a Gamers paradise." The website recommends the following two-day casino gaming-related trips:

- Canoes, Casinos and Caves (Croydon, Elizabeth, Leavenworth and Milltown)
- Come Horse Around (Anderson)
- French Lick Resort Casino (Ferdinand, French Lick and West Baden)
- Just the Two of Us (Bristow, Evansville, New Harmony and Saint Meinrad)
- One of a Kind (Chesterton, Michigan City and Valparaiso)
- Rockin' and Rollin' on the Mighty Ohio River (Belterra, Madison, and Rising Sun)
- Steep Slopes and Great Slots (Aurora, Guilford and Lawrenceburg)
- Unique History and Gaming Fun (Crown Point, East Chicago, Gary, Hammond, Hobart, Miller Beach, Munster, Portage, St. John and Valparaiso)

These casino "trip ideas" all combine visiting a casino with other activities such as outdoor recreation, visiting historical sites, arts and culture, family fun, romantic getaways and other sightseeing activities. Most suggest seeing the local sights of interest during the day and visiting a casino during the evening for gaming, dining and entertainment. The IOTD's website does not market the state's casinos as a stand-alone tourism destination.

The IOTD "*Indiana 2008 Travel Guide*" featured a picture of the French Lick Casino on the cover. However, the photograph depicts several adults enjoying cocktails in the ornate lobby of the hotel. The only means of identifying the picture as a casino hotel is the caption that said "French Lick Casino, French Lick, 2008." On page one, the "About the Cover' paragraph reads: "Steeped in history, luxuriously preserved and surrounded by scenic Southern Indiana's Hoosier National Forest, the French Lick Resort Casino provides world-class amenities and non-stop gaming, sporting and spa activities — all in one fabulous location." The travel guide directs the

reader to page 142 that includes an advertisement for the casino but the travel guide does not contain any feature stories on the casino.

The travel guide's index contains the headings: where to find Indiana communities, attractions, campgrounds, information, recreation, restaurants, and shopping. There is no heading for casinos. Some of the individual casino properties are listed under "attractions" while others are listed under "lodging."

We suggest that the IOTD's annual travel guide could market the state's casino industry more effectively through a separate index heading of "casinos" as well to include feature articles.

The South Shore Convention and Visitors Authority

The South Shore Convention and Visitors Authority is the agency responsible for promoting tourism in Lake County on Lake Michigan's "South Shore." The agency is an entity of state government with its funding derived from a portion of gaming admission and hotel taxes. The area is a 30 minute drive from downtown Chicago and includes the city of Gary

Lake County ranks second in Indiana for visitor spending with approximately 9.4 percent of the state's tourism market share.[53] The economic impact of tourism in Lake County is $837 million per year, second only to Indianapolis.[54]

The authority has established a sports promotion division that market's the area's recreation facilities to national, regional and local sports teams seeking to hold sports tournaments. This is a growth area of Indiana's tourism development that has seen national and Midwestern tournaments in recent years, including the 2007 and 2009 National Softball Association Word Series Girls Fast Pitch tournaments.

The authority played a key role in the original drive to authorize casino gaming in Gary in 1992. Today, there are four dockside lakefront casinos in Lake County. The authority's website includes a prominent section on casinos. The section features pictures of a casino gaming floor and a stack of chips on a craps table. The website asserts that: "There is no place in the Midwest that rivals Lake County for providing Las Vegas style adventure and action! The area is home to four casino boats on Beautiful Lake Michigan."

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[53] http://www.southshorecva.com/media/media-kit/facts/
[54] Ibid

The "casinos" section provides more detail on the area's four casinos including the number of slot machines (6,500) and table games (250) as well as the availability of restaurants, buffets, shows and live entertainment. The website includes a general brief description of the two casinos in Buffington Harbor in Gary as well as the casinos located in East Chicago and Hammond. The website continues listing each casino separately with its address, phone numbers and a hyperlink to each casino's website as well as a prominent logo of each property.

Speros A. Batistatos, president and CEO of the authority, said the casino market in Lake County is "gaming-driven" and not overly centered on hotel or resort amenities. Therefore, the authority markets the casinos as a gaming attraction with other attractions "mixed-in" to the casino experience. Mr. Batistatos — who previously served as president and CEO of the Atlantic City Convention and Visitors Authority — said that the Lake County's casinos that have made substantial investments in their properties have seen a better return on investment. He pointed to the recent $500 million investment in the Horseshoe Hammond Casino as evidence of increased market share as a result of substantial property investment. He said the properties that have not invested or re-invested in capital improvements are suffering market share.

According to Mr. Batistatos, the South Shore Convention and Visitors Authority is pursuing a consolidated approach to regionalize the county visitor and convention authorities in Lake, Porter and LaPorte counties. The advent of land-based casino gaming at the nearby Four Winds Casino in Michigan, the establishment of a racino in the Indianapolis area and the push for land-based casinos in Illinois are legitimate threats to the established dockside casino gaming market in this area. Mr. Batistatos said that both Michigan and Illinois have substantial marketing budgets targeted toward the Chicago market and Indiana's budget cutbacks have made it difficult to compete. The authority is also advocating a regional convention center in Northwest Indiana to compete with the existing facilities in Indianapolis and Fort Wayne.

Evansville Convention and Visitors Bureau

Marilee Fowler, executive director of the Evansville Convention and Visitors Bureau, said her agency touts the accommodations and amenities of the Casino Aztar property when they bid on prospective conventions to be held at the Evansville Convention Center. The casino hotel property is located 7-8 blocks from the downtown Evansville Convention Center. She said the property's two hotels (350 total rooms) as well as the dining, entertainment and gaming

attractions are included in the agency's package of venues that they can make available to meetings and convention visitors.

The present Evansville Convention Center is undergoing a renovation that will add a sports and entertainment arena but will decrease the number of available hotel rooms at the complex's present hotel. The agency markets the Holiday Inn and Marriot full-service hotels that are located near the convention center. Ms. Fowler said with the completion of the new arena, the 350 rooms at Casino Aztar will be an even more essential part of her agency's marketing strategy.

The hotel rooms in Evansville are subject to an 8 percent county room tax that is distributed as follows: 2.5 percent to be used for marketing and promotional activity of the Evansville Convention and Visitors Bureau; 2 percent for the operating costs of the convention center and 3.5 percent for tourism capital development that must be "brick and mortar" projects.

In observing the Evansville market, we note that one of the hotel facilities affiliated with Casino Aztar — Le Merigot — has been successfully positioned as a leading business travel destination in the market.

Association of Indiana Convention and Visitor Bureaus

Jim Epperson, executive director of the Harrison County Visitor and Convention Bureau, is the president of the statewide Association of Indiana Convention and Visitor Bureaus, a statewide nonprofit organization dedicated to promoting tourism within Indiana. Mr. Epperson said tourism is state's third leading industry behind agriculture and manufacturing. He said the Indiana tourism market had seen some signs of growth before the current recession. The cited a recent trend that shows Indiana is losing market share of leisure travelers to neighboring states. He pointed to the dramatic budget cutbacks at the IOTD and said the state needs to do more to remain competitive.

Mr. Epperson said his membership is reporting that the "Midwest weekend getaway" has been able to hold its own during the current recession. This is due to the fact that in a good economy, people have more money to travel (by air) to destinations further away from home and when money is tight; they tend to choose destinations closer to home.

In regard to bright spots in Indiana's tourism industry, Mr. Epperson cited the hosting of statewide and regional sports tournaments including softball, baseball and soccer as well as winter events such as last year's 50-60 team AAU basketball tournament. These events are held at municipal or county recreation facilities with several sites being utilized to stage a single sports travel tournament. He mentioned Evansville, Columbus, South Bend, South Shore and smaller destinations as leaders in this growing segment of the tourism market.

Another growth area, according to Mr. Epperson, is the Indianapolis market, which has re-invented itself as a convention and business destination through the expansion of the downtown convention center complex and the 2008 opening of the Lucas Stadium, home to the professional football Colts. He said the 1100-room Marriot Hotel and a vibrant downtown provide a product that can support conventions as well as business and leisure visitors.

As to strategies concerning tourism and casino gaming in Indiana, Mr. Epperson said the state has historically not marketed casino gaming very effectively. He said that in the 1990's, state tourism officials did not include casinos in any tourism marketing efforts and the state tourism guide did not even include the state's casinos. He said the state has started to include casinos in its tourism guide but could do much more to promote the casino industry.

Lessons to be learned

Tourism, in its broadest sense, can work well with gaming for a variety of reasons, including:

- Tourism will broaden the visitor base for gaming properties, in varying degrees.
- Gaming properties can often position their amenities at more value-oriented price points because these properties can assume that the incremental visitors will spend some additional dollars on the gaming floor.
- Convention and meeting destinations that offer gaming are likely to be at a competitive advantage to destinations that do not.
- Conventions and meetings, as well as other segments of the hospitality industry such as tour and travel, can be used to generate incremental mid-week traffic, thus complementing gaming, which is more likely to have its prime activity during weekends.

The *Washington Post* summed up the national debate as to why cities look for conventions as economic engines:

> "Washington and other cities find conventioneers a compelling economic driver. They spend money and leave, so they don't require social services. Across the country, a boom in convention centers, built in the name of economic development, has made the always-competitive business of attracting big conventions even more brutal. An estimated 8 million square feet of space is expected to come online in the next few years, even as attendance at shows remains steady and demand for the space grows only modestly[55]."

Spectrum has noted in a variety of studies that we have performed around the nation that a variety of major cities that target larger conventions and meetings are increasingly viewing casinos as a competitive weapon. Cities such as Chicago (ranked No. 4 among convention cities, according to Tradeshow Week magazine) and Atlanta (ranked No. 5) are considering adding gaming, in part to give them an edge over cities that do not offer gaming.

A more robust relationship between convention authorities and nearby gaming facilities can be mutually beneficial in smaller markets, as well as in Indianapolis.

The anecdotal information we gathered during our research for this study indicates that managers of properties of varying sizes indicate that they would benefit from additional meeting space and hotel rooms. Moreover, Indiana Live! indicated that it is already seeing some incremental impact from major meetings held in Indianapolis.

If policymakers seek to leverage and encourage this complementary relationship, they can do so as part of an overall gaming strategy designed to encourage capital investment. Operators that seek to avail themselves of tax incentives should, among other things, develop a tourism-based strategy.

New York Case Study

In New York, the eight racinos have already received some tax relief from levels that proved to be too severe for some operators. Last year, the percentage of gross gaming revenue

[55] "Convention Center Not Living Up to Lofty Goals," by Dana Hedgpeth, *Washington Post*, February 19, 2007, Page A1

that operators could retain was increased by about 10 points to 42.9 percent[56]. That number, however, is a rough estimate, as the state gives back up to 8 percent for marketing. Additionally, that number does not reflect all fees paid to racing interests. New York operates the racinos under the regulatory supervision of the New York State Lottery, which also purchases the slots, thus saving operators the costs of buying or leasing their gaming equipment.

In any event, New York racinos still operate under one of the most severe tax systems in the gaming industry, with an effective tax rate of about 60 percent, down from a one-time high of about 80 percent.

New York, however, has recently embarked on an unusual plan to provide a significant tax incentive to the operator of a potential casino resort in the Catskills region. In June 2008, the two houses of the New York Legislature each approved a bill that would allow a casino on the site of Monticello Raceway to enjoy a tax rate as low as 25 percent if certain conditions were met.These conditions include[57]:

- At least $1 billion in capital must be invested in the facility.
- At least 2,000 permanent jobs must be created.
- At least one 18-hole golf course, among other amenities, must be built.
- The contribution to state education from the tax would increase from its then-current levels, estimated at about $19 million.
- The tax was structured so that the operator would pay the lesser of 25 percent or $38 million, which was twice the amount then going to education. That $38 million would stay the same for eight years, and then could be increased under certain terms, such as the lesser of either 2 percent or the rise in the Consumer Price Index[58].

This legislation — largely reflective of the realities imposed by the current economic recession — has since been revised. Under the new law, which was signed in August 2009 by New York Gov. David Paterson, the changes include[59]:

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[56] American Gaming Association
[57] http://www.state.ny.us/governor/press/press_0623085.html (accessed Oct. 5, 2009)
[58] 8-K report filed by Empire Resorts, Inc., June 23, 2008
[59] http://open.nysenate.gov/openleg/api/html/bill/A8767A

- The amount of capital to be invested declined from a minimum of $1 billion to $600 million.
- The minimum number of permanent employees declined from 2,000 to 1,000.
- The requirement to build a convention center was eliminated.

The new law also reflects changes to the potential increase in taxes if certain thresholds are met. For example, the previous law required that, if the employment numbers fell short by more than 50 percent of the 2,000-employee goal, the state would "recapture" two-thirds of the tax revenue that it would have given up as an incentive. The new law states that, if the employment numbers are less than two-thirds of the 1,000-employee goal, 100 percent of the foregone tax revenue would be recaptured. The revised law has a sliding scale on that measure, down to an 11 percent recapture rate if the employment shortfall is more than 10 percent of the goal[60].

Lessons to be learned

Although the New York law targets only one property for such incentives, it does offer some valuable insights for Indiana policymakers. The law recognizes that:

- Benefits to the state cannot simply be measured by the tax on gross revenues.
- Employment is an important public policy goal, and should be an essential barometer of the success of a gaming operation.
- Other amenities, ranging from golf to hotel rooms, are also essential and can help grow revenues and make a property more competitive.
- Operators should be held accountable to their own projections, and must use tax incentives for their stated purposes.

From the standpoint of Indiana lawmakers, the new law demonstrates that tax rate revisions can work if both the state and operators recognize an essential quid pro quo. The reduction in taxes should require a significant investment in the state, which would be designed to encourage multiple public policy goals, from employment to increased tax revenue.

[60] Ibid.

Addressing multiple business models

Indiana is a relative rarity among gaming states in that it has developed several gaming industries that must operate concurrently and competitively within the same state, yet state law and taxation policies require them to function under different types of business models.

Riverboats, the casino at French Lick and the racinos function under different rules that can be viewed as either assets or competitive constraints, depending on the vantage point.

Spectrum's role in this analysis is not to suggest rule changes that could either further benefit or further hamstring segments within the gaming industry, but to point out that the laws of economics must somehow be acknowledged and addressed by those who write the laws of Indiana.

The state's two racinos — Indiana Live! in Shelbyville and Hoosier Park in Anderson — are burdened by effective tax rates that exceed 50 percent, and have to amortize $250 million license fees, along with other factors, and are barred from offering live table games.

We recognize that there are two sides to the fairness issue — including the argument that the two racinos were added to the Indiana gaming industry after riverboats and French Lick, thus cutting off much of the Indianapolis market from pre-approved, pre-existing competitors — and we are not taking sides in any such discussion.

Rather, Spectrum points out that the law, as structured in Indiana, makes it extraordinarily difficult for racino operators in Indiana to operate under a business model that materially advances the public interest.

Interviews with management at the racinos, for example, indicates that both would benefit from additional capital investment to broaden their demographic reach, while increasing the frequency of visitation and the length of stay. Hotel rooms, spas and other attractions would increase employment and generate more gaming revenue.

Additionally, the ability to develop more attractive properties would allow the racinos to be more fully integrated with the hospitality industry in Indianapolis — with a particular focus on conventions and meetings — to make the region more attractive to meeting planners. Spectrum's work around the nation makes it clear to us that Indianapolis would be more

competitive in attracting meetings and conventions if it could market destination-style gaming as one of its amenities.

Notably, if gaming could help broaden the appeal of Indianapolis as a convention market, this would make the racinos somewhat less dependent on the local adult population. Looking ahead, that could become a significant issue. The marketing of gaming could have something akin to a domino effect going forward. As Indiana properties lose some existing markets to new or expanded competition in neighboring states, they must look elsewhere — and would likely become more competitive within Indiana.

