ANALYSIS:

The Impacts of a Wood Village casino on the Oregon Video Lottery

Prepared for the Good For Oregon Committee
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Introduction

The Good For Oregon Committee engaged Spectrum Gaming Group ("Spectrum," "we" or "our") to research and analyze the impacts of a proposed casino resort at the shuttered Multnomah Greyhound Park in Wood Village, OR, on the Oregon Video Lottery program.

Spectrum is an independent research and analysis firm that specializes in matters involving the gaming industry, and we neither advocate nor oppose gaming. The Good For Oregon Committee, like all Spectrum clients, accepted our proposal with the knowledge that we do not accept assignments that seek a preferred result. This report is based on our own research, experience and analysis and was completed without consideration of past, present or future engagements with the Good For Oregon Committee or other clients that may somehow be related to this subject matter.

The Good For Oregon Committee and related parties seek to develop a casino resort in Wood Village, an eastern suburb of Portland. The Good For Oregon Committee sought determine to what extent, if any, the Wood Village casino would impact revenue generated by the Oregon Lottery, whose products include video lottery terminals ("VLTs") that are akin to casino slot machines.

Spectrum approached this task by:

- Analyzing an April 6, 2010, report prepared by ECONorthwest (authored by Robert Whelan) for the Oregon Tribal Gaming Alliance that assessed the impacts of the proposed casino on Oregon Video Lottery revenue ("the ECONorthwest Report").
- Examining the playing habits and local gaming landscape in the greater Portland area.
- Examining video lottery trends throughout the United States.

Spectrum deployed a team of gaming experts in preparing this report, including:

- Michael Pollock, Managing Director
- Joseph Weinert, Senior Vice President
- Michael Diamond, Vice President – Research
- Bill LaPenta, Director of Financial Analysis
- Dave Berns, Staff Researcher, longtime Oregon resident and University of Oregon graduate who spent five days in Oregon for this project
- Beth Sullivan, Spectrum Associate and lottery expert who for more than 20 years has conducted research to understand consumer behavior and optimize gaming performance/gaming design in 11 states, including Oregon

Executive Summary

Any analysis of the potential impact of a casino on a state lottery must begin with the relevant experience in other states, and must point toward the policy issues that need to be addressed. The potential impact of the proposed Wood Village casino on the Oregon Lottery is no different. The proposed casino presents challenges, to be sure, but it also offers opportunities. The principal challenge is for Oregon policymakers to separate the valuable information from the potentially misleading arguments, and to identify both the opportunities and the major issues.

Spectrum's analysis offers the following findings and insights:

- While the Oregon Lottery and tribal casinos have coexisted for years, often exhibiting concurrent growth, Video Lottery sales near Wood Village could decline in the short term. For those Video Lottery agents nearest the facility, we can project lottery revenue declines of at least 5 percent in the first year.
- Such declines may be addressed and reversed through a combination of economic growth spurred in part by a casino, along with pro-active planning. Long-term experience in states where lotteries and casinos coexist demonstrates that lotteries – and VLTs – can operate successfully in the same markets as casinos, with both exhibiting growth.
- Lotteries and casinos operate under different business models and largely appeal to different groups, or to individuals seeking different experiences.
- Lotteries and casinos can, with proper planning and responsible leadership, work together toward mutual benefit. Casinos can be successful lottery agents and, in many markets, attract tourists and business travelers who might otherwise not be inclined to play a state's lottery.
- A successful casino can be an economic engine regionally, which could in turn create new customers for lotteries. Indeed, those video lottery agents that would be negatively impacted in the short-run would be among the long-term beneficiaries of any economic growth generated by a casino.

Proponents of the status quo, including Oregon Video Lottery agents, cannot be expected to support the approval of a new commercial casino in Wood Village. It is important to note that the status quo is likely to change regardless, due to the potential competition of another new casino development near La Center, WA, by the Cowlitz Tribe. The current debate, however, may present an opportunity for Oregon policymakers to review the status quo, in which the lottery and its agents are, to quote a prominent Oregon journalist, "locked in a death grip of mutual dependence."

We suggest that certain questions should be addressed in the debate, including:

- Is the status quo the best available option?
- Can the present arrangement be adjusted to create a net benefit for Oregon?

If the Wood Village casino is ultimately approved and developed as proposed, the Oregon Lottery could consider:

- Expanding its program of replacing outdated, underperforming Video Lottery devices with titles that are outperforming and/or are found on modern casino floors.
- Developing a coordinated marketing program that plays to the VLTs' strengths: convenience and accessibility.
- Creating a capital expenditure program for its VLT agents to help enhance the appeal of their gaming areas.

Spectrum also analyzed a report, "Fiscal Effects of Measures 75, 76 and 77 on State and Local Governments," prepared by ECONorthwest for the Oregon Tribal Gaming Alliance that assessed the impacts of the proposed Wood Village casino on Oregon Video Lottery revenue. We found the report to be misleading and seriously flawed in various areas, from its methodology to its accuracy to its lack of understanding of the gaming industry. Moreover, the report is neither candid nor objective.

Our findings on the ECONorthwest Report include:

- ECONorthwest projects a net decline of $92.6 million in net lottery proceeds, and an overall net decline to state and local governments of $83.5 million if the Wood Village casino operated in 2009. The projected loss of $83.5 million would be based on the failure of the Lottery to issue $111.2 million in bonds that financed various economic development projects throughout the state. Bond covenants require that lottery proceeds be at least four times lottery debt service in any given year, and the ECONorthwest Report suggests that a Wood Village casino would reduce lottery revenue to a point where the four times coverage could not be met. That conclusion is flawed for these reasons:
    - It is not reasonable to use 2009 as a base year because the private casino is expected to open no earlier than 2012.
    - Lottery revenues have already declined to a level that, according to a state study, "may eliminate Lottery debt capacity until FY 2015."

- The ECONorthwest Report shows per-capita VLT revenues for all nine counties with tribal casinos with numbers below the state average. Our analysis demonstrated that one county, Lincoln, was above the state average of $240, and three others were close to the state average. When a median is used, which overcomes distortions of very high and low numbers, two of the nine counties are above the median ($226), one is at the median and two others are close to the median (within 10 percent).
- The report does not appear to have considered the potential growth in employment and other business activity as a result of the addition of a commercial casino at Wood Village, even though the author is quite familiar with such impacts and how to measure them.
- The report also fails to include:
    - A discussion of real estate taxes that the casino would generate, which is estimated to be $4.5 million a year.
    - Reference to the $2.4 million that the casino would generate for Oregon's Problem Gambling Treatment Fund.
- The report is replete with examples in which it hints at its assumptions, and then reports results that readers cannot easily analyze or replicate.
- The report includes a variety of inaccurate and unsupported conclusions regarding the gaming industry in which there is confusion over the difference between VLTs and slot machines and between video and reel slot machines. One such conclusion was deemed by an industry expert to be "nonsense."
- The report states prominently that Video Lottery retailers "remit over 76 percent their gaming dollars to the state" while "the new casino (in Wood Village) would give only 25 percent." ECONorthwest – which does not appear to rely on the 76 percent figure in its own calculations – does not note a critical difference between such revenue streams:
    - The 25 percent from the casino is a net figure; i.e., all of the money generated from the casino tax would be available for state purposes.
    - The 76 percent figure for the video retailers is before Oregon Lottery expenses.

While we have identified a variety of flaws in the ECONorthwest Report, we are cognizant of the core concerns it has identified, including the concerns of VLT operators who believe that the proposed Wood Village casino would severely impact not only the VLT revenue, but also the host business. Bartenders at five taverns within 10 miles of the Wood Village site told us their bars earned between 30 percent and 50 percent of their revenues from VLTs, and all five said that they feared they would lose their jobs with the opening of a Wood Village casino.

Tavern owners said VLTs generate both direct and indirect revenue and are particularly important in the midst of the recession; Oregon's unemployment rate was 10.6 percent in May – placing it among the highest in the nation. Some tavern operators say they have already experienced dramatic declines in revenues and foot traffic over the past two years for everything from food and beverages to VLT play. Several noted that the State has reduced tavern owner's share of VLT revenues, thus making it harder, they complain, for tavern owners to succeed.

While a proposed Wood Village casino would undoubtedly expand the market of casino players in the Portland area, it would also cause a certain percentage of VLT players to defect. However, the power of convenience cannot be underestimated. ECONorthwest notes:

> "The video lottery is quite different. It is a form of convenience gambling where a prospective player need not set aside much if any extra travel time, but rather play during a visit to their local bar or restaurant. Over 98 percent of Oregonians live in a zip code where there is at least one video lottery retailer. One percent lives in a zip code with a casino."

An Oregon Lottery Tracking Study found that 64 percent of VLT players gamble within 2.8 miles of their homes, with a median distance of 1 mile, and 11 percent play closer to work at a distance of 4.6 miles.

This speaks to the power of convenience and accessibility of the Oregon Video Lottery. Not only are the VLT establishments more convenient to more people than a casino, but they are more accessible. That is, patrons typically can park next to the building and be at their gambling machine in less than minute or two; they need not navigate the parking garage/walk across a large parking lot/take a shuttle and then walk through a sprawling gaming resort to begin playing. Nor do they encounter large crowds or what we term the sensory overload of the many sights and sounds of an active, full-service casino.

Analysis of ECONorthwest Report

Spectrum Gaming Group has examined the report by Robert Whelan of ECONorthwest, titled "Fiscal Effects of Measures 75, 76 and 77 on State and Local Governments," dated April 6, 2010. In this section, we examine the methodology and approach used by ECONorthwest, based on several basic criteria that all reputable consultants must adhere to in performing such an analysis. The standards for such a report are that it must:

- Be comprehensive
- Demonstrate candor
- Demonstrate a methodology that is transparent, defensible and conservative
- Be accurate
- Be objective

ECONorthwest demonstrates detailed knowledge of the Oregon marketplace, and is a highly respected analytical firm that has produced an impressive body of work. Still, while we respect the firm, we conclude that the ECONorthwest Report does not meet reasonable standards on the criteria listed above. As a result of falling short in these essential measures, we question the report's usefulness and credibility.

These problems can compound each other. For example, we note serious inaccuracies that appear to underpin the report's entire thesis. ECONorthwest presents these inaccuracies prominently and repeatedly as supporting its conclusions, thus creating questions as to its objectivity. Further, any examination of these apparent inaccuracies is hampered by a lack of transparency.

Accuracy: failing grade

We start with page 2 of the ECONorthwest Report executive summary, where it states that Oregon video retailers "remit over 76 percent their gaming dollars to the state" while "the new casino (in Wood Village) would give only 25 percent." ECONorthwest fails to note a critical difference between the two revenue streams:

- The 25 percent from the casino is a net figure; i.e., all of the money generated from the casino tax would be available for state purposes.
- The 76 percent figure for the video retailers is before Oregon Lottery expenses.

ECONorthwest states four times throughout the report that Oregon keeps about 76 percent of Video Lottery revenues to distribute for public purposes. This statement is critical to ECONorthwest's core argument that the state's share of lottery revenues (76 percent according to him) is three times higher than the state's share of casino revenue (25 percent).

The essential problem is that the two numbers are not comparable, and ECONorthwest is using an apples-to-oranges comparison. That error alone – because it is so prominent and pivotal to the entire report – raises questions about how the report would be used by third parties, even though ECONorthwest appears to rely on a lower percentage in its own calculations.

Spectrum professionals have studied casino revenue taxation and regulation for three decades in various states and nations. Almost invariably (exceptions tend to be minor and rare), there are no attendant operating expenses that are deducted from the state's share of gaming revenue. It is, in effect, a tax that is available to be distributed to government programs.

Any operating expenses, such as the cost of regulation (including the auditing and collecting of revenue) are assessed separately. Spectrum understands that to be the case in Oregon, which would follow standard practice among gaming states.

Lotteries, however, have to deduct a variety of operating expenses from revenue, and these will range from salaries and wages to advertising. In the case of the Oregon Lottery, for example, total revenues were $1.1 billion in 2009,[1] a number that is net of Video Lottery payouts.

Others have used lower percentages than the reported 76 percent. The *Gresham Outlook* reported: "Justin Martin, lobbyist for the Confederated Tribes of Grand Ronde and association manager of the gaming alliance, dismisses the casino backers' claims that its revenue would enhance citizens' lives. 'If they think Oregonians are going to give these individuals a constitutionally guaranteed monopoly (for a privately-owned casino), that should be insulting,' Martin said. 'They're giving 25 cents on the dollar to K through 12 education, as opposed to 65 cents from the Oregon Lottery, that doesn't pencil out.'"[2]

We note that report itself does appear to have calculations at the 65 percent level. *The Oregonian*, in an account of the ECONorthwest Report, used the 65 percent number, not the 76 percent: "Overall, the (ECONorthwest) report says, the amount of gambling in the state would rise. But about 65 cents of every dollar lost in a video lottery machine ends up going to public programs. So it would take more than two times as much gambling at the proposed private casino to have the same revenue impact for the state."[3]

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[1] Oregon Lottery, Comprehensive Annual Financial Report, 2009, p. 19

[2] "Casino measures likely on ballot," by Shannon Wells, The Gresham Outlook, Jul 2, 2010

[3] "Wood Village casino opponents question project's economic benefits," by Jeff Mapes, *The Oregonian*, June 4, 2010 (http://www.oregonlive.com/politics/index.ssf/2010/06/wood_village_casino_opponents.html)

The 65 percent estimate appears to be more reasonable. Spectrum examined 2009 data from the Oregon Lottery and developed the following table, which endeavors to create the basis for an apples-to-apples comparison with the 25 percent casino tax. This required allocating a portion of fixed costs to Video Lottery, essentially using its percentage of revenue as the basis for that allocation.

Figure 1: Calculation of VLT distribution percentage

	FY 2009
Total operating expenses	$ 542,853,638
Prizes distributed (other than VLT)	$ 211,927,565
Total retailer commissions	$ 213,739,988
Net operating expense	$ 117,186,085
Video lottery revenue	$ 786,746,726
Video lottery commissions	$ 188,819,214
VLT revenue net of commissions	$ 597,927,512
VLT share of revenue	71%
VLT share of net operating expense (71% x expense)	$ 83,740,104
VLT revenue available for distribution	$ 514,187,408
VLT revenue available for distribution as pct. of total	65%

Source for data inputs: Oregon Lottery 2009 Annual Report

While that 65 percent would be a more defensible number, we caution, however, against applying *any* presumed percentage of revenue to distributions for a variety of reasons, including:

- Many operating costs are fixed, and will not vary based on the level of revenue.
- Various games offer different prize structures and commissions.
- Investment and other income—as well as other expenses – could affect the level of distribution.

We state with certainty, however, that the suggestion of ECONorthwest's fixed percentage is misleading at best. Third parties using that percentage would be deducting only one item from revenue – commissions to retailers – and that is not comparable to casino distributions.

This particular inaccuracy permeates the entire report, and is quite prominent:

- ECONorthwest states on page 2: "Currently, the State Lottery has licensed about 2,550 retail restaurants, bars, nonprofits, and other video lottery establishments throughout the state allowing them to have up to six Oregon Lottery gaming devices each. In 2009, the State kept on average 76.2 percent of the gaming revenues from these devices and distributed the money to counties, school districts, parks, economic development projects, and other government purposes."

- Also on page 2, the report states: "The new casino would take business away from Oregon Lottery video retailers in the Portland area. Those retailers remit over 76 percent of their gaming dollars to the State. The new casino would only give the State 25 percent. Although it would be 25 percent of a larger number, any possible benefit is lost because the new casino would cause the State to violate its general loan covenants. Therefore, Oregon would not be able to sell as many Oregon Lottery Revenue Bonds to pay for many needed projects throughout the state."
- On page 18, the report states: "However, historical data show that the proposed casino would cause Video Lottery retailer gaming revenues to fall. The State of Oregon gets 76.3 percent of that money, therefore, if the proposed casino were built, Oregon Lottery proceeds to schools, counties, and other state and local needs would decline."
- On page 21, the report states: "Education typically gets 63 percent of the state lottery dollars, but would only get 50 percent of the dollars going from the casino to the state. Further, while the state takes out 76.3 percent of gaming revenues from Video Lottery retailers, they would only take 25 percent from the new casino. So while it is true the new casino would see higher amounts of gambling, thus creating a larger pool of revenues, the fact remains that schools would get a smaller cut out of fund that, in turn, takes a smaller share of the gaming revenues of the casino than the lottery. In net, the schools receive less money each year."

Because ECONorthwest uses three slightly different percentages – 76 percent, 76.2 percent and 76.3 percent – we are uncertain if ECONorthwest is performing three different calculations, but the lack of transparency prevents us from examining that possibility.

The confusion is compounded further when ECONorthwest writes on page 8: "In 2009, gaming revenues from all lottery games were $812 million and of that, $735 million came from the Video Lottery retailers. Those retailers earned $174 million in commissions. The other $561 million went to the Oregon Lottery. After deducting a share of the costs of running the lottery, about $475 million from the Video Lottery retailers remained and those proceeds went to schools, parks, economic development, and other government purposes."

When comparing the language on page 8 ("those proceeds went to schools, parks, economic development, and other government purposes") to the language on page 2 ("distributed the money to counties, school districts, parks, economic development projects, and other government purposes"), ECONorthwest appears to be stating that the $475 million equates to 76 percent of Video Lottery revenue. But $475 million is 76 percent of $625 million, a number that we cannot identify anywhere within the ECONorthwest report.

Further examination, however, shows that $475 million equates to about 65 percent of $735 million, what ECONorthwest reports as total gaming revenue to Video Lottery retailers (page 8). If that is the correct calculation, the report uses a different percentage than the one it prominently suggests.

We acknowledge that there may be some difference between the two calculations that would address these questions, but the report lacks sufficient transparency that would allow a reader to reasonably identify such differences.

Additionally, ECONorthwest's report includes a variety of assumptions and conclusions that would appear to indicate a high level of familiarity with gaming. Upon closer examination, we have identified various inaccuracies in these assumptions and unsupported statements that – in our view – reveal a lack of familiarity with gaming. We point out these inaccuracies because they arguably play a fundamental role in supporting ECONorthwest's conclusions. For example, throughout the report ECONorthwest uses the term "VLT" to describe slot machines, implying that the terms are interchangeable. They clearly are not.

While most VLTs are arguably slot machines that serve the same basic player demands as any slot would, not all slot machines are VLTs. The latter term refers to machines that are either linked to a central-determinant or central-monitored device and electronically wired to act as a lottery. They can offer player experiences that are distinguishable from comparable slot machines, but the terms are not synonymous.

ECONorthwest makes the statement on page 11 of its report:

> "Slot players in Nevada can find machines at casinos or at 'restricted' locations. A restricted location is one with 15 or fewer gaming devices, no table games, and in a place that by all appearances is not a casino (usually a bar, restaurant, grocery, drug store, bowling alley or convenience store). Since there are few limitations on where casinos and restricted licensees may locate, Nevada is a good example of how proximity to casinos affects small venues with VLTs.
>
> "The Nevada data clearly demonstrate player preferences for casinos. The number of VLTs in casinos exceeds that of restricted locations by nearly nine-to-one statewide and, even after excluding Clark County, which attracts tourists to Laughlin and Las Vegas, the VLT counts at casinos top non-casinos by eight-to-one."

Nevada clearly has more slot machines than any other state, but Nevada does not have a single VLT, as Nevada does not operate a state lottery. That is a material point, as some of the slot machines in the restricted locations would be aging, obsolescent machines that no longer reflect current market demand.

The difference between VLTs and slot machines does not constitute a minor error, but is infused throughout the ECONorthwest Report. The report notes on page 6: “Video terminals have become the industry standard. Traditional slot machines have nearly disappeared at casinos in Nevada.”

That statement appears to indicate confusion between video slot machines and video lottery terminals. The former is simply a standard slot machine in which the player interfaces with a video screen, rather than actual reels. Both video and reel (known as “stepper” slots) can be stand-alone products with their own internal random-number generators.

Based on either interpretation, ECONorthwest’s statement – which is presented in the form of an indisputable fact, absent any support – is factually wrong.

We presented the ECONorthwest statement to Marcus Prater, executive director of the Association of Gaming Equipment Manufacturers, the international trade group representing gaming suppliers, including Bally Technologies, International Game Technology and WMS. Prater, based in Nevada, responded with the following email message on June 30, 2010: “That statement is nonsense. Without even checking with my members, I would tell you the installed base in NV is at least 30-70 (70 percent video). The Strip and Reno have not changed as dramatically as newer markets.”

The various inaccurate statements in the ECONorthwest report offer varying levels of relevance to its conclusions. However, we respectfully suggest that such collective inaccuracies belie a fundamental lack of understanding of the gaming industry. That lack of understanding would raise questions as to the value of ECONorthwest’s conclusions.

Comprehensiveness: failing grade

The ECONorthwest Report, as illustrated in its very title, purports to measure the fiscal impacts of a casino at Wood Village on state and local governments. Yet the report focuses solely on one projected fiscal impact: the potential transfer of revenue from VLTs to casino revenue. ECONorthwest projects a net decline of $92.6 million in net lottery proceeds, and an overall net decline to state and local governments of $83.5 million if the Wood Village casino operated in 2009. The projected loss of $83.5 million would be based on the failure of the Oregon Lottery to issue $111.2 million in bonds that financed various economic development projects throughout the state. Bond covenants require that lottery proceeds be at least four times lottery debt service in any given year,[4] and the ECONorthwest Report suggests that a Wood Village casino would reduce lottery revenue to a point where the four times coverage could not be met.

We suggest that the conclusion is flawed for these reasons:

- It is not reasonable to use 2009 as a base year because the private casino is expected to open no earlier than 2012.
- Lottery revenues have already declined to a level that "may eliminate Lottery debt capacity until FY 2015."[5]

From June 30, 2009, to February 1, 2010, the six-year forecast for Lottery revenues has dropped by more than 20 percent, according to the State Debt Policy Advisory Commission ("SDPAC"), which warned the Legislature earlier this year that if Lottery revenues continue to decline, Lottery bonds will have to be "sharply scaled back" until debt is paid off or revenues improve.[6] We note that this comment was made without any thought given to the possibility of a casino in the Portland area. It appears that the status quo by itself will result in either significantly fewer Lottery bonds being issued or none at all being issued.

We question the logic in placing the loss of 2009 Lottery bonding of $111.2 million on the shoulders of a non-existent casino. Indeed, the SDPAC noted that the "true capacity to issue these (Lottery) bonds is based primarily on the prudent management and sound fiscal position of the State Lottery program itself."[7]

In 2012, state officials expect the "the debt capacity for the Lottery Revenue Bond Program" to be $43 million; and $74 million in 2013.[8] But a 10 percent decrease in net Lottery revenue would result in no new bonds being issued in 2012 and 2013 and only $2.5 million in 2014.[9]

The SDPAC made the following comment in its executive summary of a report issued in February 2010:

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[4] 2010 Report of the State Debt Policy Advisory Commission, p. 3, http://www.ost.state.or.us/About/SDPAC/SDPAC.Report.2010.pdf

[5] Report of the State Debt Policy Advisory Commission, p. 13, http://www.ost.state.or.us/About/SDPAC/SDPAC.Report.2010.pdf

[6] Ibid, Introduction

[7] Ibid, p. 29

[8] Ibid

[9] Ibid, p. 34

"… It is possible that legislators will need to reexamine and potentially delay a portion of the Lottery bonding packages approved by the 2009 Legislature if the six-year forecast of Lottery revenues continues to decline in the coming year."

Even if the casino were to depress lottery revenue, it would be more prudent to use the state estimates for expected bonding capacity that were available to ECONorthwest for 2012 and beyond. In addition, we note that the Legislature would have the flexibility to transfer revenues generated by the casino to the Lottery to ensure that adequate bonding capacity could be achieved.

We also believe that the claim by ECONorthwest that net lottery revenue would decline by $92.6 million is flawed. ECONorthwest's premise is that counties with Oregon tribal casinos experience lower Video Lottery play than those without them. ECONorthwest developed per-capita Video Lottery spending figures for Oregon counties. We note that the report fails to identify the source of population estimates. We used the latest US Census figures, and came up with significantly different numbers.

The ECONorthwest Report on page 13 shows per-capita VLT revenues for all nine counties with tribal casinos with numbers below the state average. Our analysis demonstrated that one county, Lincoln, was above the state average of $240, and three others were close to the state average. When a median is used, which overcomes distortions of very high and low numbers, two of the nine counties are above the median ($226), one is at the median and two others are close to the median (within 10 percent).

The ECONorthwest report appears to have used total population numbers as opposed to adult population numbers, which are available from the US Census. That may be a reason why our per-capita numbers are higher than ECONorthwest's. We note that the legal age to participate in the Video Lottery is 21, but we had to use age 18-and-older numbers because the Census does not provide 21-and-older data. If we had used 21-and-older data, the spread would be even more pronounced.

Figure 2: 2009 Oregon Video Lottery sales by county (casino counties shaded in green)

County	No. Video Agents	18+ Population	Median Family Income	Spectrum Per-Capita Sales	ECONorthwest Per-Capita Sales	FY 2009 Video Lottery sales	ECONorthwest ranking	Spectrum Ranking
SHERMAN*	6	1,423	$42,563	$718	$525	$1,021,108	1	1
CLATSOP	73	29,437	$51,914	$447	$316	$13,151,817	2	2
MULTNOMAH	1,062	539,833	$64,470	$431	$290	$232,465,598	3	3
TILLAMOOK	43	19,906	$44,926	$364	$249	$7,248,720	4	4
MALHEUR	35	23,027	$48,608	$362	$244	$8,336,187	5	5
COLUMBIA	60	37,572	$64,888	$346	$235	$12,981,280	6	6
WASCO	33	18,191	$49,264	$340	$220	$6,184,694	7	7
LINN	141	76,239	$44,188	$327	$191	$24,963,454	9	8
HOOD RIVER	25	15,660	$56,119	$294	$186	$4,602,193	10	9
MARION	343	227,484	$54,826	$278	$180	$63,194,041	12	10
CLACKAMAS	370	290,376	$63,093	$273	$185	$79,259,552	11	11
BAKER	22	12,687	$36,106	$264	$194	$3,351,353	8	12
LINCOLN	81	36,916	$51,699	$250	$168	$9,225,657	13	13
WASHINGTONN	389	383,510	$79,124	$249	$159	$95,666,681	15	14
GILLIAM*	4	1,470	$41,477	$242	$157	$355,791	16	15
CROOK	30	17,585	$50,974	$233	$140	$4,100,513	22	16
LANE	380	273,239	$56,494	$233	$164	$63,644,648	14	17
JACKSON	197	155,598	$43,675	$227	$152	$35,338,733	17	18
UMATILLA	80	54,097	$51,042	$226	$151	$12,227,786	18	19
JOSEPHINE	95	64,427	$47,217	$222	$150	$14,300,220	19	20
JEFFERSON	24	14,727	$47,544	$219	$126	$3,224,547	25	21
UNION	31	19,201	$54,471	$217	$141	$4,160,527	21	22
DESCHUTES	140	119,162	$62,820	$217	$141	$25,814,252	20	23
KLAMATH	71	50,526	$52,246	$201	$130	$10,142,058	24	24
DOUGLAS	137	82,407	$48,349	$193	$134	$15,915,745	23	25
YAMHILL	79	62,149	$50,336	$184	$102	$11,458,154	27	26
LAKE*	8	5,575	$36,182	$168	$100	$936,010	28	27
MORROW*	14	7,610	$40,731	$155	$85	$1,179,088	30	28
GRANT*	14	5,890	$37,159	$145	$97	$855,112	29	29
WALLOWA*	14	5,471	$38,682	$145	$109	$790,770	26	30
CURRY	28	18,209	$48,660	$121	$85	$2,197,969	31	31
POLK	52	58,321	$61,536	$108	$78	$6,325,739	32	32
COOS	64	51,298	$47,168	$108	$73	$5,558,608	33	33
BENTON	54	66,133	$70,922	$83	$63	$5,485,080	34	34
HARNEY*	6	5,634	$36,917	$63	$43	$355,898	35	35
WHEELER*	1	1,196	$34,048	$0	$44	$0	36	36

Sources: Oregon Lottery, US Census Bureau 2008 data (*1999 data used; 2008 unavailable)

Our review of other gaming jurisdictions such as South Dakota and West Virginia (see following chapter for detail) indicates that there is no conclusive evidence to indicate that casinos and retail-based VLTs cannot coexist profitably.

ECONorthwest does note on page 17 that its expected transfer of revenue would adversely affect lottery agents due to the decline in commissions and overall foot traffic: “Many video retailers depend entirely on lottery games for their incomes. Using economic impact data, the analysis estimates that the $24.8 million drop in commission income that would have occurred in 2009 had the proposed casino been open would have cost an estimated 816 jobs (cq) losses at video retailers. In addition in Portland and Multnomah County, there would be a loss of about $607,000 in business income taxes.”

ECONorthwest clearly identifies a nexus between gaming revenue and employment, and it also makes it clear that such business activity fuels other indirect forms of tax revenue. The problem, however, is that there is no evidence in the report that ECONorthwest has considered the other side of the equation: the potential growth in employment and other business activity as a result of the addition of a commercial casino at Wood Village.

Whelan, the author of the ECONorthwest Report, is a veteran analyst who has demonstrated clear familiarity with economic tools designed to measure such impacts. For example, he co-authored a November 18, 2005, report, along with Alec Josephson, titled “A Net Economic Benefit Analysis: The Economic Benefits of the Cow Creek Tribe to Douglas County, Oregon.”

In that report, Whelan recognizes the notion that increased employment translates into increased spending that inures to the benefit of local businesses. This benefit, in turn, multiplies the effect of these new dollars rippling through the economy. The report notes on page 18: “For example, on a net basis, the Cow Creek directly generated 750 jobs during 2004. Tribal spending is responsible for another 860 jobs in other sectors of the Douglas County economy. The employment multiplier on tribal activities, therefore, is approximately 2.2. Thus, for every 10 tribal employees, approximately 12 jobs are generated in other sectors of the Douglas County economy. On a net basis, these are new jobs for the community that that otherwise would not have occurred but for the tribe.”

We can reasonably assume that a similar analysis would have yielded some undefined but positive results emanating from employment at Wood Village. Indeed, ECONorthwest notes on page 5 of its fiscal-impact analysis that a casino the size of the proposed Wood Village property “would employ about 2,100.” Yet there is no mention of the fiscal impact of such employment.

Other concerns include:

- Lack of a discussion of real estate taxes that the casino would generate, which is estimated to be $4.5 million a year.[10]

[10] Economics of the Wood Village Park Development, Johnson Reid, p. 3 , May 2010

- Failure to give adequate attention to the $2.4 million that the casino would generate for Oregon's Problem Gambling Treatment Fund.[11]

- Failure to reflect a possible increase in out-of-state and other gaming revenues that would otherwise not be attracted to Oregon. The Oregon Lottery estimates that 9 percent of Lottery participants gamble at a resort casino. Another 24 percent gamble at an Indian casino, which do not generate the tax revenue that would come from Wood Village.[12]

- Any shift in play from Indian casinos to Wood Village would, as a result of that tax differential, inure to the benefit of Oregon, which the report does not acknowledge.

We note that ECONorthwest Report makes no mention of the potential fiscal impacts of the proposed Cowlitz tribal casino in La Center, WA, roughly 26 miles from Portland. The casino is projected to generate annual gaming revenues of as much as $437 million.[13] It would attract gaming revenues from the Portland area, representing a loss in state and local funding.

ECONorthwest is clearly aware of the Cowlitz project, having written reports in March and June 2006. Indeed, in the June report, ECONorthwest makes the point that casinos help property values and generate other forms of economic growth that inure to the fiscal benefit of their host communities and states. The report notes on page 25: "Ironically, although casinos are labor intensive and attract spending from outside local communities, the feat that a new casino would somehow hurt property values is a common, albeit not universal refrain. … The problem with these fears is that they are emotional without good data to support them. … Communities in the Northwest that have had casinos built in them have, on average, experienced stronger housing markets because they benefited from improved demand and incomes."[14]

Failure to discuss such issues or to account for the potential impact of economic growth in the Portland area as a result of Wood Village represents an omission by ECONorthwest.

[11] Robert Whelan, "Fiscal Effects of Measures 75, 76 and 77 on State and Local Governments," April 6, 2010, Table 13, p. 22

[12] Oregon Lottery, InfoTek Research Group, November 2009 Oregon Lottery Tracking Study (Confidential)

[13] Economics of the Wood Village Park Development, Johnson Reid, p. 24 , May 2010

[14] "Impact Study for the City of La Center, Washington," ECONorthwest, June 2006, p. 25

Candor: failing grade

A commitment to being comprehensive also mandates a commitment to being candid; the two concepts are inseparable. Candor can be defined as reporting the overall findings, regardless of whether they are favorable or unfavorable to any particular party. Analysts, however, cannot be sufficiently candid if they do not invest the necessary effort to identify a wide variety of impacts, both positive and negative.

In this regard, the ECONorthwest Report appears to ignore – or at least minimize – the possibility of any salutary effects from a casino that could offset the negative fiscal impacts that it projects.

For example, ECONorthwest notes that casinos and VLTs sprinkled throughout smaller establishments offer quite different experiences. ECONorthwest states on page 12, referring to the present choice between video terminals and tribal casinos: "More than half of the State's residents live over 80 minutes from the nearest casino. At best, for such a person to spend 200 minutes at a casino (the average visit length) and make the roundtrip drive from home, they have to dedicate over six hours out of their day. In most cases for them, a trip to a tribal casino would have to be part of a purposeful trip where the casino is a primary destination. It would not be something done casually and it would likely involve added costs for driving, child care and eating out. The video lottery is quite different. It is a form of convenience gambling …"

This begs questions that do not appear to be addressed or acknowledged in the report, including:

- If casinos can serve as magnets for adults who would travel greater distances and make more of a commitment of time, would a Wood Village casino attract adults who are presently visiting tribal casinos?
- If so, would that shift revenue that is presently not taxed (at tribal casinos) to a casino that is taxed?
- If casino patrons are going to spend more money eating out, as well as in other areas, what are the fiscal impacts of that additional spending?

Those are the basic questions that are generated by the ECONorthwest Report, but we suggest that ECONorthwest is also not addressing the larger questions that should accompany any such analysis:

- If casino employment can have a material effect on a local and state economy (as ECONorthwest makes clear in its Cow Creek analysis), why is that potential impact not considered in its analysis the proposed Wood Village casino?