Racinos, however, are effectively barred from pursuing solutions that would address such issues because they must service their existing obligations, including the $250 million license fees.

Last year, Spectrum wrote a report for the Commonwealth of Massachusetts that, citing the experience in other states, noted the following[61]:

> "Initial license fees required of successful development bidders are generally viewed as part of their capital investments and therefore:
>
> - Have a detractive effect on capital development spend, as the licensing expense competes internally for capital with construction spending.
> - Pose a dampening effect on development interest among potential candidates, as the fees raise the cost of entry with no direct return on that expense, and thereby simultaneously reduce projected ROIC rates.
>
> "This is not to say government entities should not impose substantial operator license fees, to both winnow out under-resourced bidders and help recoup the state's own start-up and other infrastructure costs, but rather to make clear the underlying considerations. …
>
> "Ongoing gaming tax rates, however, are seen as the more important determinant of initial and future capital investment by operators. Philadelphia vs. Atlantic City provides a good case study. The more highly taxed eastern Pennsylvania properties are,

[61] "Comprehensive Analysis: Projecting and Preparing for Potential Impact of Expanded Gaming on Commonwealth of Massachusetts," Spectrum Gaming Group, August 2001, p. 119

aside from their racetrack operations, essentially slot machine venues enhanced only by sufficient food and beverage offerings to service their customers. In Atlantic City, meanwhile, existing casino operators — without even considering new or proposed casinos — are spending, or in the last three years have spent, roughly $2 billion for additional hotel towers, retail centers, restaurants, bars, nightclubs, swimming pools, spas, casino expansions and other amenities.

"While due in part to legislative limits on allowed forms of gaming in Pennsylvania, the difference between the capital investment — and thus the types and range of amenities — in the two states is due chiefly to their respective tax structures."

The lesson for Indiana and other states is that, while license fees serve valuable purposes for the state such as the upfront payment of fees that acknowledge the value of a state-authorized franchise, such fees have drawbacks as well. Developers must amortize the cost of such fees as they do with other forms of invested capital, yet this particular investment plays no role in employment or in the cost of developing an attractive property.

Our analysis makes it clear that racino operators — like other gaming operators in Indiana — would benefit from the establishment of financial incentives that would encourage the development of non-gaming amenities.

Implications of allowing tax deductibility of promotional electronic credits

Building new and improved amenities should be considered a marketing strategy. The goal of such attractions is to expand the visitor base, but also to encourage additional visits by existing customers. However, policymakers must recognize that such programs must be coordinated with other, existing marketing programs to help ensure an effective overall marketing strategy that serves the interest of the operators and the state. With that in mind, the state must consider other policies that affect marketing, such as the present law that does not allow operators to deduct the value of promotional credits from their taxable gaming revenue.

A promotional electronic slot play credit is a marketing tool that a gaming operator can use to encourage additional trip frequency. Such promotional play is effectively an electronic credit, posted to a player's account and downloaded by the player directly to the slot machine of the player's choice. The player, after downloading the play credits to the slot machine, has no

choice other than to wager the credits. As widely established in practice, a player cannot download the issued promotional play credits and cash out the issued value, thereby eliminating any "walk" factor. Naturally, that is an attribute desired by the operator to contain marketing costs. All issued play credits must be wagered, and only the winnings obtained through the gaming of the promotional play credits can be redeemed for their dollar value by the patron.

Such promotional play offers some inherent, distinct advantages over many other marketing programs:

- Such credits are electronic and require no printing costs to the operator.
- The issuance of such credits is accompanied by gaming play, thus reducing the walk factor, vs. issuing cash to a customer.
- No incremental labor is required to issue, redeem and reconcile such customer offers.
- Redemption on the device increases a customer's time on device, thereby increasing revenues as well as the quality of the customer experience.
- Redemption of such credits on the device reinforces player loyalty to the operator.
- Redemption on the device reinforces the core experience of gaming, which may be the customer's primary influential attribute for casino visitation.
- Promotional sweepstakes and bonus prize programs can be configured to award prizes in the form of electronic promotional credits to increase time on device and increase consumer excitement.
- The issuance of supplemental electronic credits can potentially increase player visitation frequency.

The issuance of promotional credits has become widespread across the casino gaming industry landscape over the past six years. Every major commercial gaming jurisdiction, along with tribal casinos, has adopted the marketing practice. During this evolution, several jurisdictions and also tribal gaming compacts have allowed it usage when redeemed to be a deductible credit against the gaming tax or fee calculation.

- Pennsylvania allows 100 percent of the issuance value to be gaming tax deductible.

- New Jersey allows 100 percent of the issuance value above the first $90.0 million issued by the entire state industry to be gaming tax deductible during a calendar year.
- Most tribal gaming compacts allow 100 percent of the issuance value to be gaming-fee deductible.

From a business standpoint, the issuance of promotional credits rests on the premise that such electronic play generates more actual play than would be the case otherwise.

The issuance of such promotional credits to a customer is no different than any other promotional discount marketing programming in any retail industry. Couponing and direct advertising of percentage discounts on purchases during select periods are effectively the same marketing tactics as employed by casinos issuing promotional credits. Such incentives are designed to promote incremental spending and incremental visitation to the issuing business. Built into such assumptions, however, is the notion that certain bargain hunters will redeem an offer and not spend any additional dollars.

In Spectrum's experience, however, most gaming customers will co-spend beyond the issuance value of the electronic-credit redemption. We have seen co-spend levels that range from a low of 50 cents for every dollar issued to as high as $12 for every dollar issued. The variations are distributed by player value. The higher the customer value, the higher the co-spend. When such programs are carefully designed, it is clear that any incremental co-spend equals more tax revenue for the jurisdiction.

We recognize two other factors at play here:

- The state has a very real concern in protecting existing revenues, and not taking steps that could further reduce the state's share of gaming dollars.
- Operators consider the deductibility — or non-deductibility — of promotional credits into account when developing their marketing strategies.

These two considerations are potentially contradictory. Indiana runs a real risk in that any policy shift that addresses one could potentially impact the other. One suggestion, therefore, for consideration is that Indiana could emulate the New Jersey model by setting a floor for deductibility. The floor could effectively be set at a previous year's level, or an estimate as to what the state would receive going forward. Promotional credits above that level could be

deductible, thus encouraging operators to be more aggressive in their marketing campaigns — which would have the added effect of protecting Indiana's taxable gaming revenue.

Defensive capital investment: policy tool

As discussed at some length earlier in this study, these potential outcomes for Indiana can and will be influenced by state policymakers, as potential developments that are still fluid become clearer in the months and years ahead. What is clear already is that regional market circumstances are changing, and Indiana lawmakers and gaming operators must collaborate on making the best adjustments possible to mitigate the competitive forces lining up against them in neighboring states.

One example of such possible changes that might simultaneously mitigate revenue erosion as well as stimulate capital investment and bolster tax receipts would be the addition of hotel rooms at an existing casino, which would capture incremental gaming revenue either from guests traveling greater distances and/or local visitors staying longer and spending more.

If casino operators are faced with the prospect of declining competitive revenues due to new market entrants, yet they still have the available capital and wherewithal to profitably add hotel capacity that could mitigate or replace some of that impending revenue loss, they might well do so, if such an investment would be profitable.

Furthermore, Indiana could benefit as well, if such an investment would have a net mitigating or positive effect on what would otherwise be a declining revenue stream. A tax break in some form on the operator's investment could help make the addition both more profitable for the developer and protect the state from greater tax losses than would occur absent such an investment.

The following chart illustrates this possible scenario:

Sample Scenario of possible tax incentive(s) for defensive capital investment:										
			($'s in Millions, except per day)	2009	2010	**2011**	2012	2013	2014	2015
GGR Base:	units	$M GGR	WPUPD							
Slots	1,500	$127.5	$233							
Tables	45	$22.5	$1,370							
			GGR base (w/o rooms or new entry)	$150.0	$153.0	$156.1	$159.2	$162.4	$165.6	$168.9
			Cumulative		$303.0	$459.1	$618.2	$780.6	$946.2	$1,115.1
			Gaming tax @ 35%	$52.5	$53.6	$54.6	$55.7	$56.8	$58.0	$59.1
			Cumulative		$106.1	$160.7	$216.4	$273.2	$331.2	$390.3
			New market entry GGR erosion @	**-15.0%**		**($23.4)**	**($23.9)**	**($24.4)**	**($24.8)**	**($25.3)**
			Cumulative				**($47.3)**	**($71.6)**	**($96.5)**	**($121.8)**
			GGR (w/o rooms, with new entry)	$150.0	$153.0	$132.7	$135.3	$138.0	$140.8	$143.6
			Cumulative		$303.0	$435.7	$571.0	$709.0	$849.7	$993.3
			Gaming tax @ 35%	$52.5	$53.6	$46.4	$47.4	$48.3	$49.3	$50.3
			Cumulative		$106.1	$152.5	$199.8	$248.1	$297.4	$347.7
			Gaming tax reduction			**($8.2)**	**($8.4)**	**($8.5)**	**($8.7)**	**($8.9)**
			Cumulative				**($16.6)**	**($25.1)**	**($33.8)**	**($42.6)**
Rooms	200	Capital per room	$0.220							
Avg. GGR/day	**$100**	**Total Capital**	**$44.000**							
	(Risk)	GGR ROI req.	15.0%							
		GGR ROI actual	16.6%							
			Rooms incremental GGR			**$7.3**	**$7.4**	**$7.6**	**$7.7**	**$7.9**
			Cumulative				**$14.7**	**$22.3**	**$30.1**	**$38.0**
			GGR (with rooms, with new entry)	$150.0	$153.0	$140.0	$142.8	$145.6	$148.5	$151.5
			Cumulative		$303.0	$443.0	$585.7	$731.3	$879.8	$1,031.3
			Gaming tax @ 35%	$52.5	$53.6	$49.0	$50.0	$51.0	$52.0	$53.0
			Cumulative		$106.1	$155.0	$205.0	$256.0	$307.9	$361.0
			Rooms-revised Gaming tax reduction			**($5.6)**	**($5.8)**	**($5.9)**	**($6.0)**	**($6.1)**
			Cumulative				**($11.4)**	**($17.3)**	**($23.2)**	**($29.3)**
			Rooms benefit to gaming tax			**$2.6**	**$2.6**	**$2.7**	**$2.7**	**$2.8**
			Cumulative				**$5.2**	**$7.8**	**$10.5**	**$13.3**
			Possible 5-year Gaming tax incentive for rooms @	**-1.0%**		**($1.4)**	**($1.4)**	**($1.5)**	**($1.5)**	**($1.5)**
			Cumulative benefit to operator				**$2.8**	**$4.3**	**$5.8**	**$7.3**
			Net rooms benefit to gaming tax (state)			**$1.2**	**$1.2**	**$1.2**	**$1.2**	**$1.3**
			Cumulative				**$2.3**	**$3.5**	**$4.8**	**$6.0**
			- or -							
			Possible 5-year tax incentive for rooms @ percent of capital	**-3.0%**		**($1.3)**	**($1.3)**	**($1.3)**	**($1.3)**	**($1.3)**
			Cumulative benefit to operator				**$2.6**	**$4.0**	**$5.3**	**$6.6**
			Net rooms benefit to gaming tax (state)			**$1.2**	**$1.3**	**$1.3**	**$1.4**	**$1.4**
			Cumulative				**$2.5**	**$3.9**	**$5.3**	**$6.7**

The table shows that a hypothetical casino — absent new competition — might expect gross gaming revenues to grow from $150 million to $168.9 million over this six-year span. The cumulative revenue would exceed $1.115 billion.

A "new market entry," as shown, would erode that cumulative revenue by $121.8 million, and would reduce tax revenue by $42.6 million.

In our model, we assume that an operator might invest $44 million in 200 new hotel rooms, which would generate an average incremental GGR of $100 per room per day. This would incrementally add a cumulative $38.0 million over five years.

We then consider two possible state tax breaks to the operator: one as a 1 percent gaming tax credit, or the other as a 3 percent capital investment credit. As the table illustrates, we can project that if a hypothetical investment of $44.0 million dollars was made, even with the tax breaks, the cumulative benefit to the state would range from $6 million to $6.7 million, while the cumulative benefit to the operator would be between $6.6 and $7.3 million. This is exclusive of other tax benefits and jobs produced by the new hotel.

The question for the state would then be: Is the tax break a good investment? The answer to that lies in whether or not the incentive is sufficient to generate an adequate return for the operator. A $7.3 million cumulative tax break on an investment of $44 million would be a material reduction of risk, and could make such an investment more attractive.

We recognize that, in this scenario, our gaming revenue per room and the number of rooms is conservative. The following table shows what the total gaming revenue for this hypothetical operator would be under a range of scenarios that changes both of these variables.

Cumulative GGR (in millions)		Number of rooms					
		100	150	200	250	300	350
GGR per room	200	$ 1,031.31	$ 1,050.31	$ 1,069.30	$ 1,088.29	$ 1,107.29	**$ 1,126.28**
	250	$ 1,040.81	$ 1,064.55	$ 1,088.29	$ 1,112.04	**$ 1,135.78**	**$ 1,159.53**
	300	$ 1,050.31	$ 1,078.80	$ 1,107.29	**$ 1,135.78**	**$ 1,164.27**	**$ 1,192.77**
	350	$ 1,059.80	$ 1,093.04	**$ 1,126.28**	**$ 1,159.53**	**$ 1,192.77**	**$ 1,226.01**
	400	$ 1,069.30	$ 1,107.29	**$ 1,145.28**	**$ 1,183.27**	**$ 1,221.26**	**$ 1,259.25**

The cells that are highlighted in bold are the scenarios in which revenues could theoretically recover from the new competition, i.e., revenues would be at least as high as they would be absent the competition.

The state, however, has a different set of questions. Even with no tax break, its cumulative revenue with the addition of these rooms would be $361 million, far short of the $390.1 million envisioned without competition.

With a 1 percent tax break, here is a range of scenarios based on the same numbers of rooms and GGR per available room night:

Cumulative state tax revenue (in millions)		Number of rooms					
		100	150	200	250	300	350
GGR per room	200	$ 361.0	$ 367.6	$ 374.3	$ 380.9	$ 387.6	**$ 394.2**
	250	$ 364.3	$ 372.6	$ 380.9	$ 389.2	**$ 397.5**	**$ 405.8**
	300	$ 367.6	$ 377.6	$ 387.6	**$ 397.5**	**$ 407.5**	**$ 417.5**
	350	$ 370.9	$ 382.6	**$ 394.2**	**$ 405.8**	**$ 417.5**	**$ 429.1**
	400	$ 374.3	$ 387.6	**$ 400.8**	**$ 414.1**	**$ 427.4**	**$ 440.7**

Again, we have highlighted the cells that show the scenarios in which state tax revenue would reach at least the level it would have been absent new competition.

We then examined whether or not tax incentives could be increased further to build more rooms, assuming a very conservative $100 in GGR per room:

Cumulative state tax revenue (in millions)		Number of rooms					
		250	300	350	400	450	500
Est. tax rate	34%	$ 353.9	$ 357.1	$ 360.3	$ 363.6	$ 366.8	$ 370.0
	33%	$ 343.5	$ 346.6	$ 349.7	$ 352.9	$ 356.0	$ 359.1
	32%	$ 333.1	$ 336.1	$ 339.1	$ 342.2	$ 345.2	$ 348.3
	31%	$ 322.7	$ 325.6	$ 328.5	$ 331.5	$ 334.4	$ 337.4
	30%	$ 312.2	$ 315.1	$ 317.9	$ 320.8	$ 323.6	$ 326.5

Note that none of these scenarios shows state tax revenue recovering to its pre-competitive level.

We then changed the assumptions, using the base 200-room model, but running different scenarios based on the GGR per room and the effective tax rate:

Cumulative state tax revenue (in millions)		GGR per room					
		$ 125	$ 200	$ 275	$ 350	$ 425	$ 500
Est. tax rate	34%	$ 353.9	$ 363.6	$ 373.2	$ 382.9	**$ 392.6**	**$ 402.3**
	33%	$ 343.5	$ 352.9	$ 362.3	$ 371.7	$ 381.1	**$ 390.5**
	32%	$ 333.1	$ 342.2	$ 351.3	$ 360.4	$ 369.5	$ 378.6
	31%	$ 322.7	$ 331.5	$ 340.3	$ 349.1	$ 358.0	$ 366.8
	30%	$ 312.2	$ 320.8	$ 329.3	$ 337.9	$ 346.4	$ 355.0

While only three scenarios show the state tax revenue recovering to pre-competitive levels, clearly the state would be more dependent on the quality of visitor in the room, rather than the number of rooms — and the value of incentives tails off significantly, with each 1 percent drop in the effective tax rate cutting cumulative state revenues from between $10.4 million to $11.8 million.

We reiterate that this does not take into account other sources of tax revenue, such as payroll or sales taxes, nor does it account for other forms of capital investment that might accompany the addition of rooms, such as meeting space, restaurants, night clubs or spas.

The lesson is clear: Capital investment can make a significant difference in a competitive market, and the state can carefully encourage such investment and — in certain circumstances — recover from competition by offering a more diversified product.

Section I: Conclusion

The gaming industry in Indiana faces a difficult future. Like many gaming states, the industry is likely to be whipsawed and impacted by decisions made elsewhere.

In response, Indiana policymakers have limited — but potentially powerful — options. The first certainty is the goal: Attract more capital investment to help the industry evolve, to whatever extent is possible, into more of a regional hub.

A simple and unassailable rule of gaming is that adults will not bypass one casino for another if the offerings are relatively identical. This clearly makes sense from the standpoint of any consumer offering. For example, consumers will not bypass a local hardware store to visit another local hardware store if the offerings are essentially identical. They might bypass a local

hardware store, however, to visit a Home Depot or Lowe's, where the offerings — ranging from selection to price — might be materially different. The same principle applies to gaming.

Our analysis suggests that one policy path is to assist and encourage the gaming industry to evolve into more of a regional destination, while another is to maintain existing policies.

Regardless of which policy path is selected, there is a second certainty that should be considered: The status quo will not hold.

Part II: Analyzing Competition, Projecting Future

External competition: overview

Spectrum has studied the expansion of gaming throughout the United States over the years, and notes several political and economic factors that, singly or in some combination, are the most likely to gain traction among voters and lawmakers. These are:

- Economic downturns, which tend to reduce state revenues.
- The continuing decline of the racing industry, which fuels the call for converting tracks to racinos.
- The argument that states are shipping dollars across state lines, as adults visit casinos in other states.

All of these factors are present throughout the region in which Indiana casinos operate, leading Spectrum to the conclusion that gaming will expand in states that surround Indiana. For example, we have examined the political campaign taking place at this writing in Ohio, which includes TV commercials that show an image of Ohio residents — in this example, two long-time female friends — who are sitting on a bus during the long ride to a casino in Indiana. The women lament that they have to travel out of state, and would look favorably upon spending money and valuable leisure time closer to home.

Lawmakers should pay particular note to the political traction that could be gained in other states when they claim that their residents are spending money in Indiana. That same argument was used in 1993 in Indiana: Adults were spending money at casinos in Illinois[62].

Additionally, other factors are also present that could further fuel external competition. In Chicago, for example, a case could be made that a downtown casino could boost convention business. Such arguments, in turn, would further increase the likelihood of increased competition.

The following is an analysis of some specific issues in neighboring states.

[62] Thompson, p. 195

Michigan

Michigan is best known in the gaming world for its three commercial casinos, which are located in Detroit and generated more than $1.3 billion last year.[63] But the state is also home to 20 Native American casinos, mostly located in the Upper Peninsula. In addition, Michigan has five horseracing tracks, but they do not have any video lottery terminals ("VLTs") or any other sort of casino-style gambling.

For the immediate future, expansion of gambling will likely come from the Native American casinos, but only in isolated cases. The horseracing industry is fighting hard for VLTs or even full-fledged casinos at its tracks, but it is unclear how successful those efforts will be.

Native American Casinos

Recent gambling expansion efforts in Michigan have come from Native American tribes. In the last two months, one tribe has opened a new casino and another has broken ground for one.

In August, the Nottawaseppi Huron Band of Potawatomi Indians opened the $300 million FireKeepers Casino on a 78-acre site off of Interstate 94 near Battle Creek, which is nearly two hours from Michigan City, Ind. An 11-day grand opening celebration began September 24. FireKeepers is managed by Full House Resorts and offers 2,680 slot machines, 78 table games and five restaurants. There is currently no hotel, but there is ample room on the site for an expansion.

Although no revenue figures have been made public, early anecdotal reports suggest a robust opening, so much so, that despite the current recession, the tribe is considering adding other amenities, including a hotel. However, FireKeepers spokesman Michael Facenda told Spectrum that "incorporating any additional amenities to the 78-acre site is a couple years away."

On Sept. 17, the Gun Lake Band Match-E-Be-Nash-She-Wish Band of Pottawatomi Indians broke ground on the $157 million Gun Lake Casino 20 miles south of Grand Rapids. The 83,000-square-foot casino will feature 1,200 slot machines, 36 table games, a restaurant and food

[63] Michigan Gaming Control Board.

court, and it will be managed by Station Casinos, which has filed for Chapter 11 bankruptcy protection.

The recession forced the tribe to cut its plans in half.[64] Initially, plans called for a $200 million casino with 2,500 slot machines and 75 table games.

Several other Michigan tribes have discussed plans to open casinos. The Pokagon Band of Potawatomi Indians, which owns the Four Winds Casino Resort in New Buffalo, has the right under its compact with the state of Michigan to open two satellite casinos. One would be located in Hartford, in Van Buren County, about an hour's drive to Michigan City. The other would be in Dowagiac, in Cass County, about a 40-minute drive (25 miles) from South Bend and about an hour's drive to Michigan City.

However, Michigan Gaming Control Board and Pokagon Band representatives told Spectrum that plans for those casinos are still in the discussion stages, as the tribe is currently conducting a feasibility study. The tribe is not expected to move forward with plans for any satellite casinos until after the economy recovers. In addition, under the compact, the satellite casinos are limited to 1,000 slot machines each.

Two other tribes — the Sault Ste. Marie Tribe of Chippewa Indians and the Bay Mills Indian Community — reached agreements with the state of Michigan in 2002 to build off-reservation casinos — in Romulus and Port Huron, respectively — in exchange for settling land claims. However, Congress has to sign off on the deals before the casinos can be built. That has proven incredibly difficult. In 2008, legislation that would have advanced those casinos had the backing of Rep. John Dingell, the longest serving member of the U.S. House of Representatives. But working against the proposals was a powerful Detroit contingent led by Rep. John Conyers of Detroit, chairman of the House Judiciary Committee, Nevada lawmakers, who were working to preserve the interests Detroit casino owner MGM Mirage, and another Michigan tribe, the Saginaw Chippewas, which was concerned about increased competition.[65] In June of 2008, the proposals were defeated on the House floor by a vote of 121-298.[66]

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[64] Howard Stutz, "Ground broken for Indian casino in Michigan," *Las Vegas Review-Journal*, Sept. 19, 2009.
[65] Todd Spangler, "Michigan Legislators, Tribes Divided Over Casinos in State," *The Detroit Free Press,* June 22, 2008.
[66] Lisa Mascaro, "Nevada trio help kill Michigan casino plan," *Las Vegas Sun,* July 2, 2008.

Last month, officials with the Interior Department said they were rethinking a Bush administration directive that required off-reservation casinos to be within commuting distance of a tribe's reservation and make it easier for tribes to build off-reservation casinos.[67] But representatives for the Sault Ste. Marie Chippewas and the Bay Mills tribe told Spectrum they do not think a reversal in policy would have much impact on their case. The tribes would still need enough support in Congress for their casino agreements, and it is unclear when that would happen.

Horseracing Industry

Mirroring the experience of other states that do not allow gambling devices at its racetracks, the horseracing industry in Michigan has been on the decline. Five tracks have closed in the last 11 years, the most recent shut its doors in 2008[68]; only five tracks remain open. Many track owners have declared the state's horseracing industry to be on life support and have said it will soon die altogether if the tracks are unable to get casino-style gambling.

Michigan's horseracing industry has had a particularly hard time because it has had to compete with tribal casinos, the Detroit casinos, and with horseracing tracks in other states that can offer larger purses because they also have VLTs, slot machines and even table games at their tracks.

Like many other states, Michigan's horseracing industry has sought for years to pass legislation allowing for slot machines or VLTs, only to be thwarted at every step. In 2004, just as racetrack operators were trying to push through VLT legislation, the three Detroit casinos, joined by several Indian tribes, spent $20 million to bankroll a voter referendum — Proposal 1 — to amend the state constitution.[69] With the passage of Proposal 1, any new form of casino-style gambling needs statewide voter approval as well as the approval by voters in a community where gambling is proposed to take place — an enormous and expensive hurdle to overcome.

Horse track owners have attempted to circumvent the Proposal 1 by pushing to install pulltabs or instant racing machines — electronic gambling machines that allow patrons to place

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[67] A.D. Pruitt and Peter Grant, "Tribal Casino Rules Revisited," *The Wall Street Journal*, September 21, 2009.
[68] Shawn Windsor, "Horse racing's outlook is dismal, but hope remains," *The Detroit Free Press,* August 28, 2009.
[69] Joel J. Smith, "Gov. mulls betting option," *The Detroit News*, May 26, 2007.

wagers on previously run races. The horseracing industry believes these types of devices are not banned by Proposal 1. But fearing lawsuits, Michigan Gov. Jennifer Granholm has been hesitant to allow any new forms of gambling at the race tracks that don't include statewide voter approval. And a recent poll showed a majority of Michigan residents oppose a plan to raise state revenue by expanding the Michigan Lottery to allow pull-tab games.[70]

So the horseracing industry is gearing up for another fight next year, when it plans a statewide referendum for the 2010 November election.

Dan Adkins, vice president of Hazel Park Raceway, announced in a radio interview September 24 that not only would the referendum allow for the five Michigan racetracks to get full-fledged casinos, it would also allow for up to three commercial casinos outside of Detroit.[71] All of the casinos would be taxed at a 30 percent rate.

In a separate interview with Spectrum Gaming, Adkins said he felt confident he could sell the proposal to voters by promoting the creation of new jobs and tax revenue, as well as saving the horseracing industry. Michigan has been among the hardest hit by the recession. Its unemployment rate has hit 15 percent, and it is currently wrestling to fill a $2.8 billion budget gap.

Adkins also said he was not afraid to go head-to-head with the Detroit and Indian casinos. He plans to seek voter approval in local communities — such as Hazel Park — for the casinos while at the same time promoting the statewide referendum.

But some horseracing officials believe going up against the powerful and wealthier Detroit casino owners and Native American tribes could be a losing battle.

Dan Rakieten, general manager of the Michigan Harness Horsemen's Association and former owner of the Jackson Harness Raceway, which closed last year, put the industry's chances of passing a statewide referendum at "slim to none."[72]

And as he told the *Detroit Free Press* recently, if the statewide referendum doesn't work, "horseracing will be gone."[73]

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[70] IMP-MRG Statewide Poll, September 22, 2009 www.mrgmi.com/IMPMRGPRFall09.pdf
[71] Dan Adkins Interview with Michael Patrick Shiels, *The Michigan Talk Network,* September 24, 2009 http://www.michigantalknetwork.com/audio/Sept09/(9.24)/(9.24)%20Dan%20Adkins.mp3 (accessed on September 24, 2009).
[72] Interview September 22, 2009.

Illinois

Illinois is currently home to nine riverboats, with a 10th casino slated to open in Des Plaines. Each riverboat casino is allowed up to 1,200 gaming positions.[74] Gaming revenue is taxed at a graduated rate, up to 50 percent, and Illinois also imposes an admission fee of $2 to $3.[75] Illinois also has five horseracing tracks, although none have slot machines or VLTs, and roughly 30 off-track betting facilities.[76]

Many proposals have been bandied about in recent years to expand gambling in Illinois. Typically, those proposals have come in the form of either allowing for slot machines at the racetracks or for more casino licenses — specifically in Chicago.

And so it came as some surprise that while the various interests were fighting over whether to add casinos at racetracks or elsewhere — in essence, hundreds or even thousands of slot machines in one place — the Illinois Legislature this summer instead decided to allow some 45,000 video poker machines spread throughout bars, clubs and truck stops throughout the state.

Video Poker

Like many states, what clinched the expansion of gambling in Illinois was the need for new revenue. In July, Gov. Pat Quinn signed the Video Gaming Act, which legalized video poker at clubs, bars and truck stops as a way of partially funding a $31 billion public works program. State officials believe the machines could generate $300 million in new tax revenue.[77] But it is anyone's guess when the machines will be up and running.

The video poker legislation allows establishments with liquor licenses, licensed truck stops and licensed fraternal veterans establishments to have up to five video poker machines. The legislation also gives local governments the right to ban the machines from their communities and voters the option of seeking a referendum to decide whether to allow video poker in their towns.

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73 Shawn Windsor, August 28, 2009.
74 Illinois Gaming Board.
75 Ibid.
76 Illinois Racing Board, 2008 Annual Report.
77 Bob Secter and Rick Pearson, "Tribune poll finds nearly 60 percent oppose video gambling," *The Chicago Tribune,* September 9, 2009.

Already, dozens of towns — including Rosemont and County Club Hills, which have in the past lobbied for a full casino — have outlawed the machines. And a recent Tribune/WGN poll found that nearly 60 percent of Illinois voters said they would vote to prohibit video poker machines in their communities.[78]

But the bigger problem facing the implementation of video poker is that the law put the Illinois Gaming Board in charge of regulating the machines, but it did not give regulators additional funds to carry out that mandate.

Besides conducting background checks of bar owners and game operators, the Illinois Gaming Board would also have to develop a central computer system to monitor the machines. Illinois regulators have made it clear without funding, video poker would not be a priority over the nine casinos it currently regulates and a tenth under development in Des Plaines.

"We'll do it, but we will do it at our own pace, when we are funded and when we have the people to do it," Illinois Gaming Board Chairman Aaron Jaffe said during a meeting in August, according to the Daily Herald.[79] "The state of Illinois has had enough disgraces already. We don't intend to make any more messes."

"I have no intention of asking the staff to give up regulating the casinos in order to start on this journey to do video poker without having the resources to do it," Jaffe said.[80]

The gaming board already has missed a September deadline to come up with video gaming rules. While some industry observers have indicated it could be up to a year before video poker machines start popping up in Illinois towns, this appears to be pure speculation. The board has not committed to a timeline, and it won't until the funding issue is resolved.

But while many towns have already moved to ban the machines, proponents of the legislation believe the state estimates for 45,000 machines and $300 million of new revenue is still a reasonable estimate.[81] In addition, a representative from the horseracing industry said off-track betting parlors in Illinois may try to become authorized video poker outlets. Those efforts are just beginning, however, and it is unclear how successful they would be. Currently, there are

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[78] Ibid.
[79] Joseph Ryan, "Critics urge state to reconsider video gambling expansion," *The Daily Herald,* August 25, 2009.
[80] Ibid.
[81] Interviews with a lobbyist and an Illinois gaming board official.

about 30 off-track betting facilities in Illinois, although the state can authorize up to 37 licenses.[82]

Chicago Casino?

Over the past decade, there have been many proposals to put a casino in Chicago. At the state level, the most recent effort to put a casino in Chicago took place in May, when the Illinois Senate, by a vote of 30-28, approved a proposal to allow a casino in not only Chicago, but also Waukegan, Rockford and Danville[83]. The Illinois House of Representatives did not move on the proposal last spring, however.