- If casinos generate more employment and offer more of an entertainment experience than VLTs, should that not be a factor that policymakers and voters need to consider when establishing gaming policy?
- If casinos offer a different entertainment experience than VLTs, does this imply opportunities to cross-market these experiences? A corollary question: Did ECONorthwest consider the possibility that Wood Village could become a lottery vendor, thus offsetting some of its projected cannibalization?

Such questions are not academic exercises, but offer real policy implications. In most regions where Spectrum has studied the potential relationship between casinos and VLTs, the casinos usually precede the VLTs; i.e., the issue normally centers on what effect VLTs would have on gaming, not the other way around. This has been the case, for example, in Illinois (being implemented), Pennsylvania (proposed), West Virginia and Puerto Rico (proposed).

In those markets, opponents of VLTs often cite the policy differences, noting that casinos offer a broader entertainment experience and, when positioned well, can generate more employment, attract more capital investment and even serve as magnets for tourism. The concept, according to this argument, is that casinos advance more public policy goals than VLTs.

We do not suggest which policy goals Oregon voters or elected officials would prefer, or what the priorities should be. However, a commitment to candor requires that any analysis point out this dichotomy in policies: A simple focus on subtracting VLT revenue from proposed casino revenue fails to provide voters and policymakers with the information needed to make an informed choice.

In states that have casinos, the fundamental fear is that VLTs would detract from casino revenue. ECONorthwest focuses on the opposite effect, a view that can be justified because VLTs precede a commercial casino in the marketplace.

Still, that raises a critical question: Does the possibility exist that existing Video Lottery locations can leverage their advantage of convenience and knowledge of their customers to help them compete? And if so, how would that affect revenue projections for the Wood Village casino? ECONorthwest does not appear to have considered such questions.

Related to that is another complex issue that ECONorthwest does not address, yet it is an issue with which Whelan is familiar, and one in which he holds opinions. That question is: Are the state and Video Lottery retailers too dependent on the status quo, and does the status quo represent the optimal situation?

This issue was crystallized in an analysis written last year by Pulitzer Prize-winning journalist Brent Walth in *The Oregonian*. Walth's article focused on the policy implications of adjusting the commission percentage received by lottery retailers. He wrote:

"Oregon Lottery Director Dale Penn said in an interview Monday that cutting the profits paid to bars and taverns would put many out of business, in turn hurting the lottery's sales, which have fallen by nearly one-fourth since last year.

"Critics don't buy the argument, but Penn's reasoning underscores some unintended consequences of video gambling: As gambling sales tank, the lottery and its saloon partners are locked in a death grip of mutual dependence.

"'The argument is taverns have become accustomed to getting this money,' activist Steve Novick says. 'Well, children in Oregon schools have become accustomed to having teachers, but they're losing their teachers while the lottery keeps subsidizing taverns.'

"Penn doesn't agree that lottery profits subsidize bars and taverns. But he does acknowledge the money has permeated their operations to the point many need the money to survive.

"'Clearly the business model has changed for these retailers," he said. 'The loans they get, the leases they pay, all of these things now hook into the lottery money being part of their business.'"[15]

Whelan is familiar with the issue, as he was quoted in the same article supporting the position of bar and tavern owners. "The subsidizing of their operations has become integral to their survival," Whelan said.[16]

Spectrum believes that quantitative analyses that endeavor to provide valuable insights for policymakers on fiscal impacts should address such important – albeit difficult – qualitative issues. That does not require suggesting policy, but rather laying out issues. In this case, the issue for policymakers is: Does the status quo represent the most viable option for the state? What are the implications for Oregon voters and policymakers when a prominent journalist describes the status quo as a "death grip of mutual dependence"?

ECONorthwest clearly has the experience and the tools to perform an effective evaluation of the implications of a casino on fiscal policy in Oregon. Its apparent refusal to consider aspects that do not seem to support the report's conclusion should be deemed as a lack of candor.

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[15] "As sales tank, lottery and bars in Oregon locked in mutual dependence," by Brent Walth, *The Oregonian*, October 27, 2009, (http://www.oregonlive.com/news/index.ssf/2009/10/lottery_chief_says_too_many_ba.html) accessed July 5, 2010

[16] Ibid.

Methodology: Neither transparent, conservative nor defensible

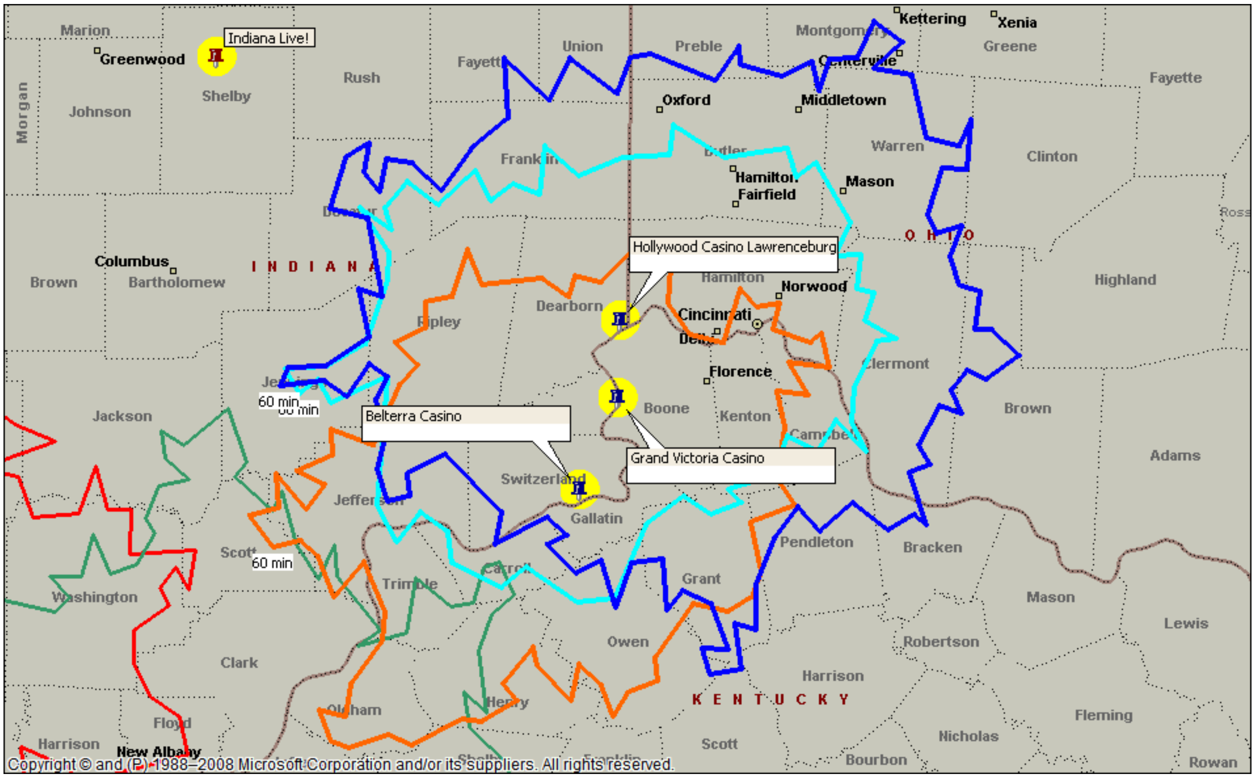
Spectrum, like all reputable consulting firms, operates under the principle that its quantitative and qualitative conclusions be fully explained. Whether they agree or disagree with the results, anyone reading a transparent report can understand precisely how calculations were made, and what assumptions were used.

The ECONorthwest Report does not meet this standard. The report is replete with examples in which it hints at its assumptions, and then reports results that readers cannot easily analyze or replicate. The most serious example of this flaw is in the core methodology used to project gaming revenue. That is an essential, pivotal calculation upon which its core conclusion rests. By design and necessity, it must be easily understood, defensible and conservative. In our view, it fails these tests.

ECONorthwest built its methodology on the basic assumption that the Hollywood Casino in Lawrenceburg, IN, offers the best example of a comparable property. Lawrenceburg largely serves the Cincinnati market. The Hollywood Casino is a $336 million riverboat, permanently moored along the Ohio River, which replaced the former Argosy boat at the same site. The Hollywood boat includes a $40 million system designed to ensure that it will remain level and stable despite changing tides and winds, and is one of the most well-capitalized riverboats in the United States.

The following map shows the Hollywood Casino in relation to its major markets and its nearest competitors. Note that the colored lines illustrate a 60-minute drive-time perimeter for each of these properties.

Figure 3: Hollywood Casino (IN) gaming market map



The Hollywood Casino, which is indeed closest to Cincinnati, has the dark-blue drive-time perimeter, while the Grand Victoria is represented by the turquoise line, and Belterra is represented by the light blue. All three casinos, to some degree, touch the Cincinnati market, yet ECONorthwest's analysis does not address these other properties, while noting on page 5 that Indiana gaming revenues ranked third among US states last year. Such a statement – while essentially accurate – does not inform the reader that Indiana's gaming industry is spread along much of the state's perimeter, with some interior casinos as well.

ECONorthwest points out similarities in the number of gaming positions between the proposed Wood Village and Hollywood casinos (3,234 slots, 129 tables at Hollywood vs. an estimated 3,500 slots and 150 tables at the proposed Wood Village casino) and the distance from their respective downtowns (15 miles for Hollywood vs. 16 miles for the proposed Wood Village). ECONorthwest also points out similarities in total personal income ($81 billion for Cincinnati vs. $84 billion for Portland).

While ECONorthwest notes these similarities, it makes no adjustment for any perceived potential differences, such as:

- Hollywood Lawrenceburg has its own 295-room hotel on site, which feeds a small portion of its gaming revenue; the Wood Village casino would have no hotel in its first phase, and that difference should be acknowledged.

- Hollywood Casino, which opened in 2009, is the successor to the Argosy riverboat next door, which had been operational for 13 years, thus creating an extensive database that allowed Hollywood to market itself effectively and reach its revenue potential quickly.
- While Indiana does not limit the number of gaming positions, Hollywood Casino is a riverboat, which physically limits its ability to add gaming positions in response to market demand.

Spectrum interviewed Anthony Rodio, general manager of Hollywood Casino, on July 2, 2010, and shared the ECONorthwest statements about Hollywood Casino with him. Rodio noted that his property is 22 miles from downtown Cincinnati and is indeed highly dependent on it. He cautioned that the hotel does not add much business to the property, noting that on a Saturday night, the casino might host 20,000 people – with only a small portion coming from the 295 rooms on site.

Rodio did, however, emphasize the importance of two points not noted by ECONorthwest:

- A smoke-free casino at his site would produce approximately 15 percent to 20 percent less gaming revenue.[17]
- A three-year ramp-up period should be taken into account.

The ramp-up requirement can be illustrated through the following examples. The first table lists a number of properties most of which, like Wood Village, opened without hotels. These properties are all in the eastern half of the United States, which facilitates an apples-to-apples comparison within the group:

[17] Wood Village is expected to be smoke-free.

Figure 4: Gross gaming revenue ramp-up after opening, Eastern casinos

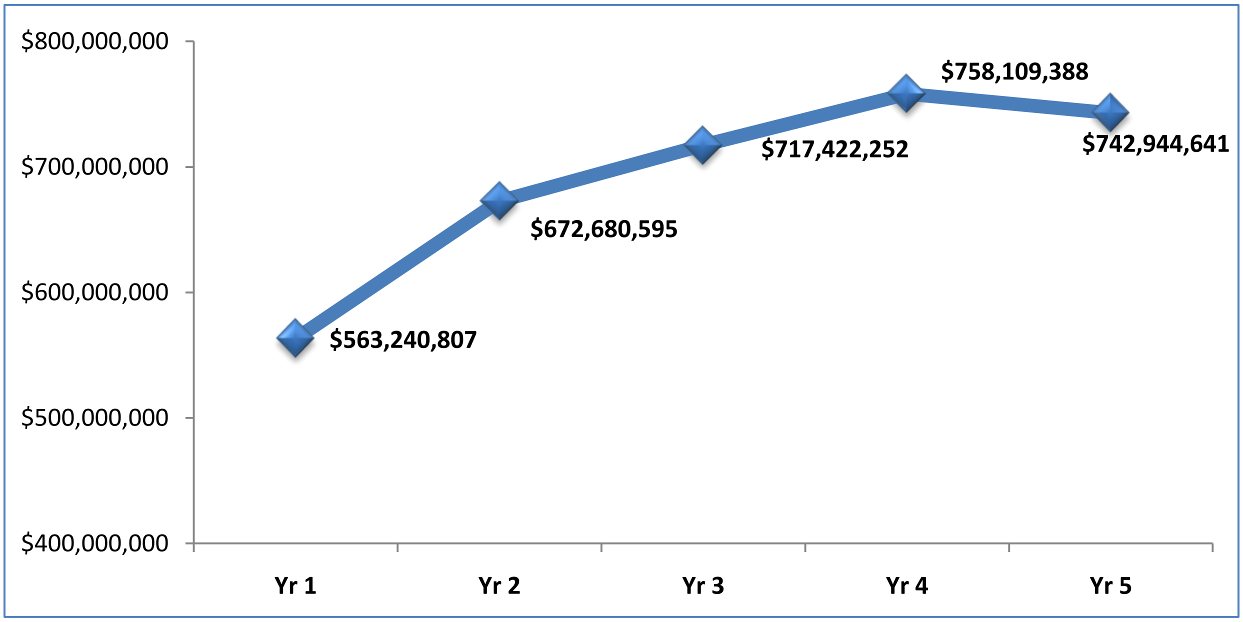
Property	opened	year 1	% of yr. 3	year 2	% of yr. 3	year 3
Twin River RI	1992	$15.6	26.6%	$33.0	56.2%	$58.7
Newport Grand RI	1992	$5.6	44.1%	$8.8	69.3%	$12.7
Delaware Park	Dec-95	$111.2	64.7%	$150.6	87.6%	$171.9
Dover Downs DE	Dec-95	$58.5	51.7%	$90.1	79.7%	$113.1
Harrington Raceway DE	Aug-96	$53.6	79.3%	$62.8	92.8%	$67.6
Saratoga Gaming NY	Jan-04	$83.5	70.2%	$105.7	88.9%	$118.9
Finger Lakes Gaming NY	Feb-04	$63.0	72.2%	$73.6	84.4%	$87.3
Fairgrounds Raceway NY	Mar-04	$34.4	81.9%	$39.4	93.7%	$42.0
Monticello Raceway NY	Jun-04	$62.8	88.5%	$74.4	104.8%	$71.0
Batavia Raceway NY	May-05	$23.1	75.6%	$24.8	81.4%	$30.5
Hollywood Casino ME	Nov-05	$36.5	73.1%	$43.5	87.0%	$50.0
Tioga Downs NY	Jul-06	$41.6	85.4%	$45.2	93.0%	$48.6
Riverside IA	Aug-06	$86.2	99.4%	$86.4	99.7%	$86.7
Empire City Yonkers NY	Oct-06	$364.1	68.5%	$481.4	90.6%	$531.6
Vernon Downs NY	Oct-06	$33.4	91.2%	$36.9	100.7%	$36.6
Mohegan /Pocono PA	Nov-06	$176.1	70.4%	$187.9	75.1%	$250.2
Philadelphia Parx PA	Dec-06	$305.9	69.7%	$400.6	91.2%	$439.1
Harrah's Chester PA	Jan-07	$329.5	87.7%	$369.7	98.4%	$375.8
Presque Isle Downs PA	Feb-07	$172.2	92.4%	$182.4	97.9%	$186.3
Average		$108.3	74%	$131.4	90%	$146.2

Sources: Respective state gaming agencies, *Gaming Industry Observer* East Coast Slot Report

Note that the average for Year 1 was 74 percent of Year 3 revenue, while Year 2 grew to 90 percent. If ECONorthwest were to adhere to the principle of being conservative in its estimate, it would have applied these or similar percentages.