State Rep. Lou Lang, a Democrat from Chicago who has been a huge proponent of a casino in his district, has vowed to continue to push for legislation[84]. But Rep. Michael Madigan, Speaker of the Illinois House of Representatives, has been hesitant to approve further gambling expansion efforts[85]. An aide to Madigan told Spectrum the success of the legislation was hard to handicap. She said there were so many factions — casino interests and racetrack interests, rural legislatures versus urban ones, gambling proponents and gambling opponents –it has been difficult for the different groups to come to a compromise. Therefore, it will be tough passing any sort of gambling expansion.

"This is something certain people have been trying for years," the legislative aide said. "It's all about timing. The time has not been right."

Notably, gaming policies in any state are often affected by outside, seemingly random events that can nonetheless help drive decisions with respect to the expansion of gaming. The potential to add a casino in Chicago offers a clear example.

The decision by the International Olympic Committee to reject Chicago's bid to host the 2016 Summer Olympics has prompted officials to consider alternate uses for the former hospital site that was targeted as the site for the Olympic Village.

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[82] Illinois Racing Board.
[83] Ray Long, "Senate approves new casinos for Chicago, Waukegan, two other cities but prospects doubtful in House," *The Chicago Tribune's Clout Street*, May 30, 2009.
[84] Dan Carden, "Windy City proposal a high-stakes gamble," *The Times of Northwest Indiana,* September 7, 2009.
[85] Long, May 30, 2009.

As this report was being prepared, the *Chicago Tribune* reported that two Chicago aldermen have suggested building a casino on that site[86]. Chicago Mayor Richard Daley, who has never been steadfast in his support for a casino in the city, has not addressed the proposal as of this writing. We also note that any such move would need the approval of the state Legislature, which also has long debated over whether to allow a casino in Chicago.

The 10th License

The Illinois Gaming board in December awarded its 10th casino license to Midwest Gaming LLC, which is headed by Chicago businessman Neil Bluhm.

Midwest Gaming has proposed a 50,000-square-foot riverboat casino in the Illinois suburb of Des Plaines, near the O'Hare International Airport. Four restaurants, two hotels and a parking garage are also included in the plan. Although Des Plaines is not as close as other Illinois gambling cities are to Indiana, it is only an hour's drive to East Chicago, the closest Indiana riverboat.

While Midwest Gaming proposed the lowest upfront fee for the license — $125 million, versus $225 million and $435 million from its competitors — regulators selected its bid in a 3-1 vote because of questions about the other two applicants, Waukegan Gaming and Trilliant Gaming (controlled by former MGM Grand President Alex Yemenidjian).[87] Midwest Gaming also promised to pay an additional $300 million — $ 10 million a year for 30 years — in its bid.

The Illinois Gaming Board is currently conducting a licensing investigation into Midwest Gaming. Bluhm recently told Illinois regulators that he hopes to break ground on the casino in March 2010, and he believes the casino could be operational 16 months after the start of construction.[88]

Bluhm is involved in casino projects in Pennsylvania — in Philadelphia and Pittsburgh – – as well as Mississippi and Canada.

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[86] Dan Mihalopoulos, "2 alderman float idea of a casino and entertainment complex at Chicago's planned Olympic Village," *The Chicago Tribune,* October 9, 2009
[87] Bob Tita, "10th casino going to Des Plaines, *Crain's,* December 22, 2008.
[88] Monique Garcia, "Des Plaines casino construction to start in March, developer says" *The Chicago Tribune's Clout Street,* October 6, 2009 (http://newsblogs.chicagotribune.com/clout_st/2009/10/des-plaines-casino-construction-to-start-in-march-developer-says.html).

Horseracing Industry

The five horseracing tracks in Illinois have no gambling devices and have been hurt from competition for gambling dollars. In 2008, there were 39 fewer races than in 2007, and total handle fell 12 percent, to $818.7 million. Total purses paid fell 6.6 percent to $79.7 million[89].

However, unlike some other states, the industry in Illinois has not been as unified in its effort to get VLTs or slot machines at its tracks. And all efforts to legalize VLTs have been so far blocked by the casino industry.

The casinos have blocked other purse supplementation efforts for the horseracing industry. Currently, four riverboat casinos are required to pay 3 percent of their adjusted gross revenue to the horseracing industry.[90] However, legislation authorizing these payments is currently under appeal, and the money remains in escrow.

Ohio

Of all the Midwestern states, Ohio is the one with the most action when it comes to gambling expansion proposals. For much of the summer, the state has been consumed with the possibility of two avenues of gambling expansion — a proposal backed by Gov. Ted Strickland to put VLTs at the racetracks; and a voter referendum, backed by Penn National Gaming and Cleveland Cavaliers owner Dan Gilbert, for a constitutional amendment allowing for one casino in each of Ohio's four largest cities.

Both proposals have stirred controversy, and competitors and anti-gambling forces have joined to try to stop both. In addition, the state's plans for VLTs at the racetracks, which would have raised nearly $1 billion for public schools, was dealt a serious setback when the Ohio Supreme Court ruled on Sept. 21 that such gambling expansion could not go forward without voter approval[91].

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[89] Illinois Racing Board's 2008 Annual Report, (http://www.state.il.us/agency/irb/racing/reports/2008_Annual_Report.pdf).

[90] Illinois Racing Board 2008 Annual Report.

[91] Ohio Supreme Court State ex rel. LetOhioVote.org v. Brunner, Slip Opinion No. 2009-Ohio-4900, http://www.supremecourt.ohio.gov/rod/docs/pdf/0/2009/2009-Ohio-4900.pdf .

VLTs at Racetracks

Strickland had long been opposed to using casino-style gambling as a way to raise money for the state's coffers. But faced with a multi-billion dollar budget gap, the Ohio governor reversed course in June and proposed legalizing VLTs at Ohio's seven horse racetracks.[92]

State officials believed revenue from the 17,500 VLTs could raise nearly $1 billion over two years to fund education. In addition, the VLTs would be a way to help the ailing horseracing industry.

The legislation passed. The Ohio Lottery started implementing it, working towards getting VLTs up and running by spring. And all seven Ohio racetracks filed applications for the VLTs, although only two — Raceway Park, which is owned by Penn National, and Toledo Park — met a deadline to pay the first $13 million of $65 million in licensing fees.[93] Still, the prospect of VLTs lured Harrah's Entertainment, which bid to buy the Thistledown Racetrack out of bankruptcy for $89.5 million.[94]

Several groups sued to block the VLTs, however, and so far, one has been successful. On September 21, the Ohio Supreme Court ruled in favor of LetOhioVote.org that the VLT legislation could not move forward without voter approval. The court halted the state's efforts to implement the VLTs for 90 days to allow LetOhioVote.org time to gather signatures for a statewide referendum in November 2010.[95]

The ruling left state lawmakers scrambling to come up with ways to plug a budget hole. And it may jeopardize Harrah's deal to buy Thistledown if the company exercises its option to back out.[96]

Strickland initially said he would not give up on his VLT plan and would examine his options. That included directing the Ohio Lottery to implement VLTs by executive order,

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[92] Aaron Marshall and Reginald Fields, "Strickland seeks slots at 7 Ohio racetracks," *The Plain Dealer,* June 20, 2009.
[93] Mark Niquette, "Racetracks' slot license fees trickle in," *The Columbus Dispatch,* September 16, 2009.
[94] Frank Angst, "Ownership changes possible for all Ohio tracks," *Thoroughbredtimes.com*, September 17, 2009.
[95] Ohio Supreme Court State ex rel. LetOhioVote.org v. Brunner, Slip Opinion No. 2009-Ohio-4900, http://www.supremecourt.ohio.gov/rod/docs/pdf/0/2009/2009-Ohio-4900.pdf.

[96] Reginald Fields, "Court ruling on slots tips odds on Harrah's Thistledown deal," *The Plain Dealer,* September 23, 2009.

something which was not addressed in the Supreme Court ruling.[97] Others have floated the idea of putting a VLT referendum before voters in May, rather than wait until November 2010.

But on September 30, Strickland released a statement saying a May referendum would "still be too late to generate the necessary revenue to fund education. And this would not resolve the legal challenges facing the state today."[98]

Instead, Strickland announced he would seek a Declaratory Judgment to determine whether the Ohio Lottery has the authority to implement VLTs without legislative approval. "We need to hear from the courts on this Constitutional question," he said.[99]

Given the controversy over the issue, it is our view that even if Strickland were to receive a Declaratory Judgment in his favor, the state would be hesitant to move ahead with its VLT plans at the tracks without first putting the issue to voters. November 2010 would be the earliest that could happen. In the event Ohio residents vote in favor of a VLT proposal, it would take the at least 6 months before the tracks would be ready to offer the machines. Therefore, if Ohio residents vote in favor of the proposal, the earliest we expect VLTs at the racetracks is sometime in 2011.

Issue 3: A Proposal for Four Ohio Casinos

In February, Penn National and Gilbert, formerly opponents, joined forces to back Issue 3, a constitutional amendment that would allow casinos in Cleveland, Columbus, Cincinnati and Toledo. If the referendum passes, Penn and Gilbert would each have the right to build two casinos — Penn in Columbus and Toledo, Gilbert in Cleveland and Cincinnati. Each casino could have up to 5,000 slot machines, and each would pay a 33 percent tax on gambling revenue to the state. In addition, developers would be required to pay a licensing fee of $50 million and invest up to $250 million for each casino.[100]

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[97] Mark Niquette, "What Now, Ohio?" *The Columbus Dispatch,* September 22, 2009.
[98] "Governor Proposes Plan to Balance Budget and Protect Ohio Schools," *Ohio.gov*, September 30, 2009 http://governor.ohio.gov/News/PressReleases/2009/September2009/News93009/tabid/1262/Default.aspx.

[99] Ibid.
[100] Alexander Coolidge, "Ohio's billion-dollar gamble," *The Cincinnati Enquirer*, September 17, 2009.

At first glance, Penn National and Gilbert make for an unlikely pair. Last year, Penn National financed a $45 million campaign to block a referendum by Gilbert to put a casino in Wilmington, in southwestern Ohio.[101] The two sides instead decided to join forces this year.

Ohio residents have voted down four casino proposals in the last 20 years. But Penn National and Gilbert have said their internal polling shows Ohioans are not opposed to gambling, they just need the right proposal to back. Some have estimated that Ohioans spend $1 billion a year gambling in nearby states. In West Virginia, Ohioans make up 68 percent of the players at Mountaineer Racetrack, 38 percent of the patrons at Wheeling Island and 26 percent of the customers at Tri-State Racetrack.[102]

Penn and Gilbert argue that Ohioans could be swayed to approve a gambling referendum if presented with the right plan — locating casinos in the downtown areas of Ohio's largest cities with a guarantee that a portion of the taxes raised by the casinos would go back to the communities.[103]

In addition, a study by the University of Cincinnati that was paid for by Penn and Gilbert showed their proposal would generate 34,000 jobs and result in an $11 billion economic impact, although some have disputed those findings.[104]

Even so, creating jobs and new tax revenue, spearheading economic development and revitalizing the downtowns of Ohio's four largest cities are issues that resonate with Ohio voters, said Herb Asher, a political science professor at Ohio State University.[105]

Indeed, a recent Quinnipiac University poll conducted in mid-September showed 58 percent of Ohio residents were in favor of gambling expansion.[106]

However, we still add a cautionary note. The Wilmington casino referendum last year also showed support this time last year but was ultimately voted down.

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[101] Jane Kahoun, "Dan Gilbert and rival casino groups join for new Ohio ballot proposal," *The Plain Dealer,* February 25, 2009.
[102] Phil Kabler, "Ohio racetrack slots reversal boosts W.Va's budget outlook," *The Charleston Gazette*, September 21, 2009.
[103] Interviews with backers of Issue 3.
[104][104] University of Ohio Study Projects More Than 34,000 Jobs, $11 Billion in Economic Impact Over Five Years From Casino Ballot Issue, July 7, 2009 (http://news.prnewswire.com/DisplayReleaseContent.aspx?ACCT=ind_focus.story&STORY=/www/story/07-07-2009/0005056054&EDATE=).
[105] Interview with Herb Asher September 25, 2009.
[106] Quinnipiac University, September 15, 2009. (http://www.quinnipiac.edu/x1322.xml?ReleaseID=1371).

"If the election were held today, (Issue 3) would pass," Asher, the political science professor, told Spectrum. "But typically what happened in the past is that, as we get closer to the election, all the newspapers come out against it, some of the church groups come out against it. … Both sides have a ton of money. And of course, as we get closer to the election, politicians on both sides will come out for or against it."

Faced with the opposition from church groups and politicians, as well as the financial backing of rival casino interests, previous attempts at a voter referendum for gambling have failed.

However, Asher said Penn and Gilbert seem to be doing a good job making their case that the four casinos would create jobs and stimulate economic development, and that Ohio is losing out on gambling money to nearby states.

"It wouldn't be surprising if this was defeated," Asher said. "But I think support for it might be stronger this year than in the past."

Kentucky

Horseracing Industry

Home of the Kentucky Derby, an American icon and typically the most highly attended stakes race, Kentucky has become synonymous with horseracing.

But the industry here has taken a beating now that so many other states have allowed casino-style gambling at their race tracks to supplement their purses. A government task force issued a report in December 2008 that warned Kentucky was in danger of losing its long-held status.

"Kentucky's horse industry faces significant and growing competition from other states," the report said. "Purses and breeding programs in competing states have increased substantially, posing a threat to Kentucky's long-held position as the 'The Horse Capital of the World.'"[107]

The report noted 15 of the top 20 tracks in the nation are now or will soon have purses subsidized with alternative gaming revenue. "Racetracks with alternative gambling are projected

[107] Report of the Governor's Task Force on the Future of Horse Racing, December 2008 http://www.khrc.ky.gov/NR/rdonlyres/5B0DFE99-CC80-4C20-9BD6-EB3BA18D0FDE/0/FinalGovernorsTaskForceReportonHorseRacing121508.pdf

to see a combined increase in annual purses of 45.5 percent by 2013," the report stated. "This compares to an anticipated decline of 11.9 percent at tracks without such gaming revenue."[108] In addition, Kentucky cannot fund breeding development at the same level as states with VLTs at its tracks, the report said.

Against this backdrop, it should come as no surprise that the Kentucky horseracing industry has tried for years to pass legislation allowing VLTs at its eight tracks. But those efforts have been blocked largely by strong opposition from religious groups.

The most recent attempt failed in June. The VLT legislation was spearheaded by Rep. Greg Stumbo, the Democratic Speaker of the House who, as Kentucky's Attorney General, issued an opinion that VLTs would not require an amendment to the state constitution.[109] It had the backing of Democratic Gov. Steve Beshear and passed by a slim majority in the House. But in June, a Republican-controlled Senate budget committee voted it down in a 10-5 vote.[110]

Even so, efforts to put VLTs in Ohio's racetracks were putting immense pressure on the horseracing industry in Kentucky, said Gene Clabes, the executive director of the Kentucky Equine Education Project ("KEEP"), a group that was formed five years ago to unite the horseracing industry and push for VLTs[111].

After the June legislation was shot down, the horseracing industry has worked to help state Democrats obtain a controlling majority and oust Senate President David Williams, a major gambling opponent, from his leadership position.[112] Most of the seats — all 100 in the House and 19 out of the 38 in the Senate — will not be up for grabs until next year. But the Democrats were able to increase their ranks by one after a special election was held in August for a vacant Senate seat. Republicans still hold a 20-17 majority, however. (There is also one independent.)[113]

If the Democrats can persuade enough Republicans to back the VLT legislation, they might try to push it through again next year, Clabes told Spectrum.

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[108] Ibid.
[109] Janet Patton, "Stumbo to file racetrack gambling bill," *The Lexington Herald-Leader,* December 21, 2008.
[110] Jack Brammer and Emily Ulber, "Only option for slots supporters is to wait," *The Lexington Herald-Leader,* June 25, 2009.
[111] Spectrum interview, September 24, 2009
[112] Jack Brammer, "Webb wins special election for Senate seat," *The Lexington Herald-Leader,* August 26, 2009.
[113] Ibid.

In the meantime, the rhetoric has ratcheted up. In late September, Bill Farish, a longtime Republican and general manager of Lane's End Farm in Central Kentucky, accused Sen. Williams of being "less concerned about helping our industry and more concerned about maintaining control over his Senate fiefdom."[114]

Williams fired back that "The proposed expansion of gambling in Kentucky is bad economic policy for the state and for the horse industry."[115] His statements caused one industry observer to proclaim that any hope for racetrack casinos in Kentucky "appeared remote."[116]

Projecting Possible Gaming Market Changes

To estimate the broad range of possible outcomes for the Indiana gaming markets over the next several years, Spectrum first sub-divided the state into four largely, though not entirely, discrete sub-markets:

- Northwest Indiana/Chicagoland (Ameristar, Blue Chip, Horseshoe Hammond, Majestic Star): In addition to the Indiana operations, this large and robust gaming market is presently comprised of four riverboat operators in the Chicago suburbs (Grand Victoria Elgin, and Four Winds tribal casino in New Buffalo, Michigan.
- Southwest Indiana (Aztar, French Lick, Horseshoe S.I.): At the western end of this sub-market, Casino Aztar competes marginally with Harrah's Metropolis in Illinois. French Lick competes mostly with only its two Indiana neighbors, as does Horseshoe, nearest to Louisville, KY, but which also has some tangential market reach into the southeast Indiana sub-market, mainly vs. Belterra.
- Southeast Indiana (Belterra, Grand Victoria, Hollywood Lawrenceburg): These three casinos presently tap primarily the greater Cincinnati, Ohio market, led by the recently expanded Hollywood, northernmost and closest to the Cincinnati metro area. This sub-market more than any other is the target for

[114] "Farish: Politics Won't Thwart Horse Industry," *Bloodhorse.com* http://www.bloodhorse.com/horse-racing/articles/52644/farish-politics-wont-thwart-horse-industry .
[115] "Senate President Williams Responds to Farish," *Bloodhorse.com* *http://www.bloodhorse.com/horse-racing/articles/52714/senate-president-williams-responds-to-farish?source=rss* .
[116] Ray Poirier, "Slot hopes dashed at Churchill Downs," *Gaming Today*, September 29, 2009.

the most significant possible gaming expansion — two Ohio and one Kentucky racinos and a downtown Cincinnati casino, if realized, would more than double the existing market capacity.

- Central Indiana (Hoosier Park and Indiana Live!): The two racino and newest Indiana gaming operators serve primarily the greater Indianapolis area, plus with some reach northward to Fort Wayne by Hoosier Park, and some marketing overlap southeast into the Cincinnati market mainly from Indiana Live!

We then examined characteristics of these geographic market areas, including gaming revenue histories, current inventories or capacity, out-of-state competitors, and market feeder populations, via drive-time analyses of each property and sub-market.

This section and tables focus on gross gaming revenues (slot and/or table "GGR") and Indiana state gaming taxes (admission and/or wagering) only. It does not attempt to address or predict changes in tax rates or other differential payments made to other entities by some operators and not others. We started with a five-year history of Indiana gaming revenue (GGR) and state taxes through fiscal year 2009, then estimate the next five years, with FY 2010 as the base year, assuming the status quo — no external or internal changes to the present market(s). This provides our baseline Indiana gaming case, against which we then project a series of various estimated changes to the landscape, based on current information about their scope and possible timing. The sequence of at least possible, if not likely, key developments that we tested is:

- The recently-approved Des Plaines, Illinois casino, estimated here to begin as of FY 2012.
- VLT's at Ohio racetracks, specifically of consequence for Indiana, at River Downs in Cincinnati and Lebanon Raceway, again estimated to begin as of FY 2012.
- VLT's at Kentucky racetracks, in this case Ellis Park in Henderson, near Evansville, and/or Churchill Downs in Louisville, both affecting the southwest Indiana sub-market, and then with the Ohio racinos, Turfway Park in Florence, KY, near Cincinnati, all estimated to begin as of FY 2013.
- A substantial downtown Cincinnati casino, also estimated to begin as of FY 2013.

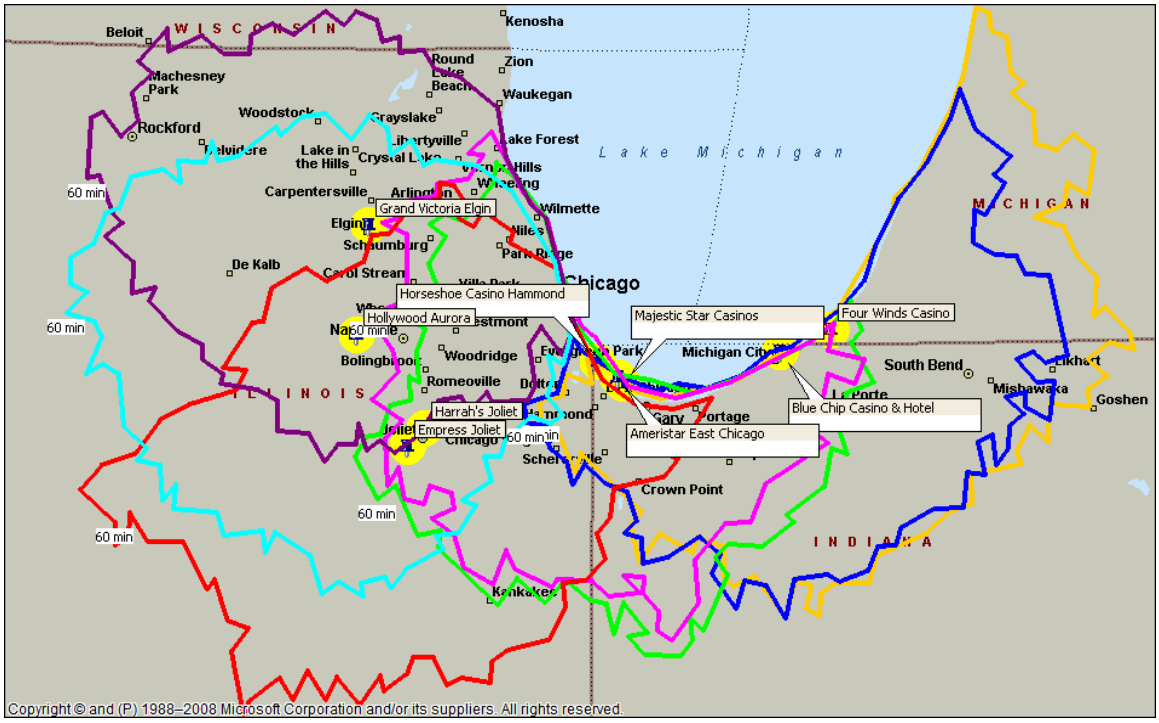
- A possible large downtown Chicago casino, here estimated to begin as of FY 2014 (in addition to the approved Des Plaines site).
- A sequence of the various more likely combinations of the above events as they would approximately affect their respective Indiana sub-markets. Most of these possible combinations involve the southeast Indiana/Cincinnati market area, which will be the recipient of the largest number of possible external gaming developments to affect Indiana over the next few years.
- One "all-in" scenario assuming all the above changes occur in neighboring states, estimating their likely combined effects on Indiana's GGR and direct taxes.

Indiana Gaming Market Drive-time Maps

The following gaming market drive-time maps illustrate in more detail the four Indiana sub-markets described above and the possible additions to those markets by neighboring states. The maps highlight 60-minute drive-time perimeters for each site, from which most such markets draw the overwhelming majority of their day-trip clientele. The entire shared drive-time area for each sub-market represents the respective geography for each feeder population base.[117] The submarket maps are sequenced in "before and after" pairs (except central Indiana), showing current conditions first and then likely conditions after all the considered possible developments occur.

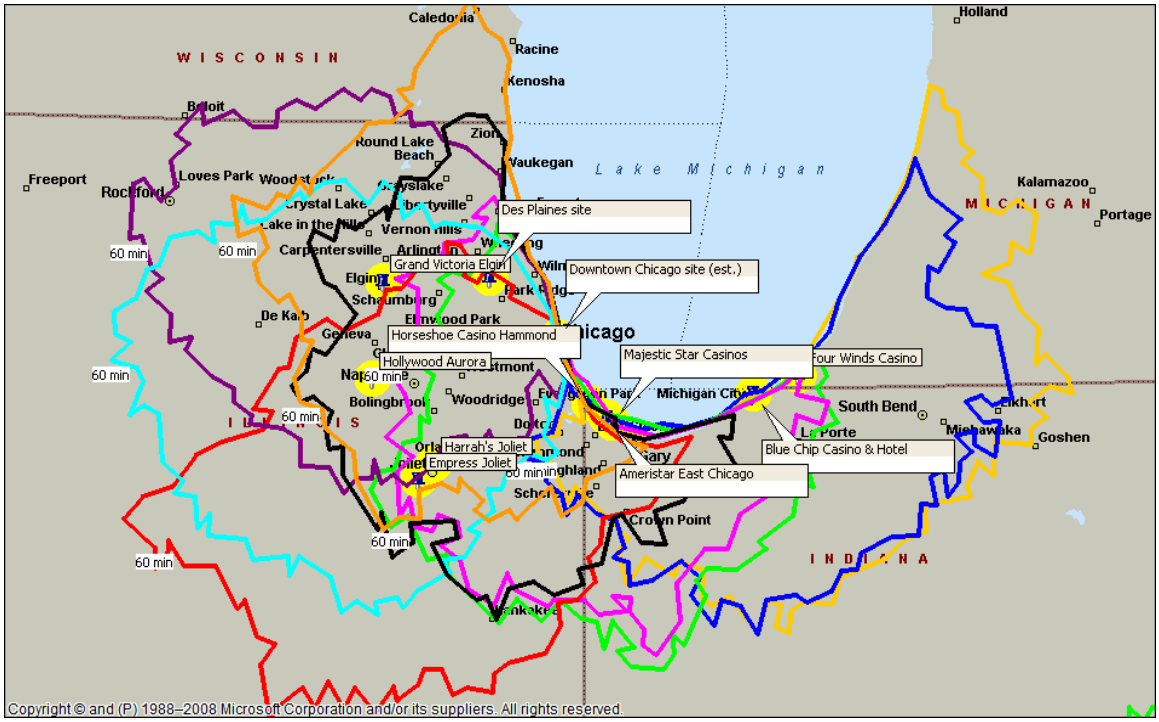
[117] Microsoft MapPoint 2009 software, and embedded U.S. Census Bureau 2007 estimates.

Northwest Indiana/Chicagoland Market Now



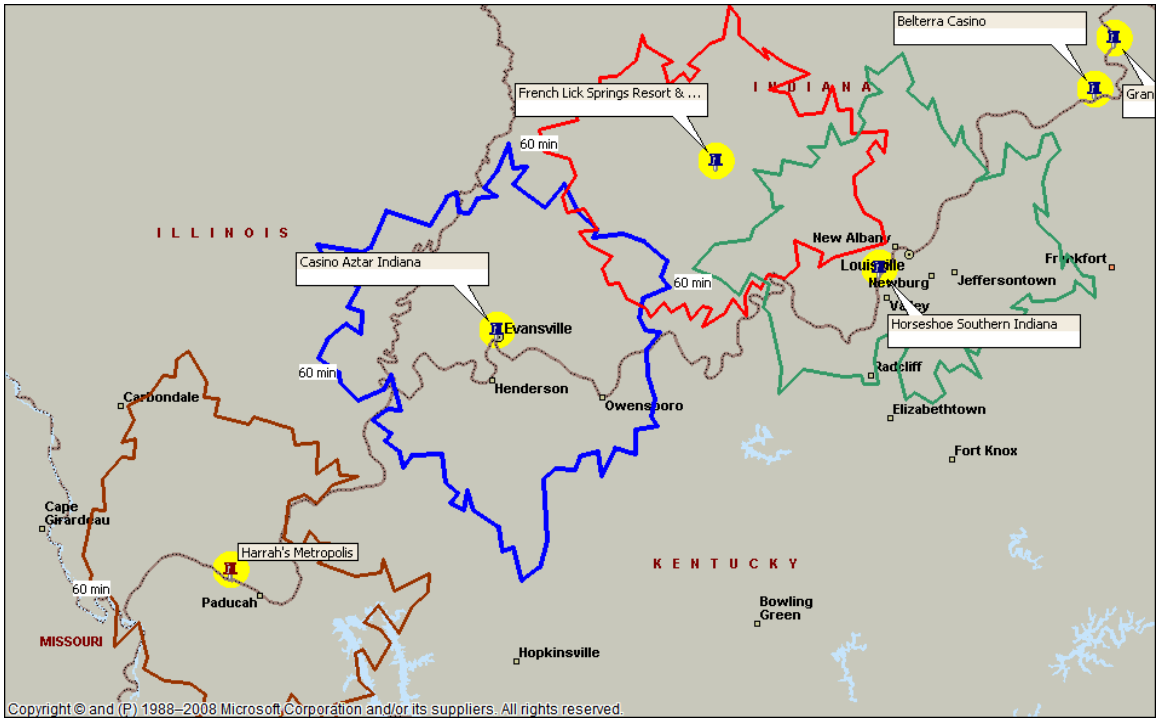
Ameristar EC and Majestic Stars in bright **Green** (virtually identical feeder markets due to location)**,** Horseshoe Hammond in bright **Pink**, Blue Chip in dark **Blue**, Four Winds, MI in Gold, Grand Victoria Elgin, IL in **Purple**, Hollywood Aurora, IL in **Turquoise** blue, and Harrah's Joliet and Empress Joliet both in **Red**, due to close proximity.

Northwest Indiana/Chicagoland Market "After"



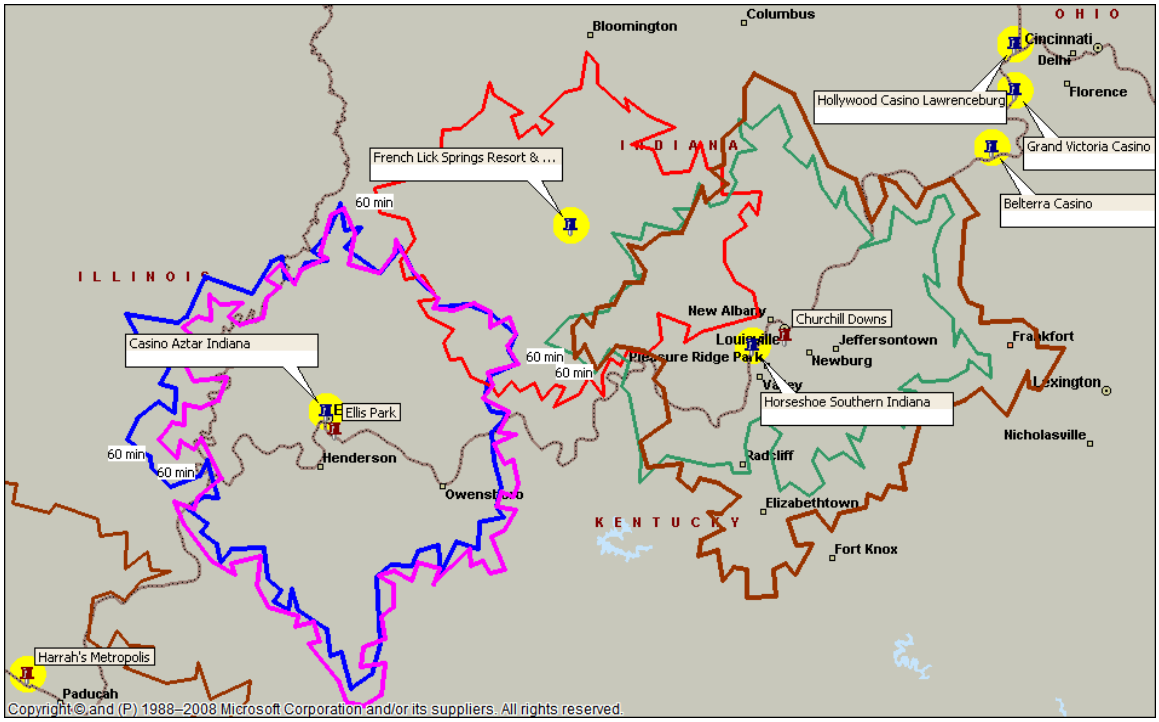
Des Plaines, IL in **Orange**, and downtown Chicago in **Black**. Note that Des Plaines even at one hour has relatively little impact to northwest Indiana compared to the downtown Chicago site. At one-hour distances, these two maps indicate the outer reaches of the Chicagoland market, as it is a more highly concentrated convenience-based market than many markets around smaller cities, suburban, or semi-rural areas. That is, most Chicagoland sites have a higher proportion of customers from within about thirty minutes than most other markets.