We also note that the addition of a hotel would help grow revenue, but would not necessarily eliminate – or even alter – the ramp-up period. The following chart depicts gaming revenues for the first five years of operations for Borgata Hotel Casino & Spa, the last property to open in Atlantic City:

Figure 5: Gaming revenue ramp-up, Borgata Hotel Casino & Spa, Atlantic City

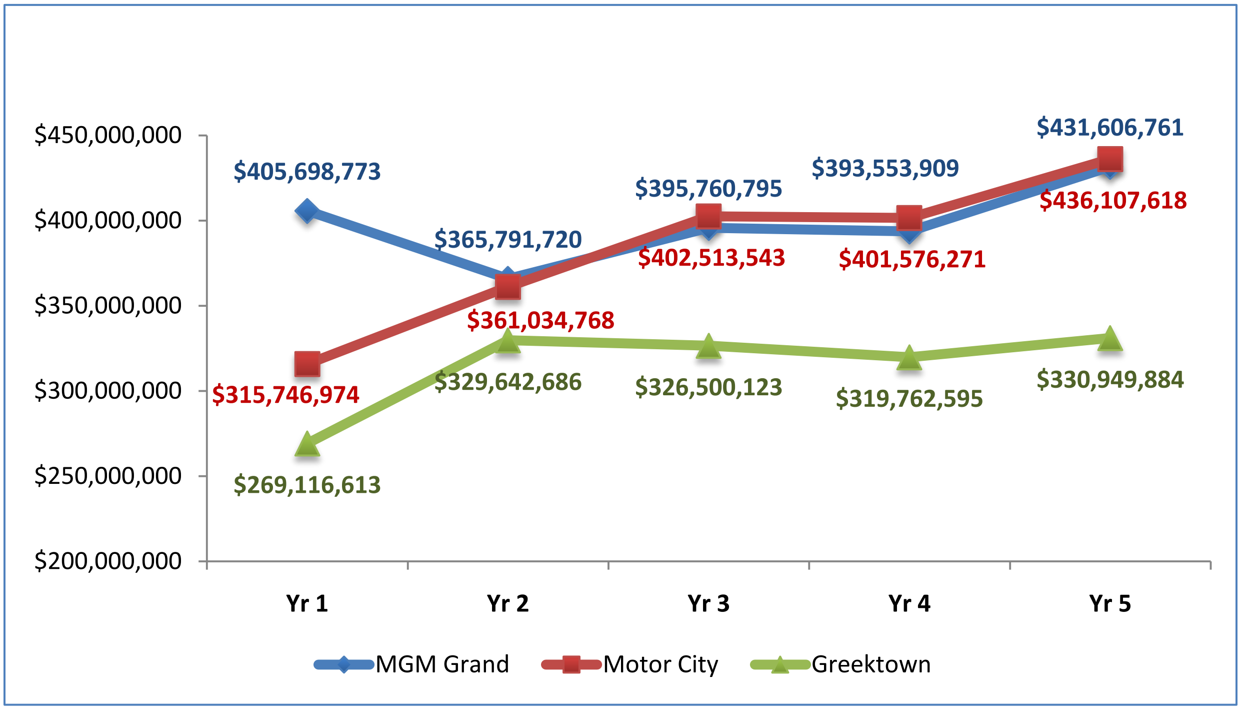


Source: New Jersey Casino Control Commission

Gaming revenues increased by 19.4 percent in the second year of operations, and 6.7 percent in the third year of operations, while number of gaming positions (capacity) were relatively stable. Gaming revenues increased by 5.7 percent in the fourth year of operations and decreased by 2 percent in Year 5, despite a 26 percent increase in gaming capacity in Year 4. Economic and competitive conditions changed significantly in years four and five, with smoking restrictions, Pennsylvania competition, and high gasoline prices all impacting revenues. In the first three years of operations, revenue increases reflect the growth of the loyalty program and general ramp-up of marketing and operational efforts as the property became entrenched in the marketplace.

Spectrum notes that the need for a ramp-up period is not related to geographic region or any other factor. Rather, it is a function of how gaming operates. With that in mind, we also analyzed gaming revenue ramp-up at casinos in the Detroit market. The following chart depicts revenues for the first five years of operations for each of the Detroit casinos.

Figure 6: Gaming revenue ramp-up, Detroit casinos



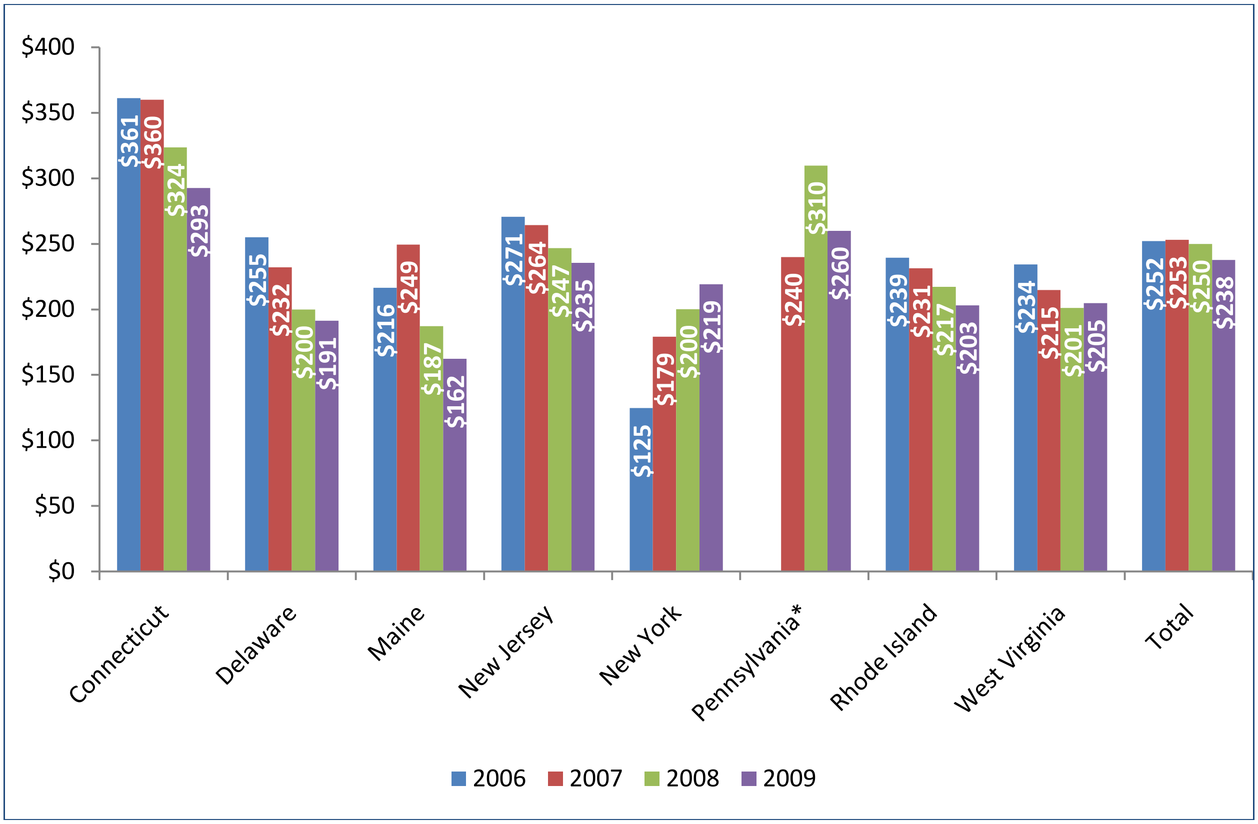
Source: Michigan Gaming Control Board

The MGM Grand entered the market before the other two Detroit casinos and suffered in its second year, when new competition entered the market. Motor City and Greektown casinos opened into an already-competitive market. Both Motor City and Greektown exhibited ramp-up periods similar to the Borgata, although the Greektown revenues flattened, starting in year three.

Additionally, we must emphasize that ECONorthwest's reliance on revenue per slot machine and/or table game must be rejected, and is effectively useless. Consider the possibility that Hollywood Casino – ECONorthwest's selected benchmark – made a management decision to either eliminate its lowest-performing slot machines or, if space allowed, to add new games. Such decisions – which are made regularly by managers in response to costs or perceived demand – could have had a material effect on ECONorthwest's projected revenue for the Wood Village casino.

We can illustrate this by examining the relationship between units and revenue. The first chart shows the most recent four-year history for gaming in the eastern United States:

Figure 7: Daily win per slot machine, various states



Source: *Gaming Industry Observer*'s East Coast Slot Report; * Pennsylvania commenced gaming in late 2006

Note that the trends generally follow the same pattern in most states. A closer look at the numbers, however, reveals some significant disparities. The first table simply lists the number of units at year end:

Figure 8: Slot units by state, by year

Slot Units by State	2006	2007	2008	2009	2009 vs. 2006
Connecticut	13,234	13,300	14,036	14,378	8.6%
Delaware	7,002	7,226	8,076	8,078	15.4%
Maine	475	475	739	1,000	110.5%
New Jersey	38,508	35,922	34,798	31,669	(17.8%)
New York	9,370	12,661	12,961	12,783	36.4%
Pennsylvania	3,174	12,458	15,911	24,200	662.5%
Rhode Island	4,653	5,314	5,992	6,221	33.7%
West Virginia	11,350	11,857	11,754	11,124	(2.0%)
Total	87,764	99,212	104,267	109,454	24.7%

Source: *Gaming Industry Observer*'s East Coast Slot report

The next table shows the level of revenue:

Figure 9: Slot revenue by state, by year

Slot Rev. by State ($M)	2006	2007	2008	2009	2009 vs. 2006
Connecticut	$1,744.2	$1,746.6	$1,657.4	$1,535.2	(12.0%)
Delaware	$651.7	$612.4	$588.9	$564.2	(13.4%)
Maine	$37.5	$43.3	$50.5	$59.2	57.8%
New Jersey	$3,803.9	$3,464.5	$3,132.5	$2,721.8	(28.4%)
New York	$426.3	$828.2	$947.3	$1,023.0	140.0%
Pennsylvania	$31.6	$1,090.3	$1,798.8	$2,296.5	7174.7%
Rhode Island	$406.5	$448.5	$475.0	$461.2	13.4%
West Virginia	$970.8	$929.2	$863.3	$831.5	(14.4%)
Total	$8,072.6	$9,163.0	$9,513.8	$9,492.6	17.6%

Source: *Gaming Industry Observer*'s East Coast Slot report

Clearly, revenue per unit is a function of revenue, not a predictor of revenue, and cannot be used as such.

Based on our analysis, ECONorthwest's revenue projections are based on a methodology that is fundamentally and fatally flawed. As such, all its conclusions that stem from that methodology should be rejected.

Objectivity: failing grade

Our evaluation of ECONorthwest's objectivity is, by definition, a subjective exercise – and we note the irony in that statement. We suggest that ECONorthwest's objectivity is compromised, however, because of some quite serious failings.

- The report appears to limit its analysis to examples and data that appear to support its conclusions.
- The report appears to have no compunction about making sweeping statements that are based on that one-sided data.
- The author is fully aware of – and fully adept at – analysis that would paint a broader picture of the proposed gaming landscape in Oregon, yet elects to not do so.

In our review of various pieces of the ECONorthwest Report, we find the author to be generally knowledgeable about his subjects and generally comprehensive. He is a respected analyst. This particular study, however, fails to meet our standards for comprehensive, objective research. Some key examples follow.

ECONorthwest's method for estimating gaming revenues for the proposed Wood Village casino (pages 4-5), while plausible, is not thorough, and is rather unconventional in that it projects effects of the proposed future casino on 2009 actual circumstances. However, although we do not necessarily dispute ECONorthwest's gaming revenue estimate the Wood Village casino, we do believe that ECONorthwest has likely overstated the negative impacts of the casino on the Oregon Video Lottery revenues.

First, ECONorthwest's gaming revenue estimate of $481.3 million, while substantial, is still within the range of prior or other projections:

Figure 10: Gross gaming revenue estimates for Portland-area casinos

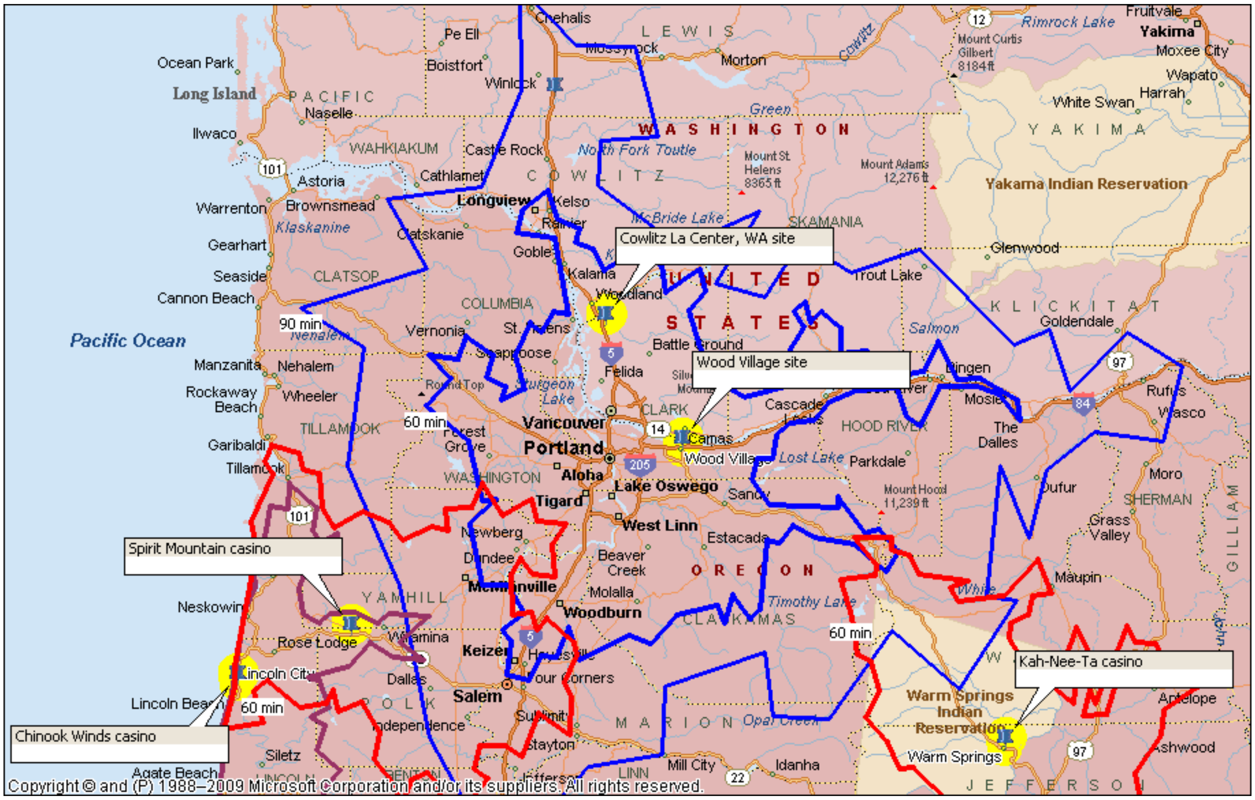
Estimate Source	Casino	GGR ($millions)	Operating Year	Notes
R. Whelan, 2006	La Center, WA	$492.5	2011	Potential 2nd casino near Portland
Leisure Dynamics, 2009	Wood Village, OR	$538.5	2013	Without La Center casino
Leisure Dynamics, 2009	Wood Village, OR	$411.1	2013	With La Center casino
R. Whelan, 2010	Wood Village, OR	$481.3	2009	Hypothetical past year
Johnson-Reid, 2010	Wood Village, OR	$589.7	2013	

Sources: R. Whelan, Impact Study for the City of La Center, Washington, June 2006. Leisure Dynamics Research, Multnomah Casino Market Potential, 2009. R. Whelan, Fiscal Effects of Measures 75, 76, and 77 on State and Local Governments, April, 2010. Johnson Reid, LLC, Economics of the Wood Village Park Development, 2010.

A chief weakness in the ECONorthwest gaming revenue estimate for Wood Village cited above is that the analysis ignores the potential competition of another new casino development near La Center, WA, by the Cowlitz Tribe.[18] The first map (following page) shows the Wood Village location with 60-minute drive-time (heavier blue line) and 90-minute drive-time (thinner blue line) areas, as well as 60-minute drive-time areas (two in red, one purple) for the three nearest Tribal casinos in Oregon. These show limited overlap. The second map, however, adds a 60-minute drive-time area (tan line) around the potential future site of the Cowlitz casino, about 25 miles from Wood Village, to the north of Portland. Note the substantial overlap or duplication of drive-time areas between the two locations. This indicates that the two locations, if developed, would share much of the same customer population. As suggested in a study Leisure Dynamics, a casino in La Center could reduce gaming for the proposed Wood Village casino by about 24 percent. This casino in Washington state would have the combined effects of significantly reducing revenue at Wood Village, and thereby the effects of Wood Village on the Oregon Lottery, as well as drawing substantial Oregon gaming spend and associated state revenues completely away from Oregon.