Southwest Indiana Now



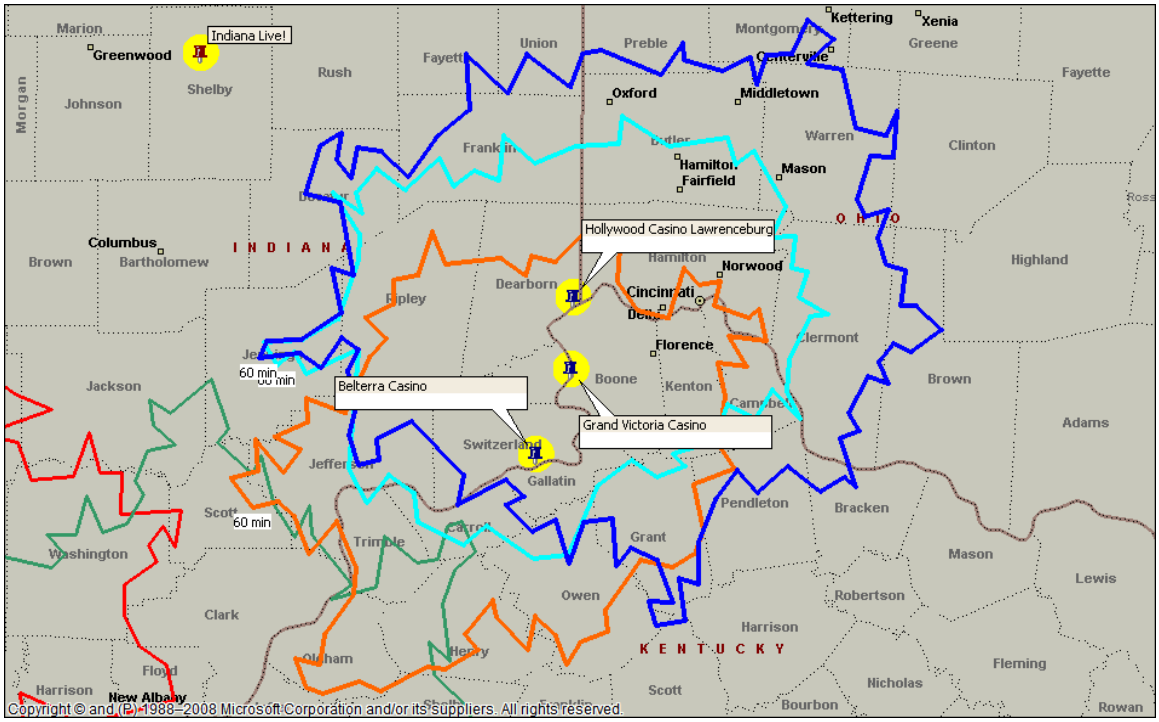
Casino Aztar in dark **Blue**, French Lick Springs in **Red**, Horseshoe Southern Indiana in **Green**, and Harrah's Metropolis, IL in **Brown**.

Southwest Indiana "After"



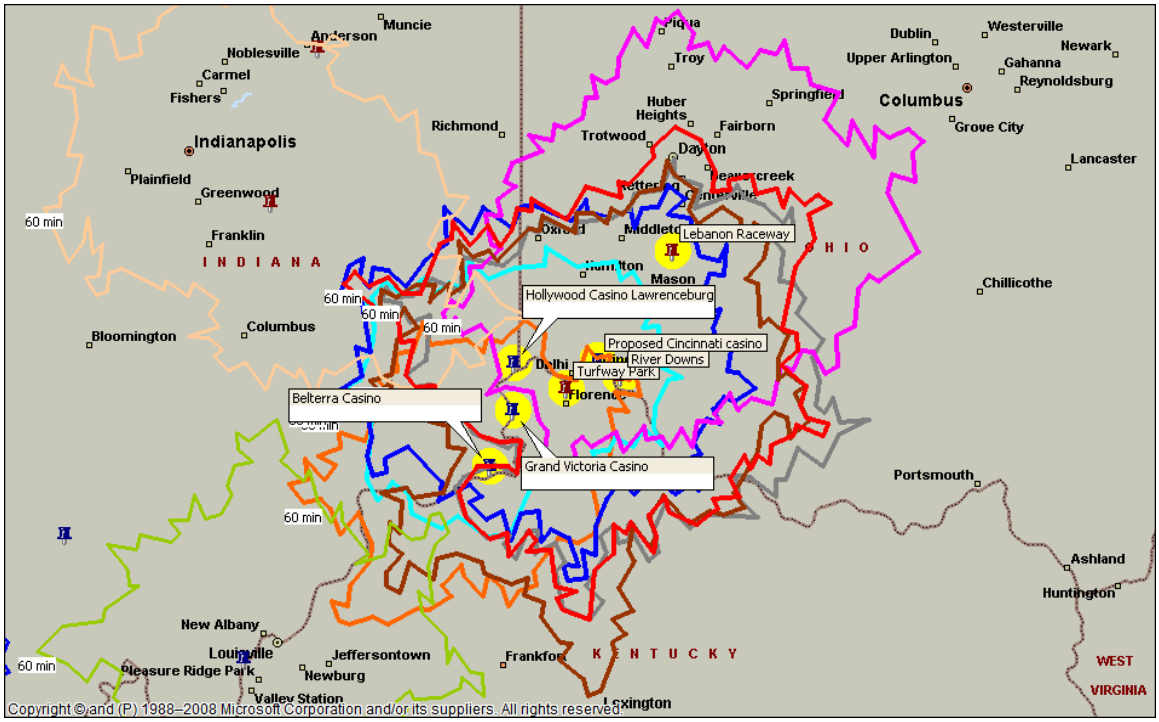
Ellis Park, Henderson, KY in bright **Pink**, and Churchill Downs, Louisville, KY in dark **Brown**. Note how closely the two potential Kentucky additions overlie the existing 60-minute markets for Casino Aztar and Horseshoe S.I.

Southeast Indiana Now



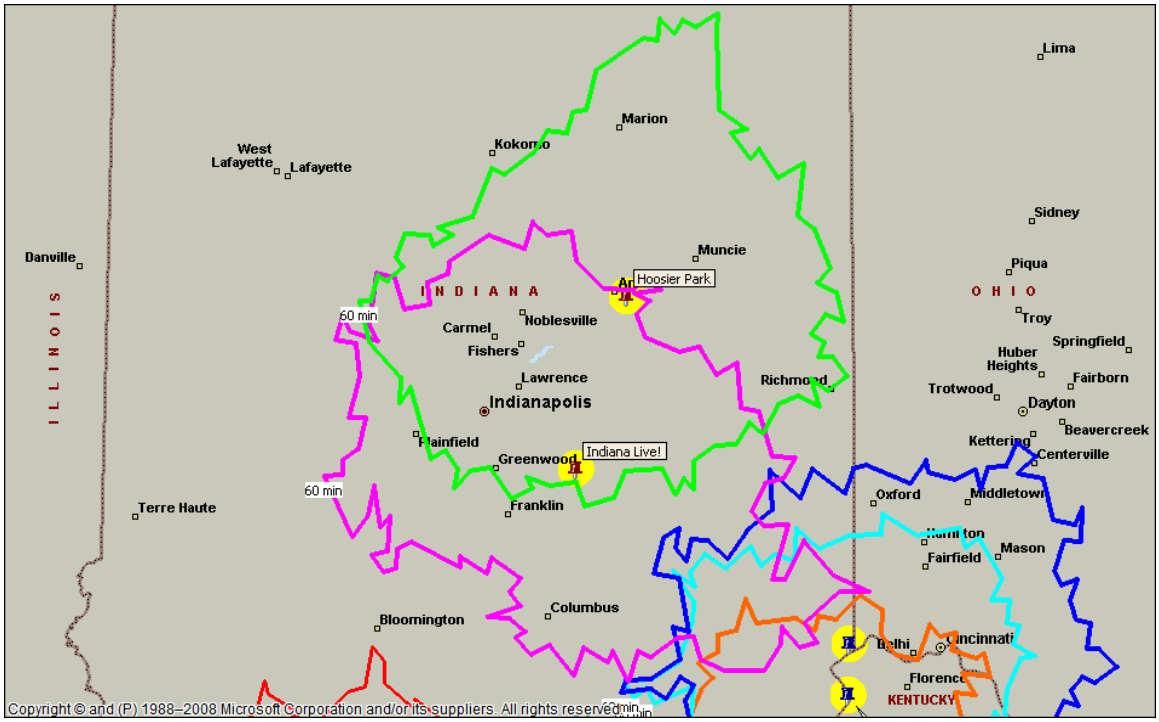
Belterra in **Orange**, Grand Victoria in **Turquoise** blue, and Hollywood in dark **Blue**. Despite the substantial overlaps, this market presently presents a relatively uncomplicated picture.

Southeast Indiana "Later"



Lebanon Raceway, OH in bright **Pink**, possible downtown Cincinnati casino in **Red**, River Downs, OH in **Gray**, and Turfway Park, KY in dark **Brown**. This illustrates what will become a highly competitive market if all projected options come to pass. Lebanon Raceway would expand the market more than any other addition, convenient to more customers to the north and east towards Columbus, OH. The **green** and **tan** perimeters to the west are Horseshoe, S.I. and Indiana Live!, respectively, showing some degree of overlap between the three sub-markets.

Central Indiana



Hoosier Park in bright **Green** and Indiana Live! in bright **Pink**, comprise this south-central state/Indianapolis slots sub-market. Here again one can see a minority level of overlap between Indiana Live! and the southeast Indiana sub-market.

Gross Gaming Revenue and State Tax Projections Tables

For clarity and relative brevity, the following tables estimate each new project or change at full effect for the beginning fiscal year selected, which impacts are then carried forward simply in the charts, without attempts to "feather" in residual effects or other market nuances, which may occur in reality but are not sufficiently material or predictable to model at this early stage of analysis.

Note that the 1.7 to 2.4 percent annual growth rates in the base case projections underlie all the projection years in the tables, and are based on a combination of current U.S. Census

Bureau population growth forecasts[118] and Congressional Budget Office core economic growth indices.[119]

Indiana Base Case — historical

Base Case (no changes) Scenario - historical:					
Total Indiana GGR and State Taxes	Fiscal Year:				
($ in Millions)	2005	2006	2007	2008	2009
Southwest Indiana Revenue	$423.6	$450.7	$533.2	$541.6	$507.7
Percentage Change		6.4%	18.3%	1.6%	-6.3%
Southwest Indiana Taxes	$132.6	$144.2	$166.3	$167.1	$154.7
Percentage Change		8.7%	15.3%	0.5%	-7.4%
Taxes Percent of Revenue	31.3%	32.0%	31.2%	30.9%	30.5%
Southeast Indiana Revenue	$749.6	$771.5	$802.5	$780.4	$680.8
Percentage Change		2.9%	4.0%	-2.8%	-12.8%
Southeast Indiana Taxes	$239.9	$248.3	$258.8	$250.2	$215.2
Percentage Change		3.5%	4.2%	-3.3%	-14.0%
Taxes Percent of Revenue	32.0%	32.2%	32.2%	32.1%	31.6%
Central Indiana Revenue	$0.0	$0.0	$0.0	$26.0	$391.0
Percentage Change		0.0%	0.0%	0.0%	1,401.1%
Central Indiana Taxes	$0.0	$0.0	$0.0	$6.5	$107.8
Percentage Change		0.0%	0.0%	0.0%	1,545.9%
Taxes Percent of Revenue	0.0%	0.0%	0.0%	25.1%	27.6%
Northwest Indiana Revenue	$1,241.9	$1,260.4	$1,305.2	$1,223.2	$1,220.1
Percentage Change		1.5%	3.6%	-6.3%	-0.2%
Northwest Indiana Taxes	$402.4	$410.8	$426.4	$393.2	$398.1
Percentage Change		2.1%	3.8%	-7.8%	1.2%
Taxes Percent of Revenue	32.4%	32.6%	32.7%	32.2%	32.6%
Total Indiana Revenue	$2,415.0	$2,482.6	$2,640.8	$2,571.1	$2,799.6
Percentage Change		2.8%	6.4%	-2.6%	8.9%
Total Indiana Taxes	$774.9	$803.2	$851.5	$817.1	$875.7
Percentage Change		3.7%	6.0%	-4.0%	7.2%
Taxes Percent of Revenue	32.1%	32.4%	32.2%	31.8%	31.3%

[118] U.S. Census Bureau, Population Division, Interim State Population Projections, 2005.
[119] U.S. Congressional Budget Office, average of Core Personal Consumption Expenditure Price Index and Consumer Price Index, 2009.

Indiana Base Case — projected

Base Case (no changes) Scenario - projected:					
Total Indiana GGR and State Taxes	Fiscal Year:				
($ in Millions)	2010	2011	2012	2013	2014
Southwest Indiana Revenue	$516.1	$524.8	$536.1	$549.2	$562.6
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Southwest Indiana Taxes	$157.3	$159.9	$163.3	$167.3	$171.4
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Taxes Percent of Revenue	30.5%	30.5%	30.5%	30.5%	30.5%
Southeast Indiana Revenue	$692.0	$703.8	$718.8	$736.4	$754.4
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Southeast Indiana Taxes	$218.7	$222.4	$227.2	$232.8	$238.4
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Taxes Percent of Revenue	31.6%	31.6%	31.6%	31.6%	31.6%
Central Indiana Revenue	$397.5	$404.2	$412.9	$423.0	$433.3
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Central Indiana Taxes	$109.5	$111.4	$113.8	$116.6	$119.4
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Taxes Percent of Revenue	27.6%	27.6%	27.6%	27.6%	27.6%
Northwest Indiana Revenue	$1,258.6	$1,279.9	$1,307.4	$1,339.3	$1,372.0
Percentage Change	3.2%	1.7%	2.1%	2.4%	2.4%
Northwest Indiana Taxes	$411.1	$418.1	$427.0	$437.5	$448.1
Percentage Change	3.3%	1.7%	2.1%	2.4%	2.4%
Taxes Percent of Revenue	32.7%	32.7%	32.7%	32.7%	32.7%
Total Indiana Revenue	$2,864.3	$2,912.8	$2,975.2	$3,047.9	$3,122.3
Percentage Change	2.3%	1.7%	2.1%	2.4%	2.4%
Total Indiana Taxes	$896.6	$911.8	$931.4	$954.1	$977.4
Percentage Change	2.4%	1.7%	2.1%	2.4%	2.4%
Taxes Percent of Revenue	31.3%	31.3%	31.3%	31.3%	31.3%

Des Plaines, IL casino as of FY 2012

The highlighted section below shows the estimated annual effect on Indiana's share of the Chicagoland market.