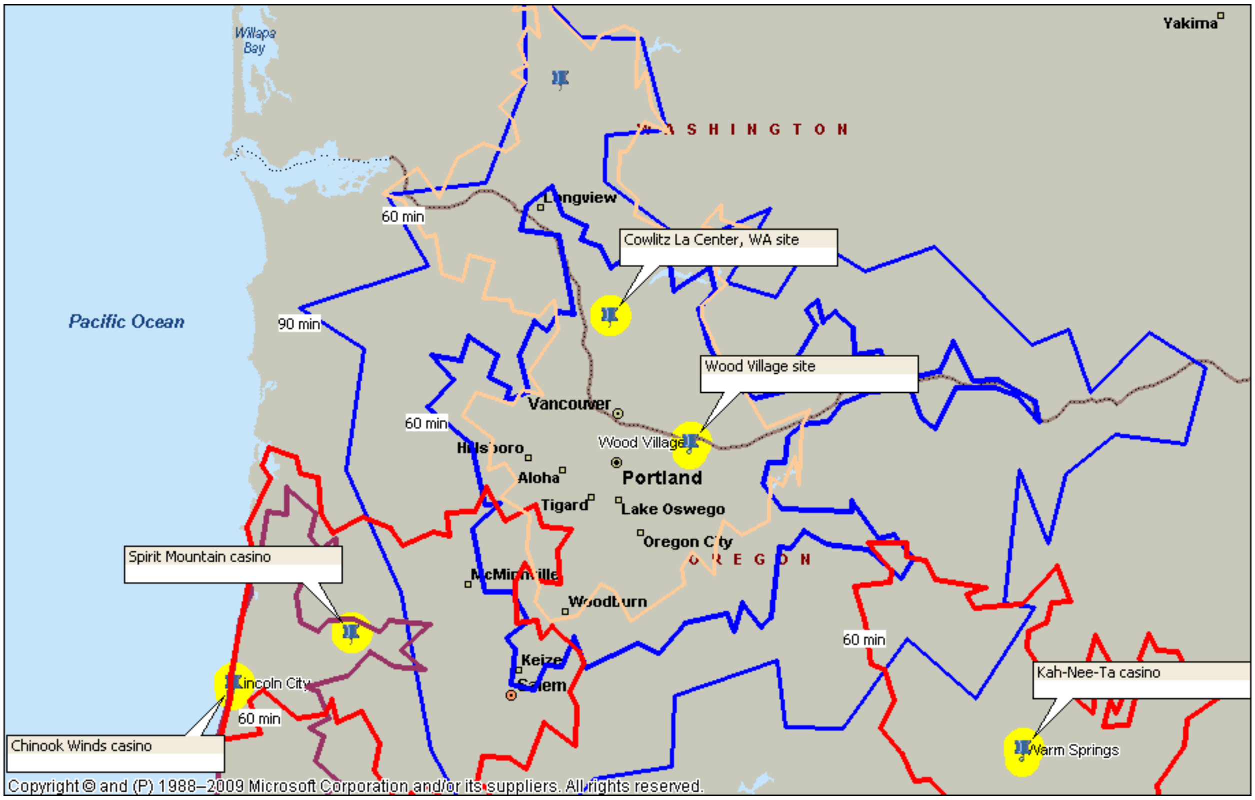
[18] http://www.cowlitzcasino.com/project.htm, 2010.

Figure 11: Map of drive-time areas of existing Portland-area casinos



Sources: Spectrum Gaming Group, Microsoft MapPoint 2010

Figure 12: Existing Portland area casinos plus La Center, WA, site drive-time area



Sources: Spectrum Gaming Group, Microsoft MapPoint 2010.

Regarding ECONorthwest's assessment of a Wood Village casino's impact on the Oregon Lottery revenues, we note that the report ignores numerous prior studies of the effects of casino openings on state lottery revenues elsewhere. ECONorthwest does devote space to a somewhat convoluted discussion of Nevada (page 11), which ultimately only explains that casino slot machines (which ECONorthwest erroneously refers to as VLTs) tend to earn more than those in small non-casino venues. This is not surprising, but it does not prove that new casino machines necessarily or significantly take revenue away from existing small, non-casino operators.

ECONorthwest then discusses how "Tribal casinos in Oregon were found to have significant advantages over video lottery retailers," (page 12) and goes on to illustrate with a statewide list how "All nine counties where tribes that have casinos are located … show below average per capita Oregon Lottery VLT revenues." However, ECONorthwest does not take this reasoning a step further, to elucidate the fact that median household incomes in the same nine counties are also below the Oregon State average.[19]

[19] US Census Bureau, http://factfinder.census.gov/servlet/DTTable?_bm=y&-context=dt&-ds_name=ACS_2008.

As cited by Johnson Reid,[20] "a 2002 study commissioned by Deloitte & Touche evaluated 27 new casino markets, concluding that new casino activity lead to a mere one percent reduction lottery revenue growth."[21] Johnson Reid goes on to say, "The resiliency of State lottery revenues in light of emerging casino activity demonstrates the lack of veracity to the oft-repeated concern that lottery gaming and casino gaming are 'like goods' and frequently referred to as close substitutes."[22] Johnson Reid also allows that casino gaming may be slightly more competitive with video lottery than with traditional lottery games.

Furthermore, a 2004 University of Massachusetts Center for Policy Analysis study, also of several states, specifically cited Oregon as a state where total Lottery and Video Lottery revenues continued to grow, despite competition from tribal casinos.[23] (This was prior to the recent economic recession.) Oregon Lottery revenues continued growth during and after the openings of eight of the states tribal casinos from 1994-98. Regarding Oregon, the study concludes "evidence from Oregon suggests that state lotteries, even those dependent on VLTs for their profitability, can continue flourishing after the introduction of casinos."[24]

Ultimately, ECONorthwest's analysis assumes a highly competitive, either-or type relationship between Video Lottery revenues and casino revenues, concluding that the Wood Village casino would have a significant substitution effect on Video Lottery, and even traditional lottery game revenues, to a level that appears unprecedented in the literature. ECONorthwest goes to considerable length constructing the argument that distance is the only factor protecting Oregon Video Lottery revenue from decimation by a highly preferable substitute in the form of casino slot machines, estimating the Wood Village casino would cause a 16.3 percent reduction to 2009-level state total VLT revenues.[25] While some erosion of VLT business would likely occur, Spectrum respectfully submits it would likely be much less, as no prior experience supports the impacts that ECONorthwest projects, as suggested by Oregon's own prior history. Moreover, there is no evidence in states where lotteries and casinos coexist that we could glean that would support the notion that short-term declines in lottery revenue would be permanent.

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[20] Johnson Reid, LLC, Economics of the Wood Village Park Development, 2010, page 19.

[21] Deloitte and Touche, *A Massachusetts Economic Development Initiative: Impacts Resulting from the Development of a Gaming and Entertainment Center in Southeastern Massachusetts, Estimates of Gaming Revenue and Impact on Lottery*, July 2002.

[22] Ibid.

[23] Comparative Lottery Analysis: the impact of casinos on lottery revenues & total gaming revenues, Center for Policy Analysis, University of Massachusetts, Dartmouth, May 2004, page 38. http://www.umassd.edu/cfpa/docs/casinolottery.pdf.

[24] Ibid.

[25] R. Whelan, Fiscal Effects of Measures 75, 76, and 77 on State and Local Governments, April, 2010, pages 11-16.

Lotteries and Casinos: Relationships, Results, Analysis

Spectrum has examined the relationships between casino gambling and lotteries for more than a decade. Our client list includes many casino regulatory agencies, as well as lotteries, in a number of states and countries, from Delaware to Maryland to West Virginia.

Of particular note, Massachusetts Governor Deval Patrick engaged us in 2008 to, among other tasks, analyze impacts that three casino resorts in the Commonwealth of Massachusetts would have on the Massachusetts Lottery.[26] One year later, we were engaged by the Connecticut Division of Special Revenue to produce a comprehensive report that examined the impact on Connecticut from all forms of gaming. One focus of that report was to examine the relationship between Indian casinos and the state lottery.

We have adapted that research from earlier reports to provide a relevant discussion of similar situation Oregon, namely the impact that the proposed casino in Wood Village would have on the Oregon Lottery – and the Video Lottery in particular.

Since casinos and lotteries both represent a form of gambling, one might assume that the two products would be substitutes for each other. If this is the case, then it is conceivable that any spending by Oregonians at casinos might come at the expense of lottery sales. For example, in the extreme case, if each $1 spent at casinos by Oregonians means $1 less on lottery sales, then we can be confident that the introduction of casinos would lead to a reduction in overall state lottery revenues.

Clearly, such a dollar-for-dollar substitution of casinos spending for lottery spending is unlikely to occur in reality. We can divide the Oregon population into gamblers and non-gamblers. If non-gamblers do not buy lottery tickets and would not go to casinos, then we can ignore them in the subsequent analysis. For the remaining Oregon population that gambles, the introduction of casinos will mean an additional option for gambling expenditures.

It is true that some people could substitute dollar-for-dollar casino spending for lottery spending. We view the size of this group as being variable, given the role of convenience and geography in the game that generates the dominate share of sales: VLTs. In states where lottery sales are predominantly due to traditional games, we would expect any long-term impact of a casino on existing players to be very small. In Oregon, VLTs represent 71.5 percent of total lottery sales, according to the Oregon Lottery's fiscal 2009 report. We could find no

[26] Spectrum Gaming Group, "Comprehensive Analysis: Projecting and Preparing for Potential Impact of Expanded Gaming on Commonwealth of Massachusetts," August 1, 2008, pp. 121-138. http://www.mass.gov/?pageID=ehedpressrelease&L=1&L0=Home&sid=Ehed&b=pressrelease&f=080807_Spectrum_Analysis&csid=Ehed

independent research on the impact of casinos in states that have a lottery product mix similar to Oregon.

We anticipate that the impact on the play behavior and spending of current VLT players will depend on the how they consider their current experience. If it is part of a pattern – such as playing at their favorite restaurant or another local location – we would expect the impact to the Oregon Lottery be relatively small. If, however, VLT players consider their play as a "destination experience," we believe that Video Lottery sales in areas geographically close to the proposed Wood Village casino could be significantly impacted, especially if the slots offer a richer game experience given their updated technology/equipment capabilities.

Separately, we believe it is reasonable to expect that the younger segments of VLT players will be most vulnerable to defecting to the Wood Village casino, given their comfort and high demands for up-to-date and satisfying technology experiences. This group accounts for 32 percent of all VLT players, according to the November 2009 Oregon Lottery Tracking Study ("Tracking Study").

The Tracking Study data provide several indications that VLT play is likely to be minimally disrupted over the long-term by the proposed Wood Village casino, especially outside of the close-in driving radius of the proposed casino. We base this conclusion on the following analysis of the Tracking Study:

- The most important reasons for playing VLTs are reasons typically associated with traditional lottery game dynamics: 80 percent cited playing for "entertainment and fun," 53 percent cited "dream about what you would do if you won big," and 49 percent cited "for the potential large return for low cost."
- Reasons typically associated with casino gaming/trying to simulate a casino experience received much lower agreement: 24 percent cited because "the same games are available at casinos" and 22 percent cited "because you like taking a risk and beating the odds."
- VLT players are attracted to the other traditional lottery games and the play value they offer, with 79 percent playing Scratch-its in the past year, 69 percent playing Powerball, and 61 percent playing Megabucks.
- VLT play behavior indicates increasing loyalty to the product, with 38 percent of past-year players stating that they have been playing VLTs for at least three years; this is a significant increase vs. the level of 29 percent reported in the November 2008 Tracking Study.
- VLT play is focused on a core group that plays frequently, indicating that they have an entrenched pattern/behavior of play: 18 percent of players reported

playing at least weekly and 43 percent played about once a month, with the remaining 37 percent playing less often.

- Oregon's VLT game payouts (92.5 percent last year) are consistent with casino payoffs on slot machines elsewhere in casino jurisdictions in the West and nationally. The statewide payouts for other states; for example: Nevada 93.89 percent (last 12 months ending April 30), Colorado 93.29 percent (FY 2009), New Jersey 91.11 percent (last 12 months ending May 31), Indiana 91.14 (last 12 months ending May 31), Illinois 91.97 (last 12 months ending April 31).

We would expect, however, specific segments of VLT players to be most vulnerable to cannibalization of some play at least during the novelty phase/casino launch when they would be likely to try the casino to see what it offered:

- Those under 35, given the propensity of this age group to demand the current technological experiences, assuming the new casino offers slot machine experiences with which the VLTs are unable to compete in the immediate term (especially on the older terminals).
- Those that that live within a close radius of the new casino site

To mitigate this cannibalization, we would anticipate that retailers would become more aggressive in retaining their loyal players via promotions and marketing. It is difficult to predict the impact of this behavior, although one could surmise that it will serve to reinforce and support the entrenched behaviors of the loyal core that plays frequently.

Lotteries are traditionally a convenience-driven product, with little social interaction. Casinos – particularly destination resorts – are centered on the entertainment experience. At the same time, studies have shown that the demographics of these two forms of gambling are markedly different. It is important to note that VLT players are not separately profiled and as such; how they compare to the traditional lottery player or the traditional casino visitor is unclear. A 2006 survey of 2,250 adults across the nation – including 1,473 who had gambled within the previous year – illustrates the demographic differences among participants in different forms of gambling, as shown in the following table from the Pew Research Center:

Figure 13: Profile of gamblers in the United States[27]

	Any type of gambling	Bought lottery ticket	Visited casino	Bet on sports**	Played cards for money
ALL ADULTS	67%	52%	29%	23%	17%
GENDER					
Men	72%	56%	31%	32%	25%
Women	62%	48%	27%	15%	10%
RACE/ETHNICITY					
White	68%	53%	30%	23%	18%
Black	62%	45%	24%	24%	14%
Hispanic*	62%	47%	22%	16%	12%
AGE					
18-29	71%	48%	30%	30%	32%
30-49	69%	56%	30%	25%	17%
50-64	68%	55%	31%	22%	11%
65+	58%	43%	22%	13%	10%
EDUCATION					
College grads	65%	48%	31%	25%	15%
Some college	71%	55%	32%	23%	21%
H.S. grad or less	66%	52%	27%	22%	17%
FAMILY INCOME					
$100,000+	79%	57%	40%	39%	24%
$50K-$99k	74%	60%	37%	27%	22%
$30K-$49k	67%	54%	27%	22%	21%
Less than $30k	59%	44%	21%	16%	11%
REGION					
Northeast	77%	63%	31%	26%	20%
Midwest	64%	52%	26%	23%	18%
South	62%	48%	24%	21%	15%
West	68%	47%	38%	23%	17%
RELIGION					
Protestant	61%	48%	24%	19%	13%
Catholic	77%	62%	39%	30%	23%
Secular	72%	52%	29%	24%	23%
White Protestants					
Evangelical	50%	40%	19%	14%	11%
Mainline	73%	58%	29%	24%	17%
*Hispanics are of any race; ** Betting on sports includes professional sports, college sports or an office pool					

[27] Pew Research Center, "Gambling: As the Take Rises, So Does Public Concern," May 23, 2006. P. 7 http://pewresearch.org/assets/social/pdf/Gambling.pdf

The introduction of a new good to the state's entertainment offerings – such as casinos – likely will cause a modest increase in expenditures. If consumers are offered a new product that is in demand, they may divert spending from other items, or may use savings purchase the new good or service. Hence, the introduction of casinos might have a positive stimulus effect on overall demand for goods and services in the state. This effect would tend to be positive for the state, as overall expenditures increase. This is essentially an increase in economic activity, which represents a source of economic growth and higher incomes. This is a well-known principle in economics famously expounded by Austrian economist Joseph Schumpeter.[28]

Another possible effect of introducing a casino in Wood Village is to stimulate the purchase of lottery products from out-of-state visitors. Given that the lottery is widespread in the United States, this is unlikely to be a large source of lottery sales. But it is conceivable that, if the lottery is marketed within casinos, out-of-state visitors can be expected to spend money at the casinos and may purchase lottery tickets as well. We view this effect on the lottery as being quite small in the near term, but could have the potential to be significant if traditional games like Scratch-it are redesigned to better appeal to consumers; this product type has significant sales in other parts of the country, which indicates a receptivity among out-of-state players to a strong Scratch-it product.

Analyses of multiple sources of micro-level gambling data demonstrate that lottery spending does not substitute for other forms of gambling. Household consumption data suggest that household lottery gambling accounts for approximately $38 per month, or two percent, of other household consumption, with larger proportional reductions among low-income households.

As discussed above, there could be several conflicting effects to a state's lottery when casinos are introduced. Although each state has unique features that may not be replicated in other states, we can obtain important information by looking to the experiences and data from other states. There have been numerous economic studies of lotteries. A small body of literature has examined how different types of gambling affect each other. We review this literature, and then focus on the relationship between lotteries and casinos.

We review two types of studies. The first type includes reports that primarily analyze the relationships among gambling industries, whether or not state tax revenue is explicitly considered. The second type includes reports that focus specifically on the relationship between gambling industries and tax revenues. An important caveat is that most of these studies do not provide information on the overall effect of *all types* of legalized gambling on other industries or on state tax revenues. In particular, most of the published studies:

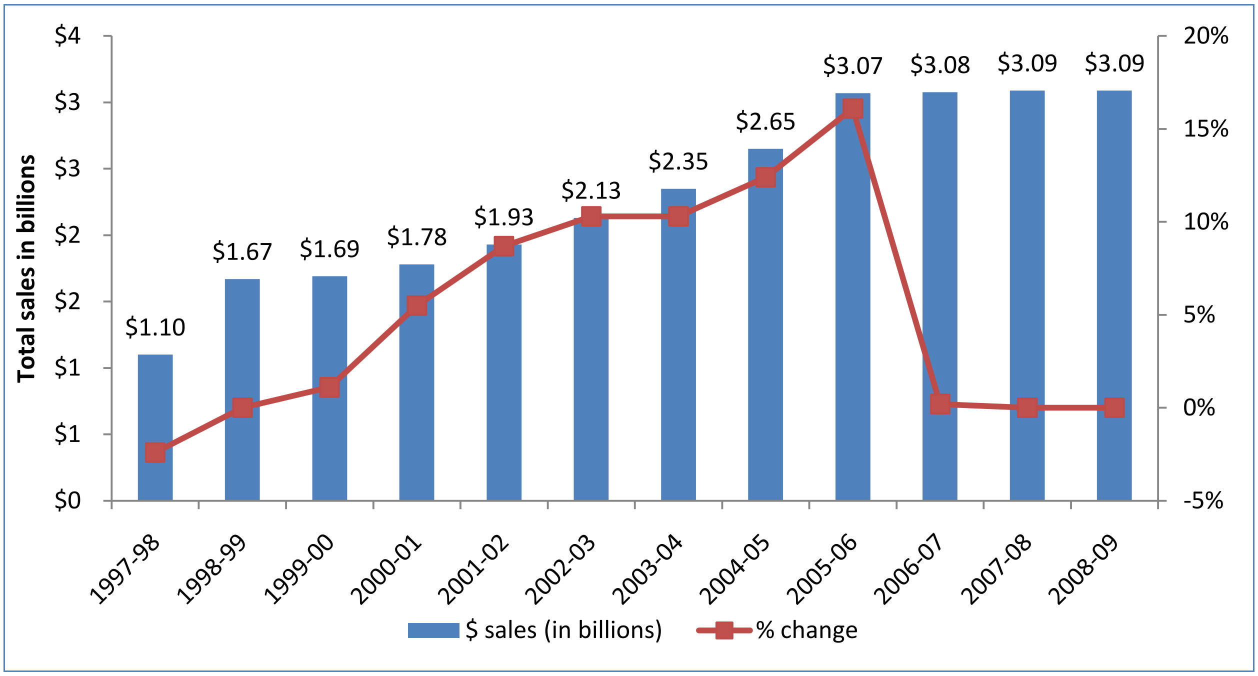
[28] Joseph Schumpeter (1934 [1983]), *The Theory of Economic Development*, chapter 2. New Brunswick, NJ: Transaction Publishers.

- Concern the impact of a single industry on one other industry, and not vice versa;
- Concern the impact of a single industry on state tax revenue;
- Are for relatively short periods, or concern a single state or a small number of states;
- Are in states where the mix of lottery games is more balanced than in Oregon and less dependent on VLTs

In short, the problem with the existing literature is that the results are applicable to specific jurisdictions, during specific periods, and for specific industry relationships. Few studies have examined the more general relationships among gambling industries and the effects of these industries on overall state tax revenues. Thus, the results reported in previous studies may not be directly applicable to Oregon.

The recent example of data as to how casinos can impact the lottery comes from Pennsylvania, where six casinos were introduced at various locations at various times over a two-year period starting in November 2006. The study, released June 11, 2008, by the Legislative Budget and Finance Committee, was required by Pennsylvania state law.[29]

Figure 14: Pennsylvania annual lottery sales



Source: Pennsylvania Lottery Commission

Between 2001 and 2006, the Pennsylvania Lottery experienced a period of unprecedented, 73 percent sales growth. The growth spurt included four consecutive years of

[29] Pennsylvania Act 2004-71

double-digit increases, capped by a 16 percent rise in fiscal 2005-2006.[30] According to the report, the significant growth can largely be attributed to a significant increase in the vendor network.

By concentrating on recruitment and focusing on corporate accounts, the Pennsylvania Lottery reversed a 16-year decline in retailer counts, from 1986 to 2002. The number of retailers increased by 20 percent from January 2003 through June 2006. Nearly 1,500 new retailers were added to the lottery retailer network during that period, bringing the total to more than 8,400.

In fiscal 2007, another 129 retailers were added, which is about one-third of the figure for three previous years.[31] The increase in lottery sales fell to just 0.2 percent in fiscal 2007. The state's first casino opened in November 2006. Lottery officials acknowledge that the casinos probably had some impact on sales but said it was difficult to quantify the impact.

"The slots wagering of nearly $14 billion between November 2006 and January 2008 would appear to have some impact on the availability of personal discretionary income for lottery purchases. But, the extent to which slots wagering may shift individuals' gaming attention and resources away from lottery games is difficult, if not impossible, to quantify," according to the study.[32]

In releasing the lottery report, Revenue Secretary Thomas Wolf, who oversees the lottery, noted results are affected by a "myriad of factors such as jackpot sizes, marketing efforts, the economy and even the weather. We cannot attribute any single factor as the sole reason for an increase or decrease in lottery sales."[33]

The study noted that the single biggest negative effect on sales may have been the relatively small Powerball jackpots in 2007.[34] On the other hand, Mega Millions jackpots in states that border Pennsylvania were high. The result was that lottery players bought Mega Millions tickets rather than Powerball tickets.[35]

The report appears to show, however, that there is an impact on sales in counties with casinos and on counties adjacent to where casinos are located.[36]

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[30] Pennsylvania Lottery Commission

[31] Pennsylvania Department of Revenue

[32] An Assessment of the impact of slots gaming on Pennsylvania Lottery Sales, June 11, 2008.

[33] *Pittsburgh Post-Gazette*, June 12, 2008

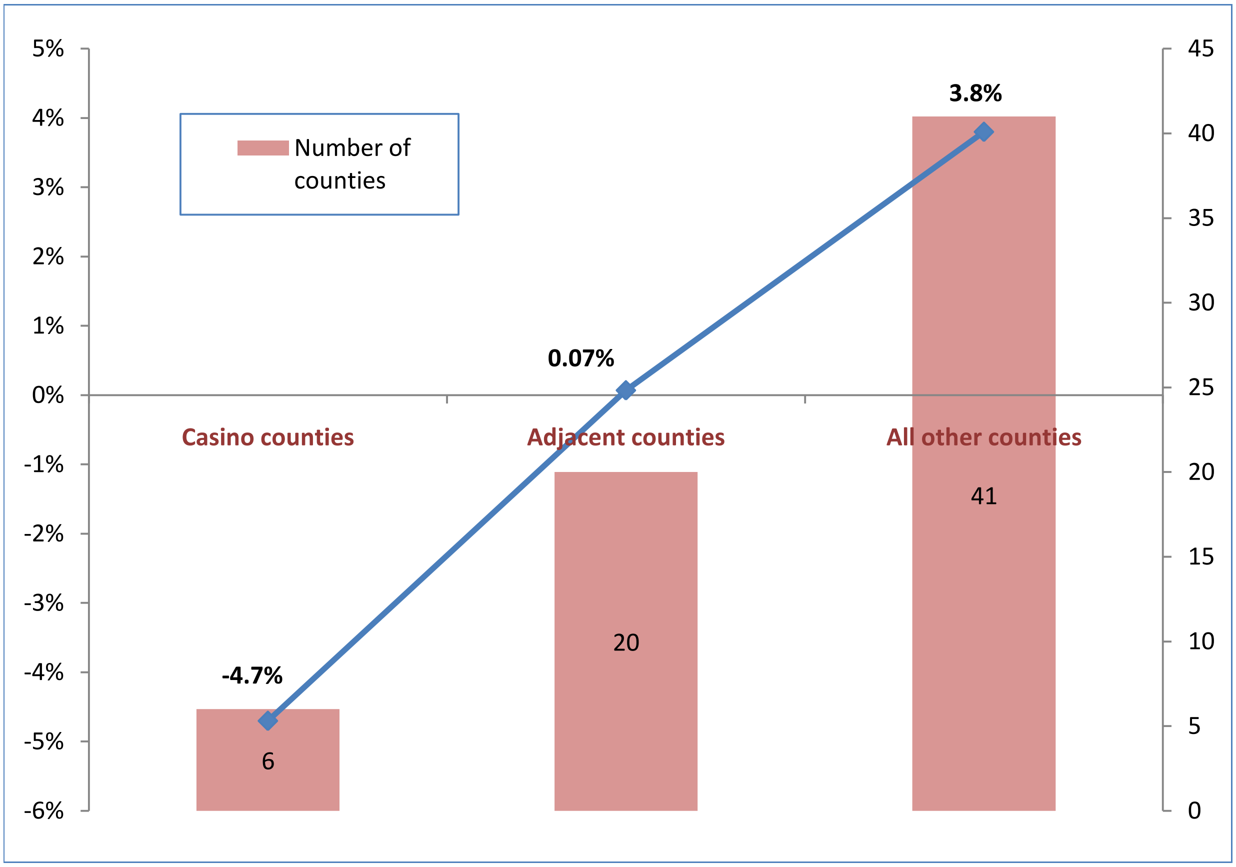
[34] Ibid

[35] Ibid

[36] Ibid

The study analyzed lottery sales in each of Pennsylvania's 67 counties, comparing data from 2007, when slot parlors were open, with that of 2006. It found that lottery sales in the six casino home counties declined by 4.2 percent. Sales were just about flat in the 20 counties adjacent to casinos and increased by 3.8 percent in the 41 non-adjacent counties.[37]

Figure 15: Pennsylvania Lottery sales, 2006-07



Pennsylvania Legislative Budget and Finance Committee

But the spread between casino counties and non-casino ones would have been even greater had the study looked at just the months that casinos were open in 2007. One of them opened in June, another in November, yet the study considered sales for the entire calendar year.

After disregarding the data for the months that the casinos were not open, the six casino home counties actually registered a sales decline of nearly 5 percent in 2007, not the 4.2 percent quoted in the report. More telling is that only 19 of the 67 counties in the state registered sales declines. Fourteen of them were in counties where a casino is located or in

[37] Ibid

counties that bordered them. Of the 41 non-slots counties that were not adjacent to casinos, only five had lower annual sales in 2007 than in 2006.[38] Luzerne County, where Mohegan Sun at Pocono Downs is located, sustained a sales decline of 7.7 percent, the second-largest decline of any of the state's 67 counties.

In the two fiscal years after this study, the Pennsylvania Lottery revenue remained relatively flat, at $3.089 billion in 2007-08 and $3.088 billion in 2008-09.

Of concern to the Oregon Lottery would have to be revenue derived from VLT games, which dominate the Lottery's product mix (accounting for 71.5 percent of sales in FY 2009) as well as keno (9 percent of sales). Of all the lottery games, the VLT products and keno are more likely to be impacted by casino gaming because they share many similar play experiences, including fast-paced, stimulating rate of play and immediate winning. Collectively, these two games represented over 80 percent of Oregon Lottery revenue in FY2009.

The Oregon Video Lottery reported an 8 percent sales decrease between FY08 and FY09; in its 2009 Annual Performance Report issued December 2009, the Oregon Lottery cited the both the impact of the Indoor Clean Air Act (statewide indoor smoking ban) implemented during FY09, the recession/economic conditions, as well as presence of obsolete VLTs.

The revenue decline for these games is likely linked, as seen in the Lottery's tracking study, to a consistent erosion of the player base over the past two years, from 69 percent having played a Lottery game in 2007, to 67 percent in 2008, to 63 percent in 2009. Consistent with this reduction in the player base, the Lottery's Annual Financial Report issued for the year ending June 30, 2009, stated that the 2009 per-capita Lottery spending in Oregon is $290, down $40 per person from 2008.

In New York State, lottery sales involving keno dropped precipitously in Niagara County after the Seneca Niagara Casino Hotel opened on December 30, 2002.[39] Lottery officials provided us with fiscal year data for 2002 and compared it with fiscal 2004, the 12-month period after the casino opened. The lottery's Quick Draw keno-type game declined by 21 percent. In the rest of the state, sales increased by 2 percent.

The negative trend for Quick Draw has continued over the years. In fiscal 2008, keno sales dropped 36 percent compared to the year before the Seneca casino opened. The statewide figure was a 9 percent decline.

The New York Lottery reported 4 percent growth in fiscal 2008, and cited two factors: the success of racetrack VLTs, particularly at Yonkers Raceway in suburban New York City, and the increased popularity of certain instant games, which collectively account for half of the New

[38] Ibid

[39] New York State Lottery, interview June 16, 2008

York Lottery's revenue. In the first quarter of the current fiscal year, Mega Millions lottery ticket sales grew by 40 percent in the quarter, while sales for $10 and $20 instant games grew by 26 percent.[40]

Clearly, the Pennsylvania and New York state experience would indicate that lottery sales near a destination casino in Oregon could decline, at least in the short term. Given the strong dependence on VLT games in Oregon, we would anticipate the potential for more significant impacts from to the VLTs in the areas near the proposed casino site.

In the short term, we can conservatively project that the lottery sales nearest Wood Village would decline by at least 5 percent in the first year, but such declines can be reversed through affirmative planning and proactive measures that are discussed throughout this report. While a more detailed impact study would require a more detailed examination of the projected revenue, employment, purchases and other aspects of Wood Village (which was beyond the scope of this engagement), we can reach certain conclusions based on our experience.

We note, for examples, that the economic activity spurred by the casino would positively impact those nearby agents as well, including employment and income growth and increased visitation. As noted, ECONorthwest projected about 2,100 jobs at the Wood Village casino. While we have not verified those numbers nor have we performed a detailed, necessary examination of the indirect and induced employment and payroll, we can conservatively estimate the employment multiplier at 1.4 times the number of direct jobs. Such growth, by definition, would likely have a positive effect on businesses – including Video Lottery retailers – nearest the place of employment.

We have to look at other examples to gain further insight into long-term trends.

The papers discussed below are relevant for two specific parts of this report: the anticipated short-term and long-term impact on the Oregon lottery, and the potential impact and anticipated substitution effect on existing Oregon businesses, such as dining and retail. It is important to note, however, that these studies were conducted prior to the significant presence of VLTs in the market.

Elliot and Navin[41] model the determinants of lottery sales in 48 states, from 1989-95. In analyzing how other gambling industries affect lottery sales, they use the number of Indian casinos in the state and the highest gross revenues per capita for a lottery and gaming in any neighboring state. They find that casinos and pari-mutuels harm the lottery, and that adjacent

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[40] "New York Lottery Revenue Increases," *Binghamton Press & Sun-Bulletin*, July 12, 2008

[41] Donald S. Elliott and John C. Navin (2002), "Has Riverboat Gambling Reduced State Lottery Revenue?" *Public Finance Review*, vol. 30, pp. 235-247.

state lotteries have a small negative effect on in-state lottery sales. The number of Indian casinos in a state and riverboat casinos in neighboring states do not significantly affect lottery sales.

Fink and Rork[42] argue that low-revenue lottery states are more likely to legalize casinos. This partly explains the negative relationship between casinos and lotteries. It is important to note that Oregon is a low-revenue lottery state based on traditional lottery product sales; in FY2009 it ranked 32nd among the 43 US lotteries, as shown in the following table:

[42] Stephen Fink and Jonathan Rork (2003), "The importance of self-selection in casino cannibalization of state lotteries." *Economics Bulletin*, vol. 8, pp. 1-8.

Figure 16: FY2009 traditional lottery sales per capita by state, government revenue per capita

	Traditional Sales per capita	Government Revenue/Capita, including VLT
Massachusetts	$671.54	$130.41
D.C.	$408.95	$114.63
Georgia	$345.44	$88.72
New York [3]	$342.63	$130.19
Maryland	$297.91	$86.53
New Jersey	$287.40	$101.86
Connecticut	$281.62	$80.37
Pennsylvania	$244.90	$72.20
Michigan	$238.46	$73.94
Rhode Island [3]	$227.12	$327.90
South Carolina	$220.42	$57.35
Florida	$212.41	$69.46
Ohio	$209.50	$60.86
New Hampshire	$180.14	$51.24
Kentucky	$177.50	$47.42
Virginia	$173.30	$54.60
Missouri	$161.68	$42.79
Tennessee	$161.10	$44.47
Illinois	$160.90	$49.16
Maine	$159.60	$38.31
Vermont	$154.81	$34.03
Texas	$150.13	$42.86
Delaware [3]	$138.48	$350.38
North Carolina	$136.83	$44.23
Indiana	$114.12	$27.87
West Virginia [3]	$108.85	$338.80
Colorado	$98.08	$23.78
Minnesota	$91.32	$22.44
Idaho	$90.10	$22.76
Louisiana	$84.30	$30.27
Wisconsin	$83.64	$23.55
Oregon [3]	$81.93	$155.17
Kansas	$81.74	$24.18
Iowa	$80.84	$20.12
California	$79.95	$27.81
Arizona	$73.41	$19.56
Washington	$73.23	$18.08
New Mexico	$71.61	$20.30
Nebraska	$68.47	$16.81
Oklahoma	$53.81	$19.42
South Dakota [3]	$50.68	$148.00
Montana	$44.72	$10.34
North Dakota	$33.42	$9.82
Total	**$184.88**	**$61.03**

Source: LaFleur's World Lottery Almanac

Kearney[43] examined household expenditure data from 1982-98, a period during which 21 states implemented a state lottery. Among other issues, she studied the source of lottery ticket expenditures. Kearney finds that spending on lottery tickets is financed completely by a reduction in non-gambling expenditures. This implies that other forms of gambling are not harmed by a lottery, but that non-gambling industries are. Even so, we could reasonably expect that the lottery would therefore increase overall state tax revenues since the lottery tax is significantly higher than taxes on most other types of expenditure.

Siegel and Anders[44] tested the effect of Arizona tribal casinos on the state's lottery sales from 1993-98. Explanatory variables included the number of tribal casino slot machines and horse and greyhound racing handle. They found the number of tribal slot machines to have a significantly negative effect on lottery sales.

Several studies have focused more specifically on the tax revenue question. Anders et al.[45] examine the effect of Indian casinos on transactions tax revenue of one Arizona county. Since tribal casino revenues in many states are not directly taxed by the state, officials may be concerned that increases in casino expenditures will result in less spending on taxable goods and services. (Different states may negotiate different terms in developing agreements to allow Indian casinos.) In their model estimating state tax revenues from 1990-96, the authors consider the introduction of casinos. They find that the decline in the Transaction Privilege tax from the retail, bar, hotel, and amusement sectors, associated with the opening of casinos was about 0.44 percent. These results suggest that there was, at least in this case, a small substitution effect away from other goods and services toward the casinos.