Des Plaines as of 2012 Scenario:					
Total Indiana GGR and State Taxes	Fiscal Year:				
($ in Millions)	2010	2011	2012	2013	2014
Southwest Indiana Revenue	$516.1	$524.8	$536.1	$549.2	$562.6
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Southwest Indiana Taxes	$157.3	$159.9	$163.3	$167.3	$171.4
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Taxes Percent of Revenue	30.5%	30.5%	30.5%	30.5%	30.5%
Southeast Indiana Revenue	$692.0	$703.8	$718.8	$736.4	$754.4
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Southeast Indiana Taxes	$218.7	$222.4	$227.2	$232.8	$238.4
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Taxes Percent of Revenue	31.6%	31.6%	31.6%	31.6%	31.6%
Central Indiana Revenue	$397.5	$404.2	$412.9	$423.0	$433.3
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Central Indiana Taxes	$109.5	$111.4	$113.8	$116.6	$119.4
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Taxes Percent of Revenue	27.6%	27.6%	27.6%	27.6%	27.6%
Northwest Indiana Revenue	$1,258.6	$1,279.9	$1,272.1	$1,303.2	$1,335.0
Percentage Change	3.2%	1.7%	-0.6%	2.4%	2.4%
Northwest Indiana Taxes	$411.1	$418.1	$415.3	$425.4	$435.8
Percentage Change	3.3%	1.7%	-0.7%	2.4%	2.4%
Taxes Percent of Revenue	32.7%	32.7%	32.6%	32.6%	32.6%
Total Indiana Revenue	$2,864.3	$2,912.8	$2,939.9	$3,011.7	$3,085.3
Percentage Change	2.3%	1.7%	0.9%	2.4%	2.4%
Total Indiana Taxes	$896.6	$911.8	$919.6	$942.1	$965.1
Percentage Change	2.4%	1.7%	0.9%	2.4%	2.4%
Taxes Percent of Revenue	31.3%	31.3%	31.3%	31.3%	31.3%

VLT's at River Downs and Lebanon Raceway, OH as of FY 2012

This chart highlights erosion to southeast Indiana annual share if both Ohio tracks get VLT's.

OH Racinos as of 2012 Scenario:					
Total Indiana GGR and State Taxes	Fiscal Year:				
($ in Millions)	2010	2011	2012	2013	2014
Southwest Indiana Revenue	$516.1	$524.8	$536.1	$549.2	$562.6
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Southwest Indiana Taxes	$157.3	$159.9	$163.3	$167.3	$171.4
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Taxes Percent of Revenue	30.5%	30.5%	30.5%	30.5%	30.5%
Southeast Indiana Revenue	$692.0	$703.8	$557.3	$570.9	$584.8
Percentage Change	1.7%	1.7%	-20.8%	2.4%	2.4%
Southeast Indiana Taxes	$218.7	$222.4	$176.2	$180.5	$184.9
Percentage Change	1.7%	1.7%	-20.8%	2.4%	2.4%
Taxes Percent of Revenue	31.6%	31.6%	31.6%	31.6%	31.6%
Central Indiana Revenue	$397.5	$404.2	$394.0	$403.6	$413.5
Percentage Change	1.7%	1.7%	-2.5%	2.4%	2.4%
Central Indiana Taxes	$109.5	$111.4	$108.6	$111.2	$114.0
Percentage Change	1.7%	1.7%	-2.5%	2.4%	2.4%
Taxes Percent of Revenue	27.6%	27.6%	27.6%	27.6%	27.6%
Northwest Indiana Revenue	$1,258.6	$1,279.9	$1,307.4	$1,339.3	$1,372.0
Percentage Change	3.2%	1.7%	2.1%	2.4%	2.4%
Northwest Indiana Taxes	$411.1	$418.1	$427.0	$437.5	$448.1
Percentage Change	3.3%	1.7%	2.1%	2.4%	2.4%
Taxes Percent of Revenue	32.7%	32.7%	32.7%	32.7%	32.7%
Total Indiana Revenue	$2,864.3	$2,912.8	$2,794.7	$2,863.0	$2,932.9
Percentage Change	2.3%	1.7%	-4.1%	2.4%	2.4%
Total Indiana Taxes	$896.6	$911.8	$875.1	$896.5	$918.4
Percentage Change	2.4%	1.7%	-4.0%	2.4%	2.4%
Taxes Percent of Revenue	31.3%	31.3%	31.3%	31.3%	31.3%

VLT's at Ellis Park and Churchill Downs, KY as of FY 2013

This table estimates annual attrition to the southwest operators and Indiana if these Kentucky tracks get slots.

Ellis Park + Churchill Downs, KY as of 2013 Scenario:					
Total Indiana GGR and State Taxes	Fiscal Year:				
($ in Millions)	2010	2011	2012	2013	2014
Southwest Indiana Revenue	$516.1	$524.8	$536.1	$438.6	$449.3
Percentage Change	1.7%	1.7%	2.1%	-18.2%	2.4%
Southwest Indiana Taxes	$157.3	$159.9	$163.3	$132.8	$136.0
Percentage Change	1.7%	1.7%	2.1%	-18.7%	2.4%
Taxes Percent of Revenue	30.5%	30.5%	30.5%	30.3%	30.3%
Southeast Indiana Revenue	$692.0	$703.8	$718.8	$736.4	$754.4
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Southeast Indiana Taxes	$218.7	$222.4	$227.2	$232.8	$238.4
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Taxes Percent of Revenue	31.6%	31.6%	31.6%	31.6%	31.6%
Central Indiana Revenue	$397.5	$404.2	$412.9	$423.0	$433.3
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Central Indiana Taxes	$109.5	$111.4	$113.8	$116.6	$119.4
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Taxes Percent of Revenue	27.6%	27.6%	27.6%	27.6%	27.6%
Northwest Indiana Revenue	$1,258.6	$1,279.9	$1,307.4	$1,339.3	$1,372.0
Percentage Change	3.2%	1.7%	2.1%	2.4%	2.4%
Northwest Indiana Taxes	$411.1	$418.1	$427.0	$437.5	$448.1
Percentage Change	3.3%	1.7%	2.1%	2.4%	2.4%
Taxes Percent of Revenue	32.7%	32.7%	32.7%	32.7%	32.7%
Total Indiana Revenue	$2,864.3	$2,912.8	$2,975.2	$2,937.3	$3,009.0
Percentage Change	2.3%	1.7%	2.1%	-1.3%	2.4%
Total Indiana Taxes	$896.6	$911.8	$931.4	$919.5	$942.0
Percentage Change	2.4%	1.7%	2.1%	-1.3%	2.4%
Taxes Percent of Revenue	31.3%	31.3%	31.3%	31.3%	31.3%

Preceding VLTs in Ohio, Kentucky, plus at Turfway Park, KY as of FY 2013

This chart combines the projected damage to southeast and southwest Indiana if all five relevant tracks in Kentucky and Ohio acquire VLT's.

OH Racinos 2012 + KY Racinos 2013 Scenario:					
Total Indiana GGR and State Taxes	Fiscal Year:				
($ in Millions)	2010	2011	2012	2013	2014
Southwest Indiana Revenue	$516.1	$524.8	$536.1	$438.6	$449.3
Percentage Change	1.7%	1.7%	2.1%	-18.2%	2.4%
Southwest Indiana Taxes	$157.3	$159.9	$163.3	$132.8	$136.0
Percentage Change	1.7%	1.7%	2.1%	-18.7%	2.4%
Taxes Percent of Revenue	30.5%	30.5%	30.5%	30.3%	30.3%
Southeast Indiana Revenue	$692.0	$703.8	$557.3	$471.8	$483.3
Percentage Change	1.7%	1.7%	-20.8%	-15.3%	2.4%
Southeast Indiana Taxes	$218.7	$222.4	$176.2	$149.0	$152.7
Percentage Change	1.7%	1.7%	-20.8%	-15.4%	2.4%
Taxes Percent of Revenue	31.6%	31.6%	31.6%	31.6%	31.6%
Central Indiana Revenue	$397.5	$404.2	$394.0	$391.8	$401.4
Percentage Change	1.7%	1.7%	-2.5%	-0.5%	2.4%
Central Indiana Taxes	$109.5	$111.4	$108.6	$108.0	$110.6
Percentage Change	1.7%	1.7%	-2.5%	-0.5%	2.4%
Taxes Percent of Revenue	27.6%	27.6%	27.6%	27.6%	27.6%
Northwest Indiana Revenue	$1,258.6	$1,279.9	$1,307.4	$1,339.3	$1,372.0
Percentage Change	3.2%	1.7%	2.1%	2.4%	2.4%
Northwest Indiana Taxes	$411.1	$418.1	$427.0	$437.5	$448.1
Percentage Change	3.3%	1.7%	2.1%	2.4%	2.4%
Taxes Percent of Revenue	32.7%	32.7%	32.7%	32.7%	32.7%
Total Indiana Revenue	$2,864.3	$2,912.8	$2,794.7	$2,641.5	$2,706.1
Percentage Change	2.3%	1.7%	-4.1%	-5.5%	2.4%
Total Indiana Taxes	$896.6	$911.8	$875.1	$827.2	$847.5
Percentage Change	2.4%	1.7%	-4.0%	-5.5%	2.4%
Taxes Percent of Revenue	31.3%	31.3%	31.3%	31.3%	31.3%

Downtown Cincinnati, OH casino as of FY 2013

This table illustrates the estimated hit to southeast Indiana and secondary attrition to central Indiana from a downtown Cincinnati casino.

OH Cincinnati Casino only 2013 Scenario:					
Total Indiana GGR and State Taxes	Fiscal Year:				
($ in Millions)	2010	2011	2012	2013	2014
Southwest Indiana Revenue	$516.1	$524.8	$536.1	$549.2	$562.6
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Southwest Indiana Taxes	$157.3	$159.9	$163.3	$167.3	$171.4
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Taxes Percent of Revenue	30.5%	30.5%	30.5%	30.5%	30.5%
Southeast Indiana Revenue	$692.0	$703.8	$718.8	$537.8	$550.9
Percentage Change	1.7%	1.7%	2.1%	-25.2%	2.4%
Southeast Indiana Taxes	$218.7	$222.4	$227.2	$169.8	$173.9
Percentage Change	1.7%	1.7%	2.1%	-25.3%	2.4%
Taxes Percent of Revenue	31.6%	31.6%	31.6%	31.6%	31.6%
Central Indiana Revenue	$397.5	$404.2	$412.9	$404.1	$414.0
Percentage Change	1.7%	1.7%	2.1%	-2.1%	2.4%
Central Indiana Taxes	$109.5	$111.4	$113.8	$111.4	$114.1
Percentage Change	1.7%	1.7%	2.1%	-2.1%	2.4%
Taxes Percent of Revenue	27.6%	27.6%	27.6%	27.6%	27.6%
Northwest Indiana Revenue	$1,258.6	$1,279.9	$1,307.4	$1,339.3	$1,372.0
Percentage Change	3.2%	1.7%	2.1%	2.4%	2.4%
Northwest Indiana Taxes	$411.1	$418.1	$427.0	$437.5	$448.1
Percentage Change	3.3%	1.7%	2.1%	2.4%	2.4%
Taxes Percent of Revenue	32.7%	32.7%	32.7%	32.7%	32.7%
Total Indiana Revenue	$2,864.3	$2,912.8	$2,975.2	$2,830.3	$2,899.5
Percentage Change	2.3%	1.7%	2.1%	-4.9%	2.4%
Total Indiana Taxes	$896.6	$911.8	$931.4	$885.9	$907.6
Percentage Change	2.4%	1.7%	2.1%	-4.9%	2.4%
Taxes Percent of Revenue	31.3%	31.3%	31.3%	31.3%	31.3%

Downtown Chicago, IL casino as of FY 2014

This chart includes the Des Plaines 2012 impact to northwest Indiana, and adds the estimate effect of a downtown Chicago casino two years later.

Des Plaines 2012 plus Chicago as of 2014 Scenario:					
Total Indiana GGR and State Taxes	Fiscal Year:				
($ in Millions)	2010	2011	2012	2013	2014
Southwest Indiana Revenue	$516.1	$524.8	$536.1	$549.2	$562.6
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Southwest Indiana Taxes	$157.3	$159.9	$163.3	$167.3	$171.4
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Taxes Percent of Revenue	30.5%	30.5%	30.5%	30.5%	30.5%
Southeast Indiana Revenue	$692.0	$703.8	$718.8	$736.4	$754.4
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Southeast Indiana Taxes	$218.7	$222.4	$227.2	$232.8	$238.4
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Taxes Percent of Revenue	31.6%	31.6%	31.6%	31.6%	31.6%
Central Indiana Revenue	$397.5	$404.2	$412.9	$423.0	$433.3
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Central Indiana Taxes	$109.5	$111.4	$113.8	$116.6	$119.4
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Taxes Percent of Revenue	27.6%	27.6%	27.6%	27.6%	27.6%
Northwest Indiana Revenue	$1,258.6	$1,279.9	$1,272.1	$1,303.2	$1,231.0
Percentage Change	3.2%	1.7%	-0.6%	2.4%	-5.5%
Northwest Indiana Taxes	$411.1	$418.1	$415.3	$425.4	$401.1
Percentage Change	3.3%	1.7%	-0.7%	2.4%	-5.7%
Taxes Percent of Revenue	32.7%	32.7%	32.6%	32.6%	32.6%
Total Indiana Revenue	$2,864.3	$2,912.8	$2,939.9	$3,011.7	$2,981.3
Percentage Change	2.3%	1.7%	0.9%	2.4%	-1.0%
Total Indiana Taxes	$896.6	$911.8	$919.6	$942.1	$930.4
Percentage Change	2.4%	1.7%	0.9%	2.4%	-1.2%
Taxes Percent of Revenue	31.3%	31.3%	31.3%	31.3%	31.2%

Ohio-only racinos and downtown Cincinnati casino (no KY)

This chart highlights estimated impacts of all contemplated Ohio venues on Indiana, and without Turfway Park, KY.

OH Racinos 2012 + Cincinnati Casino 2013 Scenario:					
Total Indiana GGR and State Taxes	Fiscal Year:				
($ in Millions)	2010	2011	2012	2013	2014
Southwest Indiana Revenue	$516.1	$524.8	$536.1	$549.2	$562.6
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Southwest Indiana Taxes	$157.3	$159.9	$163.3	$167.3	$171.4
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Taxes Percent of Revenue	30.5%	30.5%	30.5%	30.5%	30.5%
Southeast Indiana Revenue	$692.0	$703.8	$557.3	$402.0	$411.9
Percentage Change	1.7%	1.7%	-20.8%	-27.9%	2.4%
Southeast Indiana Taxes	$218.7	$222.4	$176.2	$126.9	$130.0
Percentage Change	1.7%	1.7%	-20.8%	-27.9%	2.4%
Taxes Percent of Revenue	31.6%	31.6%	31.6%	31.6%	31.6%
Central Indiana Revenue	$397.5	$404.2	$394.0	$386.6	$396.1
Percentage Change	1.7%	1.7%	-2.5%	-1.9%	2.4%
Central Indiana Taxes	$109.5	$111.4	$108.6	$106.6	$109.2
Percentage Change	1.7%	1.7%	-2.5%	-1.9%	2.4%
Taxes Percent of Revenue	27.6%	27.6%	27.6%	27.6%	27.6%
Northwest Indiana Revenue	$1,258.6	$1,279.9	$1,307.4	$1,339.3	$1,372.0
Percentage Change	3.2%	1.7%	2.1%	2.4%	2.4%
Northwest Indiana Taxes	$411.1	$418.1	$427.0	$437.5	$448.1
Percentage Change	3.3%	1.7%	2.1%	2.4%	2.4%
Taxes Percent of Revenue	32.7%	32.7%	32.7%	32.7%	32.7%
Total Indiana Revenue	$2,864.3	$2,912.8	$2,794.7	$2,677.1	$2,742.5
Percentage Change	2.3%	1.7%	-4.1%	-4.2%	2.4%
Total Indiana Taxes	$896.6	$911.8	$875.1	$838.3	$858.7
Percentage Change	2.4%	1.7%	-4.0%	-4.2%	2.4%
Taxes Percent of Revenue	31.3%	31.3%	31.3%	31.3%	31.3%

VLTs at Ellis Park, Henderson, KY only (no Churchill Downs)

This shows the projected effect of one, not two Kentucky racinos near southwest Indiana.