Popp and Stehwien[46] can be seen as a complement to the study by Anders et al. (1998), but applied to New Mexico county-level tax revenue, from 1990-97. They find that tribal casinos have a negative effect on tax revenues within the county.

Borg et al.[47] (1993) found that $1 in net lottery revenue has a cost of 15 cents to 23 cents in other types of government revenue, particularly sales and excise taxes, but that the

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[43] Melissa Kearney (2005), "State lotteries and consumer behavior," *Journal of Public Economics* vol. 89, pp. 2269-2299.

[44] Donald Siegel and Gary Anders (2001), "The impact of Indian casinos on state lotteries: A case study of Arizona. *Public Finance Review*, vol. 29, pp. 139-147.

[45] Gary Anders, Donald Siegel, and Munther Yacoub (1998), "Does Indian casino gambling reduce state revenues? Evidence from Arizona. *Contemporary Economic Policy*, vol. 16, pp. 347-355.

[46] Anthony Popp and Charles Stehwien (2002), "Indian casino gambling and state revenue: Some further evidence. *Public Finance Review*, vol. 30, pp. 320-330.

[47] Mary Borg, Paul Mason, and Stephen Shapiro (1993), "The cross effect of lottery taxes on alternative tax revenue. *Public Finance Quarterly* vol. 21, pp. 123-140.

lottery leads to an overall increase in revenues. Fink et al.[48] also study the overall tax revenue effects of lotteries. Their results are partially consistent with those of Borg et al. (1993). However, Fink et al. (2004) find that overall state tax revenue decreases when lottery revenues increase. Both of these papers consider lotteries, but do not account for other types of gambling in their models.

Siegel and Anders[49] examine Missouri sales tax revenues at the county level (1994-96) as a result of introducing riverboat casinos. Like Anders et al. (1998), they find taxes from certain amusement industries are negatively impacted. Siegel and Anders estimated that a 10 percent increase in gambling tax revenue leads to a 4 percent decline in tax revenues from other amusement and recreation sources. However, there is no clear and consistent negative effect on other types of tax revenues.

We suggest that the likelihood of advancing public policy through the establishment of legal casinos can be best advanced in Oregon by working with the proposed Wood Village casino or any other licensed casino put forth comprehensive plans that are designed to optimize a number of factors, including:

- Out-of-state visitation
- Employment
- Capital investment
- Collaborative marketing with other segments of the leisure and hospitality industries
- Collaborative efforts with the Lottery to market and distribute complementary products like Scratch-its.

These latter two points should be underscored with respect to the Oregon Lottery. In our experience, lotteries and casinos in other states have developed cross-marketing plans of varying success. The New Jersey Lottery developed instant games in which players could win prizes at Las Vegas casinos. In one New Jersey game, 3.3 million $5 scratch-off tickets were printed in 2004 in which 300 tickets included four-day, three-night packages at Caesars Palace in Las Vegas, including round-trip coach airfare and $500 in spending money.[50]

We recommend that agreements with any future casinos in Oregon – including Wood Village – should include plans designed to minimize any negative impact on the Lottery, while increasing ticket sales to out-of-state residents. Of particular focus, should be in-casino

[48] Stephen Fink, Alan Marco, and Jonathan Rork (2004), "Lotto nothing? The budgetary impact of state lotteries," *Applied Economics*, vol. 36, pp. 2357-2367.

[49] Donald Siegel and Gary Anders (1999), "Public policy and the displacement effects of casinos: A case study of riverboat gambling in Missouri." *Journal of Gambling Studies*, vol. 15, pp. 105-121.

[50] http://liberty.state.nj.us/lottery/instant/ig431.htm

marketing of traditional Lottery products including Scratch-its, as well the Oregon drawing games (Megabucks, Pick 4, etc.). In addition to potentially capturing revenue from out-of-state visitors, these products have lower pay-outs and offer a higher margin for Oregon.

Specifically, Oregon should follow Pennsylvania's lead. The Legislature in that state mandated that self-service lottery terminals be installed in prominent areas of the casino floor. The 11 terminals at the (then) six casinos generated more than $1.3 million in sales from July 10, 2007, through February 27, 2008.[51]

Simultaneously, we believe that it will be important to proactively evaluate opportunities to revitalize and relaunch the Instant Scratch product line. Scratch-its may offer the opportunity to address some erosion in VLT sales as well as offer Oregon a higher margin; as noted above, this product requires less prize payout than VLTs. A review of historical sales from 2000 to 2009 reveals that Instant Scratch product sales are 23 percent lower than they were 10 years ago.

Historical lottery and casino data

Few of the studies above focus specifically on the relationship between commercial casinos and lotteries. In addition, those studies often used varying methodologies, periods and jurisdictions, which may explain the inconsistencies often seen in their results. In this section, we provide more basic data on the relationships between lotteries and casinos.

Commercial casinos began to spread in the United States (outside Nevada and New Jersey) in the late 1980s. In order to see the effect casino gambling has had on state lotteries, it is informative to look at rates of change for lottery revenues. Below we present two tables.

The first table shows that lottery growth rates in non-casino states have varied drastically. However, the average growth rate in lotteries is significantly lower during the 2000-2005 period than in the previous period. This overall decline in lottery growth rates is perhaps due to a "saturation" effect.

Still, lotteries are seeing positive growth rates even adjusted for inflation. As lotteries have been adopted in most states, perhaps now there is relatively little cross-border purchasing which may have stimulated earlier, more isolated state lotteries. During both pre-2000 and post-2000 time periods, the growth rates in lottery revenues outpaced the growth rate in the population. This suggests that the lottery is still a popular and growing government product.

[51] PA c.s.a. 1207, Sec. 16; 2008 interview with Pennsylvania lottery

Figure 17: Average annual lottery and population growth rates, selected non-casino states

State	(a) 1st year of data	(b) Lottery growth, 1st yr.–2000	(c) Population growth, 1990-2000[b]	(d) Lottery growth, 2000-2005[a]	(e) Population growth, 2000-2005[b]
Georgia	1993	10.3%	2.6%	3.2%	2.2%
Kentucky	1989	11.0%	0.9%	2.2%	0.6%
Maine	1985	16.3%	0.4%	6.3%	0.6%
Maryland	1985	-0.4%	1.1%	3.1%	1.0%
Massachusetts	1985	6.2%	0.6%	1.3%	0.2%
Nebraska	1995	-5.2%	0.8%	7.7%	0.5%
New Hampshire	1985	17.7%	1.1%	3.8%	1.1%
Ohio	1985	3.4%	0.5%	-2.0%	0.2%
Pennsylvania	1985	-1.3%	0.3%	9.7%	0.2%
Texas	1993	4.4%	2.3%	4.4%	1.9%
Vermont	1985	13.1%	0.8%	4.1%	0.4%
Virginia	1990	6.1%	1.4%	4.2%	1.3%
Averages		*6.8%*	*1.1%*	*4.0%*	*0.9%*

Notes: All averages calculated by Walker using data from Walker and Jackson (2008) and the U.S. Census Bureau.

[a] Average growth rates in lottery sales between 2000 and 2005 are calculated assuming a constant compound rate of change between 2000 and 2006 revenues. Delaware, Rhode Island, and West Virginia are omitted because their 2006 data include revenues from video lottery terminals.

[b] These rates are calculated by dividing the 10-year and 5-year growth rates, 1990-2000 and 2000-2005, by 10 and 5, respectively. This method ignores compounding, but the difference is modest.

The next table shows the growth rates in population and lottery revenues overall and decomposed into pre- and post-casino introduction periods. (Rates in both tables below use inflation-adjusted data.) Note that the earliest year for which data are presented in both tables is 1985. This is because we are trying to focus on how lotteries were affected by the spread of casinos that occurred mostly during the 1990s. The same time period is chosen for the non-casino states to serve as a comparison to the casino states.

Figure 18: Average annual lottery and population growth rates, selected casino states, 1985-2005

State	(a) 1st year of data	(b) Lottery growth, 1st yr.-2000	(c) Population growth, 1990-2000	(f) Year Casinos Opened	(g) Lottery growth before casinos	(h) Lottery growth after casinos opened (through 2000)	(d) Lottery growth, 2000-2005	(e) Population growth, 2000-2005
Colorado	1985	7.2%	3.1%	1992***	9.5%	5.7%	2.0%	1.6%
Connecticut	1985	3.1%	0.3%	1992*	3.1%	3.1%	0.3%	0.5%
Illinois	1985	-1.6%	0.8%	1991**	1.0%	-2.8%	3.2%	0.5%
Indiana	1990	1.2%	1.0%	1995**	8.7%	1.3%	4.2%	0.6%
Iowa	1986	3.2%	0.5%	1992***	8.7%	-1.3%	10.8%	0.3%
Louisiana	1992	-5.1%	0.6%	1988***			1.0%	0.2%
Minnesota	1990	-0.1%	1.2%	pre-1985*			-0.2%	0.8%
Missouri	1986	6.0%	0.9%	1994**	3.6%	8.1%	9.5%	0.7%
New Jersey	1985	1.6%	0.9%	pre1985**			2.7%	0.6%
New York	1985	4.3%	0.5%	pre-1985*			9.4%	0.3%
Averages		*2.2%*	*1.0%*		*5.8%*	*1.2%*	*4.3%*	*0.6%*

Notes: * Indian casinos only, as of 2000; ** Commercial casinos only, as of 2000; *** Commercial and Indian casinos

Comparing columns (d) and (e) from the table above, we see that on average, adjusted for population, the lottery growth rates in casino states *exceeds* those in non-casino states. As cautioned earlier, any particular state may see results substantially different from the average experiences of other states. This may suggest that, after an initial negative casino effect on the lottery, the lottery recovers and sees even higher growth rates than before casinos.[52]

Indeed, while we caution that experience in other states is limited because so many factors can differ, the experience in Connecticut – a state that introduced two destination casinos in the 1990s – shows that the destination business model can successfully coexist with a lottery.

From 1992 through 1996, Connecticut Lottery sales grew by 30 percent, from $544 million in fiscal 1992 to $707 million in fiscal 1996.[53] Foxwoods in Connecticut opened in 1992, and had been expanding throughout that period of study. Mohegan Sun opened in October 1996, and thus overlapped that study by less than a year. Still, the data indicate that casino

[52] In his paper, Jeff Dense argues that there "continues to be minimal substitution between state lotteries and commercial casinos." His analysis shows that state government receipts from lotteries and casinos are both positive over time. However, it is unclear whether or not he adjusted his data for inflation. See Jeff Dense, "State lotteries, commercial casinos, and public finance: An uneasy relationship revisited." *Gaming Law Review*, vol. 11, pp. 34-50.

[53] "A Study Concerning the Effects of Legalized Gambling on the Citizens of the State of Connecticut," The WEFA Group, 1997

destinations did not hurt lottery sales, despite the opening of the two of the world's most successful gaming properties. The WEFA Group, in its study, attributed that growth, in large measure, to the introduction of instant games priced at $2 or more.

Fourteen years later, the Connecticut Lottery revenues continue to grow. Sales reached $991.3 million in fiscal 2009, a 1 percent decline from the previous year.[54]

We note two conflicting pieces of evidence. Walker and Jackson (2008a, b) provide evidence from nationwide studies that suggest that casinos will have a negative impact on the lottery and on state tax receipts. On the other hand, anecdotal evidence from growth rates of state lotteries show that states that have introduced casinos see a decline in lottery growth, but typically those states still see positive growth of lottery receipts.

These apparently conflicting results can be reconciled by considering that the econometric modeling employed by Walker and Jackson accounts for other factors that affect the gambling industries and overall tax receipts.

In view of this evidence, we believe that the introduction of a commercial casino in the Portland area could have a short-term negative effect on the Oregon Lottery. This result will be very sensitive to the extent to which the lottery is promoted within the casinos and by casinos as well as VLT retailer marketing response to retain its VLT clientele. If these efforts are successful, it is possible that the Oregon Lottery could see an increase in the rate of growth. Missouri provides another example of this situation, where the lottery growth rate increased significantly *after* the introduction of casinos.

Additionally, if casino operators develop and follow through on cross-marketing strategies designed to boost lottery sales, there will be increased potential of actual growth in lottery sales as a result of the introduction of casinos in Oregon.

With that in mind, we suggest that the casino operator develop effective strategic alliances and cross-marketing opportunities with the lottery. Such a move would in effect make the casino a partner with the lottery. This would also help ensure that the casino is fully integrated into the overall tourism economy, since a focus on tourists would be least likely to cause any disruption to lottery revenue.

Next, we examine specific casino-lottery cases from three states – South Dakota, West Virginia and New Jersey.

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[54] http://www.hartfordbusiness.com/news11762.html (accessed June 30, 2010)

South Dakota

Casino gambling in Deadwood, SD, and the statewide retail video lottery both began in FY 1990. A review of their first four operating years (1991-94) shows that they exhibited remarkably similar growth rates in gross gaming revenue.

- Video lottery increased 119 percent, 19 percent, 12 percent and 16 percent, respectively.
- Deadwood casinos increased 132 percent, 17 percent, 5 percent and 5 percent, respectively.

We note that the number of VLT terminals during that time period increased from 2,439 to 7,447, an increase of 205 percent. Deadwood licensed casino slot machines increased from 863 to 2,057, an increase of 138 percent.

The numbers indicate that the presence of Deadwood casinos did not impede in any way the development of a video lottery program in South Dakota. In fact, South Dakota Lottery researcher Mary Jo Bibby said in an interview with Spectrum that the casinos and the VLTs have coexisted well since their mutual inception.[55] “They really do not compete with each other. And in some cases, they may even complement each other,” Bibby said.

Interestingly, the South Dakota state Supreme Court shut down video lottery in 1994, from August 13 to November 22. As a result, video lottery revenue fell nearly $40 million in FY 1995, or 24 percent. Deadwood gross gaming revenue increased that year just 8 percent that year, or $4 million. Bibby said the numbers indicate that the video lottery player and the casino player are somewhat distinct. That may explain why casino revenue did not increase substantially during the video lottery shutdown, Bibby said.

Dave Ritter operates the Horses to Harleys Pub in Spearfish, South Dakota, about 15 miles from Deadwood. He said that he has been pleased with his video lottery operation despite the fact he so close to a casino town. “We do awesome. We don’t get the real serious gambler but they play enough here to make this quite profitable for us,” Ritter said.[56]

For the most recently reported fiscal year (2009), the South Dakota video lottery had a GGR of $220.1 million, which is about twice the Deadwood casinos GGR of $101.3 million. The video lottery revenue during that period declined 1.7 percent while Deadwood casino revenue declined 1 percent.

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[55] Interview with Spectrum, July 2, 2010

[56] Interview with Spectrum, July 2, 2010

West Virginia

An ECONorthwest Report conclusion was that counties with casinos have much less VLT play than those that do not have casinos. We turned to West Virginia for some perspective on the issue. The four racetrack casinos are in Hancock, Jefferson, Kanawha and Ohio counties.

Through the first five months of 2010, we determined that the per-capita statewide win was $120. Two counties had figures below the statewide number. They were Jefferson at $76, where Charles Town Races & Slots is located, and Kanawha at $98, where Tri-State Racetrack & Gaming is located. The two other racetrack counties had figures well above the statewide number. They were Hancock at $434, where Mountaineer Casino Racetrack & Resort is located, and Ohio at $279, where Wheeling Island Hotel Casino Racetrack is located.

In a phone interview on July 1, 2010, Nancy Bulla, spokesperson for the West Virginia Lottery, said Limited Video Lottery ("LVL") and racetrack casino slots "coexist well" in West Virginia with "no competition" between the two programs. It should be noted that both the LVL and racetrack slots are West Virginia Lottery products.

Bulla said when the LVL legislation was being debated and developed in 2000-01, the racetrack casinos did not oppose the legislation and worked behind the scenes to ensure the program was in fact "limited." She pointed to the limitations in the LVL enabling legislation that include:

- Five machines per location (except for fraternal organization that may have up to 10 machines per location).
- Maximum number of machines statewide is capped at 9,000.
- No cash drop, like the racetrack slots
- Limitations designed to ensure there would not be too many machines in any one community including minimum distance between locations, from schools and churches.
- Limited to licensees that serve liquor for on-site consumption, thus excluding most truck stops, package and convenience stores.
- Limited to LVL machines; no other types of gaming at these locations.

We believe that the experience in West Virginia and South Dakota demonstrate that it is not credible to make a claim, as the ECONorthwest Report has, that a casino at Wood Village would significantly reduce VLT revenue in Oregon.

In fact, the Oregon Lottery reported 24 percent of survey participants indicated that one of the reasons they play VLTs at retail locations is because they are similar to slot machines in casinos, a similarity that increases their appeal.[57]

New Jersey

In May 2000,[58] the New Jersey Lottery reported that its top 1,200 agents – the top 20 percent of its network – generated $18.7 million in average weekly sales during a 13-week period. Annualized, that means that the top 1,200 agents generated about half of all lottery sales that year.

Atlantic County – which hosts the multibillion-dollar casino industry in New Jersey – was home to 29 of the top agents, and those agents combined sold an average $450,436 in weekly tickets. This amounted to 2.4 percent of the total generated by all 1,200 top agents.

Atlantic County was home to about 3 percent of New Jersey's population in 2000. That discrepancy – 3 percent vs. 2.4 percent – might indicate that per-capita lottery sales were relatively weak in Atlantic County. That does not tell the entire story, however.

The Atlantic County economy had clearly been growing significantly during that period, and its population growth was twice the state's average.[59] Still, Atlantic County, which has long been dependent on agriculture and seasonal tourism, had a lower per capita income – $44,782 – than New Jersey overall – $57,338, and lagged in other economic indicators as well. Since lottery sales are dependent on a healthy economy and relative levels of disposable income, this disparity would have accounted for the difference in lottery sales.

What is particularly interesting about the 2000 data is that four of the top five lottery agents in Atlantic County, as well as five of the top seven, were casinos. At the time, Atlantic City hosted 12 casino hotels. Trump Taj Mahal averaged $30,379 in weekly sales during that period. Of the 1,200 top-performing lottery agents, the average weekly sales per agent at the time was $15,613. Five casinos exceeded that average.

Atlantic City casinos have never been required to sell lottery tickets, and most limit sales to non-prominent locations, such as gift shops. The ability to become top sellers, however, is clearly a function of the level of traffic generated by casinos. Casinos in Atlantic City generate

[57] Oregon Lottery, November 2009 Lottery Tracking Study, p. 16

[58] "Top 1,200 Agents," New Jersey Lottery. May 11, 2000. This data was considered public at the time. The New Jersey Lottery has subsequently determined that sales by individual lottery agents is confidential and has not publicly released data since that time.

[59] U.S. Census Bureau

30 million and 35 million visitor trips per year,[60] which is about four times the entire population of New Jersey. If casinos in Atlantic City were required to become aggressive marketers of lottery tickets, clearly the sales would increase significantly higher. This case study supports the notion that a pro-active approach by the Oregon Lottery and any future casinos could effectively leverage the opportunities afforded by that additional traffic.

[60] South Jersey Transportation Authority, *Gaming Industry Observer*

Portland-Area Casinos and the Video Lottery Today

Five casinos presently operate in the broader Portland gaming market, which we define as being within 120 driving miles of the city. In addition, there are numerous card rooms throughout Washington; many advertise themselves as "casinos," but they are limited to 15 table games and pull tab electronic gaming devices. The true casinos in the broader Portland gaming market, all operated by Native American tribes, include the following:

Oregon

- Spirit Mountain Casino in Grand Ronde, approximately 62 miles from Portland
- Chinook Winds Casino in Lincoln City, 88 miles
- Kah-Nee-Ta High Desert Resort & Casino in Warm Springs ,105 miles

Washington

- Lucky Eagle Casino in Rochester, 101 miles
- Red Wind Casino in Tacoma, 114 miles

In addition, the Cowlitz Tribe is planning to develop a large-scale casino resort at the Interstate 5 junction west La Center, WA; the timing of this project is uncertain.

The Oregon Video Lottery is prominent in the state's gaming landscape, with approximately 12,307 VLTs operating in 2,368 locations as of January 2010.[61] The Video Lottery generated net gaming revenue of $786.7 million in FY 2009 – 55 percent more than all Oregon tribal casinos combined in calendar year 2008.[62] As noted earlier, the Video Lottery is vital to the Oregon Lottery as a whole, accounting for 71.5 percent of overall net lottery sales in FY 2009.

We visited several of the Portland-area casinos and numerous VLT establishments in an effort to understand the impacts of the casinos on the Oregon Lottery's VLT program from more of a local, qualitative perspective. We interviewed VLT agents, casino employees, Portland-area residents and dozens of casino patrons, as well as observed the habits of VLT and casino gamblers.

Many of the Oregonians that we interviewed understand that revenue from VLTs and lottery tickets help pay for education, economic development and public parks throughout Oregon, and in a state that has an income tax and a property tax but no sales tax, many Oregonians recognize that lottery revenues help close deep deficits in the worst of times. VLT

[61] Oregon Lottery, "History of the Video Lottery; http://www.oregonlottery.org/GameInfo/Video/History.aspx, accessed July 2, 2010.

[62] Alan Meister, "Casino City's Indian Gaming Industry Report," 2009-10 edition, p. 16

gamblers might not be placing bets out of a sense of public service or fiscal responsibility, but many do recognize that their money is helping to fund programs that might otherwise be endangered.

Based on our observations, interviews and experience in Oregon, it is plainly evident that playing VLTs and playing casino games are vastly different experiences for many gamblers. VLTs – restricted to a maximum of six devices per authorized location – are found in taverns, brew pubs, karaoke bars and restaurants, both in the trendiest and not-so-trendy settings throughout the Portland area.

Although the VLTs have game titles from prominent slot manufacturers such as Bally Technologies, International Game Technology and WMS, the games generally lack the cutting-edge graphics and sounds of the most popular slots found on modern casino floors. Their technology is reminiscent of that found on Las Vegas casino floors a decade ago. The machines are often situated in dark corners, and rather than reaching out to customers they often appear to be an afterthought.

It is evident from our research that casino patrons have little appetite to play the VLTs. A few said they occasionally play VLTs at neighborhood taverns, but most said they preferred Spirit Mountain Casino and the much smaller Chinook Winds and Three Rivers casinos rather than the neighborhood gambling experience of local taverns and restaurants.

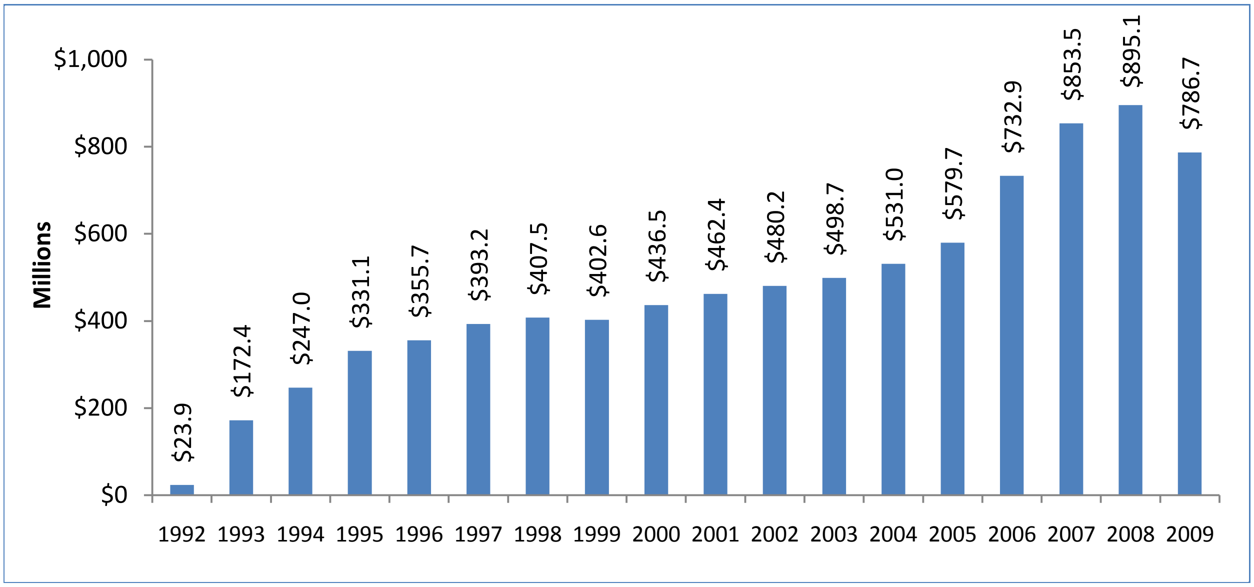
In our interviews with casino patrons, they consistently spoke of the VLT experience with such phrases as “dark,” “dirty,” “don’t want to be seen walking in or out of a neighborhood tavern,” “people seem sad” and “feels like an addiction.” On the other hand, the casino patrons consistently described their casino experience as “much nicer,” “cleaner,” “upscale,” “lots to do,” “places to eat,” “safe” and “exciting.”

We sought to determine what impact Spirit Mountain – the closest (and largest) casino to Portland – has had on the Oregon Lottery VLT program. We were unable to undertake such an analysis because Spirit Mountain opened in October 1995 and the Oregon Lottery did not begin tracking VLT revenue by county in 2000.

We can, however, get some indication of the Oregon casinos’ statewide impact on Oregon VLT revenues. Eight of the nine Oregon casinos opened between April 1993 and September 1998 (the ninth opened in 2004); during that period, statewide VLT net gaming revenue grew every year. In fact, Oregon Video Lottery has shown annual growth in almost every year since inception, the exceptions being FY 1999, when a change in payout percentage (to roughly 93 percent from 90 percent)[63] led to a 1.2 percent decline, and FY 2009, when the recession, high unemployment and an indoor smoking ban led to a decline of 12.1 percent.

[63] Interview with Oregon Lottery, July 6, 2010

Figure 19: Oregon Video Lottery net gaming revenue, by fiscal year since inception



Source: Oregon Lottery

Portland-area gamblers patronizing the tribal casinos in Oregon and Washington consistently told us that they would, in fact, patronize a casino closer to their home, such as the proposed full-service casinos in Wood Village, OR, or La Center, WA.

The critical question for the purpose of this report is whether Portland-area residents who are regular VLT players would defect to a new, full-service casino in Wood Village. A related question is whether they would defect to a new, full-service casino in La Center, WA, as proposed by the Cowlitz Tribe.

Participants in the Oregon's VLT industry believe that the proposed Wood Village casino would severely impact not only the VLT revenue, but also the host business. Bartenders at five taverns within 10 miles of the Wood Village site said their bars earned between 30 percent and 50 percent of their revenues from VLT machines, and all five said that they feared they would lose their jobs with the opening of a Wood Village casino. The greatest impacts would likely be in the Wood Village, Troutdale, Gresham area, but also likely would be felt at locations throughout much of Multnomah and Clackamas counties.

Tavern owners said VLTS generate both direct and indirect revenue and are particularly important in the midst of the recession; Oregon's unemployment rate was 10.6 percent in May – placing it among the highest in the nation. Some tavern operators say they have already experienced dramatic declines in revenues and foot traffic over the past two years for everything from food and beverages to VLT play. Several noted that bars strive to generate at least 50 percent of their revenues from VLT play, but the State has reduced tavern owner's share of VLT revenues, thus making it harder, they complain, for tavern owners to succeed in these days. Several tavern owners and employees said they place the blame for the decline on a voter-approved statewide smoking ban in restaurants and taverns that took effect January 1, 2009. Others point to the ban, as well as the state unemployment and underemployment rates for the decline.

While a proposed Wood Village casino would undoubtedly expand the market of casino players in the Portland area, it would also cause a certain percentage of VLT players to defect. However, the power of convenience cannot be underestimated. As ECONorthwest itself notes on page 12 of its report:

> "The video lottery is quite different. It is a form of convenience gambling where a prospective player need not set aside much if any extra travel time, but rather play during a visit to their local bar or restaurant. Over 98 percent of Oregonians live in a zip code where there is at least one video lottery retailer. One percent lives in a zip code with a casino."

The Oregon Lottery Tracking Study found that 64 percent of VLT players gamble within 2.8 miles of their homes, with a median distance of 1 mile, and 11 percent play closer to work at a distance of 4.6 miles.

Not only are the VLT establishments more convenient to more people than a casino, but they are more accessible. That is, patrons typically can park next to the building and be at their gambling machine in less than minute or two; they need not navigate the parking garage/walk across a large parking lot/take a shuttle and then walk through a sprawling gaming resort to begin playing. Nor do they encounter large crowds or what we term the sensory overload of the many sights and sounds of an active, full-service casino.

We know from experience that convenience and accessibility can allow gaming facilities to not only survive, but also to thrive in the face of a major casino resort nearby. For proof, we look to the Seminole Casino in Hollywood, FL – the nation's first tribal casino, having opened in 1979. Seminole Casino is a relatively small casino (1,100 slots, many of which are outdated by today's standards; plus poker and bingo) with no parking garage, no hotel, low-end interior finishes, and limited food service (only a buffet and a deli) – all housed in mundane, one-story building.

The casino's owner, the Seminole Tribe of Florida, had planned to tear down the Seminole Casino soon after the tribe opened the sprawling Seminole Hard Rock Hotel & Casino across the street in 2004. Business at the original Seminole Casino, however, remained strong – and continues to do so today, despite the overwhelming success of the Seminole Hard Rock. According to a source with direct knowledge of the casino's performance, the Seminole Casino generates well over $100 million per year in earnings before interest, taxes, depreciation and amortization (“EBITDA”), a key measurement of profitability. The Seminole Hard Rock has also prospered, by all accounts becoming one of the most successful casinos in the country.

Critical to Seminole Casino’s success are its convenience and accessibility. The property has surface parking directly next to its entrances and the slot machines are immediately inside.

As the *Miami Herald* noted, “The Hard Rock casino woos celebrities and big-money players, while the dowdy neighboring casino packs in a more diverse, working-class crowd lured by quick, easy parking and outlandish, generous promotions.”[64] We recognize that Oregon VLT establishments cannot offer generous promotions, but they can capitalize on their easy parking and quick access to gaming machines even in the face of new competition from a nearby casino.

The Cowlitz Tribe, meanwhile, has proposed construction of a 135,000-square-foot casino, 250-room hotel, 150,000-square-foot convention and entertainment complex, 260,000 square feet of restaurant and retail space; and a 7,250-space parking garage. The casino would draw heavily from the Portland area, as ECONorthwest quoted from the tribe’s application to the U.S. Bureau of Indian Affairs. “... ‘gaming revenue potentials are heavily dependent on market capture from the Portland market, as the South Sound [WA] market is highly competitive with large casinos in closer proximity to major population areas.’”[65]

Portland tavern owners, however, told us they have less to fear from the Cowlitz casino because of its distance (roughly 27 miles). We concur that the Cowlitz casino would have a significantly greater impact on the existing tribal casinos that serve the Portland market than on Oregon VLT revenue, both because it would too far from Portland for convenience gamblers, yet it would be the closest casino to the Portland market and, as envisioned, by far the largest (excluding consideration of the proposed Wood Village casino).

[64] Michael Vasquez, “Original Seminole Casino still competes with flash of Hard Rock,” *Miami Herald*, June 23, 2009.

[65] ECONorthwest, “An Analysis of the Management Agreement with the Cowlitz Casino,” November 7, 2007

Recommendations and Conclusion

A complete examination of all the challenges facing the Oregon Lottery and its agents was beyond the scope of our report. Still, we know that the Oregon Lottery has taken steps to improve the appeal of the Video Lottery machines, and such efforts should be encouraged and expanded to take full advantage of all available offerings to create an optimal mix. Note in Figure 19 that VLT revenue in FY 2006 increased by 26.4 percent, by far the biggest year-over-year increase since the program's formative years. This was due to the May 2005 introduction of new games, namely line games (essentially casino-style slot machines); the program until that time was limited to video poker games.

If the Wood Village casino resort is developed as proposed, we recommend that the Oregon Lottery further expand its program of replacing outdated and underperforming devices with titles that are currently outperforming and/or are found on modern casino floors.

Additionally, the Lottery and its VLT agents/partners should develop a coordinated marketing program that plays to their strengths: convenience and accessibility. When combined with an updated product offering, as noted above, we believe that the Lottery would have an effective campaign that would not only minimize losses to the proposed new casino, but may resonate with certain players in the newly expanded gaming market who desire a more convenient and less-crowded gaming experience.

The Lottery should also consider creating a capital expenditure program for its VLT agents to help enhance the appeal of their gaming areas. This could be in the form of a loan or a grant that is awarded for achieving certain performance milestones. Such improvements in aesthetics and comfort could enhance the appeal of players who may be put off by what they perceive as the seamy atmosphere in many VLT establishments currently. The potential returns on such an investment would have to be determined on a case-by-case basis.

Conclusion

Any report that is prepared in advance of a political or electoral debate bears a certain responsibility. Policy calls related to the approval of a casino are not the province of Spectrum – or of any consultant. Reports should not be prepared with a goal of advancing one side or another in such debates. Rather, the goal should be to enlighten. That means that issues must be presented clearly with no shading, and ideas should be presented for discussion – regardless of who would benefit from such ideas.

Indeed, a central tenet of this report is that the possibility of a Wood Village casino creates challenges, to be sure, but it also presents opportunities. The status quo for many would be up-ended, creating unequal impacts – both positive and negative.

Spectrum has endeavored to sift through the information that has already been presented, and has examined it closely and unflinchingly. We have identified many areas in which inaccuracies have been advanced, and we have also identified areas where expected impacts were not presented.

The goal of this report then can be summarized thusly: It was developed to provide the basis for informed decisions on a critical issue. But we must issue one final caveat: The decision to approve a casino or not is a weighty matter that will affect the Portland region and the entire state of Oregon for years to come, indeed for generations to come. Once a casino is approved, the decision cannot be easily – or practically – undone. Such decisions must be made on the basis of accurate, candid information.

By design, this report focuses on narrow issues. That, however, does not mean that broader issues should be ignored. Indeed, the issues offered for discussion here should be part of a larger discussion that encompasses numerous issues. Some of them are universal, while others are specific to Oregon. All, however, require a thorough examination.

About This Report

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, regulation and journalism.

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We 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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