Ellis Park, KY as of 2012 Scenario:					
Total Indiana GGR and State Taxes	Fiscal Year:				
($ in Millions)	2010	2011	2012	2013	2014
Southwest Indiana Revenue	$516.1	$524.8	$536.1	$520.5	$533.2
Percentage Change	1.7%	1.7%	2.1%	-2.9%	2.4%
Southwest Indiana Taxes	$157.3	$159.9	$163.3	$159.5	$163.4
Percentage Change	1.7%	1.7%	2.1%	-2.3%	2.4%
Taxes Percent of Revenue	30.5%	30.5%	30.5%	30.7%	30.7%
Southeast Indiana Revenue	$692.0	$703.8	$718.8	$736.4	$754.4
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Southeast Indiana Taxes	$218.7	$222.4	$227.2	$232.8	$238.4
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Taxes Percent of Revenue	31.6%	31.6%	31.6%	31.6%	31.6%
Central Indiana Revenue	$397.5	$404.2	$412.9	$423.0	$433.3
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Central Indiana Taxes	$109.5	$111.4	$113.8	$116.6	$119.4
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Taxes Percent of Revenue	27.6%	27.6%	27.6%	27.6%	27.6%
Northwest Indiana Revenue	$1,258.6	$1,279.9	$1,307.4	$1,339.3	$1,372.0
Percentage Change	3.2%	1.7%	2.1%	2.4%	2.4%
Northwest Indiana Taxes	$411.1	$418.1	$427.0	$437.5	$448.1
Percentage Change	3.3%	1.7%	2.1%	2.4%	2.4%
Taxes Percent of Revenue	32.7%	32.7%	32.7%	32.7%	32.7%
Total Indiana Revenue	$2,864.3	$2,912.8	$2,975.2	$3,019.2	$3,092.9
Percentage Change	2.3%	1.7%	2.1%	1.5%	2.4%
Total Indiana Taxes	$896.6	$911.8	$931.4	$946.3	$969.4
Percentage Change	2.4%	1.7%	2.1%	1.6%	2.4%
Taxes Percent of Revenue	31.3%	31.3%	31.3%	31.3%	31.3%

VLTs at Churchill Downs, Louisville, KY only (no Ellis Park)

This chart estimates the effect of Churchill Downs slots, without Ellis Park, on southwest Indiana — much higher likely impact.

Churchill Downs, KY as of 2013 Scenario:					
Total Indiana GGR and State Taxes	Fiscal Year:				
($ in Millions)	2010	2011	2012	2013	2014
Southwest Indiana Revenue	$516.1	$524.8	$536.1	$467.3	$478.7
Percentage Change	1.7%	1.7%	2.1%	-12.8%	2.4%
Southwest Indiana Taxes	$157.3	$159.9	$163.3	$140.6	$144.0
Percentage Change	1.7%	1.7%	2.1%	-14.0%	2.4%
Taxes Percent of Revenue	30.5%	30.5%	30.5%	30.1%	30.1%
Southeast Indiana Revenue	$692.0	$703.8	$718.8	$736.4	$754.4
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Southeast Indiana Taxes	$218.7	$222.4	$227.2	$232.8	$238.4
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Taxes Percent of Revenue	31.6%	31.6%	31.6%	31.6%	31.6%
Central Indiana Revenue	$397.5	$404.2	$412.9	$423.0	$433.3
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Central Indiana Taxes	$109.5	$111.4	$113.8	$116.6	$119.4
Percentage Change	1.7%	1.7%	2.1%	2.4%	2.4%
Taxes Percent of Revenue	27.6%	27.6%	27.6%	27.6%	27.6%
Northwest Indiana Revenue	$1,258.6	$1,279.9	$1,307.4	$1,339.3	$1,372.0
Percentage Change	3.2%	1.7%	2.1%	2.4%	2.4%
Northwest Indiana Taxes	$411.1	$418.1	$427.0	$437.5	$448.1
Percentage Change	3.3%	1.7%	2.1%	2.4%	2.4%
Taxes Percent of Revenue	32.7%	32.7%	32.7%	32.7%	32.7%
Total Indiana Revenue	$2,864.3	$2,912.8	$2,975.2	$2,966.0	$3,038.4
Percentage Change	2.3%	1.7%	2.1%	-0.3%	2.4%
Total Indiana Taxes	$896.6	$911.8	$931.4	$927.3	$950.0
Percentage Change	2.4%	1.7%	2.1%	-0.4%	2.4%
Taxes Percent of Revenue	31.3%	31.3%	31.3%	31.3%	31.3%

All Ohio and Kentucky racinos and Cincinnati, OH casino

Here we have the estimated combined effects of all the Ohio and Kentucky venues under consideration: two Ohio racetracks, three Kentucky tracks, and the Cincinnati casino.

All OH + KY Racinos + Cincinnati Casino 2012-2013 Scenario:					
Total Indiana GGR and State Taxes	Fiscal Year:				
($ in Millions)	2010	2011	2012	2013	2014
Southwest Indiana Revenue	$516.1	$524.8	$536.1	$438.6	$449.3
Percentage Change	1.7%	1.7%	2.1%	-18.2%	2.4%
Southwest Indiana Taxes	$157.3	$159.9	$163.3	$132.8	$136.0
Percentage Change	1.7%	1.7%	2.1%	-18.7%	2.4%
Taxes Percent of Revenue	30.5%	30.5%	30.5%	30.3%	30.3%
Southeast Indiana Revenue	$692.0	$703.8	$557.3	$308.5	$316.0
Percentage Change	1.7%	1.7%	-20.8%	-44.6%	2.4%
Southeast Indiana Taxes	$218.7	$222.4	$176.2	$97.2	$99.6
Percentage Change	1.7%	1.7%	-20.8%	-44.8%	2.4%
Taxes Percent of Revenue	31.6%	31.6%	31.6%	31.5%	31.5%
Central Indiana Revenue	$397.5	$404.2	$394.0	$374.8	$384.0
Percentage Change	1.7%	1.7%	-2.5%	-4.9%	2.4%
Central Indiana Taxes	$109.5	$111.4	$108.6	$103.3	$105.8
Percentage Change	1.7%	1.7%	-2.5%	-4.9%	2.4%
Taxes Percent of Revenue	27.6%	27.6%	27.6%	27.6%	27.6%
Northwest Indiana Revenue	$1,258.6	$1,279.9	$1,307.4	$1,339.3	$1,372.0
Percentage Change	3.2%	1.7%	2.1%	2.4%	2.4%
Northwest Indiana Taxes	$411.1	$418.1	$427.0	$437.5	$448.1
Percentage Change	3.3%	1.7%	2.1%	2.4%	2.4%
Taxes Percent of Revenue	32.7%	32.7%	32.7%	32.7%	32.7%
Total Indiana Revenue	$2,864.3	$2,912.8	$2,794.7	$2,461.2	$2,521.3
Percentage Change	2.3%	1.7%	-4.1%	-11.9%	2.4%
Total Indiana Taxes	$896.6	$911.8	$875.1	$770.8	$789.6
Percentage Change	2.4%	1.7%	-4.0%	-11.9%	2.4%
Taxes Percent of Revenue	31.3%	31.3%	31.3%	31.3%	31.3%

All cited Illinois, Kentucky, and Ohio racinos and casinos

This chart shows the total combined Indiana erosion estimates to its current venues if all the out-of-state gaming developments discussed above are implemented:

All IL-KY-OH Developments Scenario:					
Total Indiana GGR and State Taxes	Fiscal Year:				
($ in Millions)	2010	2011	2012	2013	2014
Southwest Indiana Revenue	$516.1	$524.8	$536.1	$438.6	$449.3
Percentage Change	1.7%	1.7%	2.1%	-18.2%	2.4%
Southwest Indiana Taxes	$157.3	$159.9	$163.3	$132.8	$136.0
Percentage Change	1.7%	1.7%	2.1%	-18.7%	2.4%
Taxes Percent of Revenue	30.5%	30.5%	30.5%	30.3%	30.3%
Southeast Indiana Revenue	$692.0	$703.8	$557.3	$308.5	$316.0
Percentage Change	1.7%	1.7%	-20.8%	-44.6%	2.4%
Southeast Indiana Taxes	$218.7	$222.4	$176.2	$97.2	$99.6
Percentage Change	1.7%	1.7%	-20.8%	-44.8%	2.4%
Taxes Percent of Revenue	31.6%	31.6%	31.6%	31.5%	31.5%
Central Indiana Revenue	$397.5	$404.2	$394.0	$374.8	$384.0
Percentage Change	1.7%	1.7%	-2.5%	-4.9%	2.4%
Central Indiana Taxes	$109.5	$111.4	$108.6	$103.3	$105.8
Percentage Change	1.7%	1.7%	-2.5%	-4.9%	2.4%
Taxes Percent of Revenue	27.6%	27.6%	27.6%	27.6%	27.6%
Northwest Indiana Revenue	$1,258.6	$1,279.9	$1,272.1	$1,303.2	$1,231.0
Percentage Change	3.2%	1.7%	-0.6%	2.4%	-5.5%
Northwest Indiana Taxes	$411.1	$418.1	$415.3	$425.4	$401.1
Percentage Change	3.3%	1.7%	-0.7%	2.4%	-5.7%
Taxes Percent of Revenue	32.7%	32.7%	32.6%	32.6%	32.6%
Total Indiana Revenue	$2,864.3	$2,912.8	$2,759.4	$2,425.1	$2,380.3
Percentage Change	2.3%	1.7%	-5.3%	-12.1%	-1.8%
Total Indiana Taxes	$896.6	$911.8	$863.4	$758.8	$742.6
Percentage Change	2.4%	1.7%	-5.3%	-12.1%	-2.1%
Taxes Percent of Revenue	31.3%	31.3%	31.3%	31.3%	31.2%

To summarize the cases here for impact to future Indiana gaming revenues and state taxes, Spectrum's projection tables present multiple versions of various gaming additions in Illinois, Kentucky, or Ohio, ranging from the one relatively certain addition of a casino in Des Plaines, IL, to the possible, if not likely enactment of all eight new venues considered, as follow:

- Des Plaines, IL would cannibalize about $7.8 million in its first fiscal year of 2012, or 0.6 percent of that sub-market's prior year total, which would result in about a $2.8 million loss in Indiana state gaming taxes.
- VLTs at Ellis Park, Henderson, KY, would cannibalize an estimated $15.6 million of annual southwest Indiana GGR (mostly at Casino Aztar) in its first fiscal year of 2013, and result in a decline of about $3.8 million Indiana gaming taxes.
- VLTs at Churchill Downs, Louisville, KY, would cannibalize about $68.8 million in annual GGR from southwest Indiana (most at Horseshoe, S.I.) in 2013, and would result in a decline of about $22.8 million annually in gaming taxes.
- Adding a downtown Chicago casino in 2014 would take about $72.2 million from northwest Indiana GGR, and would result in a decline of about $24.3 million gaming taxes.
- VLTs at River Downs in Cincinnati and Lebanon Raceway, OH, together would drain about $146.5 million from southeast Indiana GGR and reduce annual gaming taxes by about $46.3 million.
- A downtown Cincinnati casino alone would erode yearly southeast Indiana GGR by about $181 million in 2013 and reduce gaming taxes by about $57.4 million, plus it would reduce central Indiana GGR slightly (Indiana Live!) by about $8.8 million, and would reduce tax revenue by another $2.4 million. If combined with VLTs at the two Ohio tracks the year before, a Cincinnati casino would draw off somewhat less from an already weakened Indiana base: about $162.6 million in annual GGR, and about $51.3 million taxes.
- Adding VLTs at Turfway Park, KY — also in the Cincinnati/southeast Indiana area — would further draw about $85.5 million in

annual GGR from Indiana in 2013, and siphon off about $27.1 million gaming tax revenue.

- Though Spectrum views this as somewhat unlikely, if all the possible Ohio and Kentucky venues (five racinos and the Cincinnati casino) develop as estimated in 2012 and 2013, the total loss to southern Indiana GGR would be about $157 million in 2012, which would reduce gaming tax revenue by about $49 million.
- In this same worst-case scenario with all the possible Ohio and Kentucky venues developed, GGR in 2013 would decline by about $365 million, resulting in a decline of about $115 million in gaming tax revenue.
- Combining those potential effects with the projected Chicagoland venues, we get the following estimated total impacts to Indiana over three years:

ALL IL-KY-OH Developments Scenario ($millions):				
Net Changes vs. Base growth case	2012	2013	2014	CUM.
Total Indiana Revenue loss	($215.7)	($622.8)	($742.0)	($1,580.5)
	-7.3%	-20.4%	-23.8%	-17.3%
Total Indiana tax decline	($68.0)	($195.4)	($234.8)	($498.2)

This is the "worst case" statewide scenario, and will likely be mitigated by not all the competing venues developing and/or defensive improvements in Indiana, but it is vital to realize the potential scope of these very real threats to the Indiana gaming industry and its beneficiaries across the state, and begin to plan accordingly.

About Spectrum Gaming Group

This report was prepared by Spectrum Gaming Group, an independent research and professional services firm founded in 1993 that serves private- and public-sector clients worldwide. Our principals have backgrounds in operations, economic analysis, law enforcement, due diligence, regulation, compliance and journalism.

Spectrum holds no beneficial interest in any casino operating companies or gaming equipment manufacturers or suppliers. We employ only senior-level executives and associates who have earned reputations for honesty, integrity and the highest standards of professional conduct. Our work is never influenced by the interests of past, present or potentially future clients. Our findings, conclusions and recommendations are based solely on our research, analysis and experience.

Recent clients include the Republic of Croatia, Massachusetts Office of Housing and Economic Development, the Delaware Lottery, the Maryland Lottery, the Connecticut Division of Special Revenue, Broward County (FL), the West Virginia Lottery, the New Jersey Casino Reinvestment Development Authority, the Atlantic City Convention and Visitors Authority, the Singapore Ministry of Home Affairs, Rostov Oblast (Russia), the Casino Association of New Jersey and the Puerto Rico Tourism Company.

Our principals have testified before the following government bodies:

- Permanent Court of Arbitration at the Peace Palace, the Hague, Netherlands
- U.S. Senate Select Committee on Indian Gaming
- U.S. Senate Subcommittee on Organized Crime
- U.S. House Congressional Gaming Caucus
- National Gambling Impact Study Commission
- Illinois Gaming Board
- Pennsylvania Gaming Control Board
- New Jersey Senate Wagering, Tourism & Historic Preservation Committee
- New Jersey Assembly Tourism and Gaming Committee
- Massachusetts Joint Committee on Bonding, Capital Expenditures, and State Assets

Spectrum and its sister company, Spectrum OSO Asia, maintain a network of leading experts in all disciplines relating to the gaming industry, and we do this through our offices in Atlantic City, Bangkok, Guangzhou, Harrisburg, Hong Kong, Las Vegas, Macau, Manila and Tokyo.

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Spectrum Gaming Group ("Spectrum," "we" or "our") has made every reasonable effort to ensure that the data and information contained in this study reflect the most accurate and timely information possible. The data are believed to be generally reliable. This study is based on estimates, assumptions, and other information developed by Spectrum from its independent research effort, general knowledge of the gaming industry, and consultations with the Client and its representatives. Spectrum shall not be responsible for any inaccuracies in reporting by the Client or its agents and representatives, or any other data source used in preparing or presenting this study. The data presented in this study were collected between August and October 2009. Spectrum has not undertaken any effort to update this information since this time.

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