



Spectrum Gaming Group

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EXECUTIVE SUMMARY:

MARKET ANALYSIS/IMPACTS REPORT

**Projected Gross Gaming Revenue,
Employment and Macro Economic Impacts of
Expanded Gaming in Kentucky**

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

Executive Summary

A consortium of Kentucky horse racing interests engaged Spectrum Gaming Group to project the gross gaming revenue, jobs impacts, macro racing-industry impacts, and macro economic impacts that would be realized if the Commonwealth of Kentucky were to legalize casinos at racetracks. The assumptions used for purposes of this study are based upon the proposed legalization of casinos offering both slots and table games at eight racetrack locations throughout the state, that they would pay 40.65 percent of their net gaming revenue as a tax, inclusive of 15.65 percent for dedicated horse racing and breeding programs, and that they would pay a one-time licensing fee of \$20,000 per gaming position.¹

The actual economic impact data would vary, based on policy decisions that include the tax rate and licensing fee. Such costs determine the level of capital available for investment in facilities, and thus determine the type of business model that an operator could pursue. Lower rates and license fees would, by definition, justify higher levels of investment. That, in turn, would justify greater employment in both operations and construction, as well as greater purchases of goods and services, along with increased tax revenue in other areas, such as payroll, sales and property taxes.

Additionally, business models that allow operators to attract a broader demographic would have an enhanced ability to attract out-of-state visitors and promote tourism, while encouraging longer stays and increased spending from a greater number of adults. That would lead to higher levels of gaming revenue, and an enhanced ability to compete against casinos in other states.

Spectrum suggests that policymakers adopt long-term horizons when considering gaming policies, particularly with respect to tax rates and license fees. For example, while a larger license fee brings in more revenue in its first year than would a smaller fee, that differential can often be overcome quickly if the lower license fees result in greater capital investment².

The present situation in Kentucky is reflected in the following:

- Kentuckians spent an estimated \$546 million in gross gaming revenue (GGR) in 2010, of which we estimate at least \$451 million was spent in casinos in neighboring states – chiefly the six casinos on the Ohio River in Indiana and Illinois.
- Without casinos, our modeling indicates that in 2015 Kentucky would be exporting at least \$527 million of GGR to casinos in neighboring/nearby states.

¹ One gaming position equals one slot machine or one seat at a gaming table.

² Spectrum Gaming Group presented a peer-reviewed white paper on tax policy at the National Tax Association 103rd Annual Conference on Taxation, held in Chicago in November 2010. Thomas A. Garrett, assistant vice president of the Federal Reserve Bank of St. Louis, reviewed the report and led a discussion on its findings. An abridged version of that report is attached here as an appendix.

- Kentucky’s horse racing industry is experiencing declines in purses, number of races and other performance indicators, evidently to the benefit of states such as Indiana, West Virginia and Pennsylvania that use gaming revenues to significantly support their racing industries. Casinos in Kentucky would provide a significant funding source to boost the state’s racing industry.

Based upon our assumed parameters, we developed a detailed market analysis and casino project assumptions that were based on site visits, the competitive landscape, owner interviews and our experience. Spectrum concludes that the eight Kentucky casinos as described in this report would produce the following statewide outcomes (first-year numbers are assumed to be for 2015):

- First-year full-time equivalent direct jobs of as many as 10,953, with a payroll of \$289.3 million.
- First-year statewide total direct, indirect and induced jobs of 20,471 (non-farm, but inclusive of equine). This excludes any government jobs that might be created.
- The eight prospective casinos would generate first-year gross state product of \$1.737 billion and first-year total personal income of \$1.009 billion.
- The 30-month construction period would create 4,297 full-time-equivalent construction jobs with a total payroll of \$338 million.
- First-year gross gaming revenue of \$1.14 billion.
- First-year gaming tax of \$464.7 million, and total state tax receipts from all sources of \$541.3 million, including funds dedicated to horse-racing industry programs.
- One-time license fees of \$266 million.
- First-year funds for horse-industry programs of \$164.6 million:
 - \$152.5 million for thoroughbred and standardbred purses
 - \$10.5 million for the Equine Breed Authority
 - \$1.6 million for Quarter Horse Purse Program
- Funds dedicated to the racing industry would generate an average of 2,861 additional jobs in the equine sector each year over the first three years of casino operations, with an estimated 1,500 jobs created in the first year.

Our results on a property-by-property basis are shown in the table below. It is important to note that for the purposes of the study, we assumed that there would be a single Lexington casino, and that another, new racetrack casino would be located in the Corbin-London area. We developed our casino facility assumptions based on the gaming-market size, the competitive landscape, our experience, site visits and owner interviews; they do not necessarily reflect what the individual racetrack operators may envision for their casino projects. The operations figures

are for Year 1, which is 2015 (and do not include a possible ramp-up of operations). Construction figures are for the total development period.

Kentucky casinos summary

Casino Location	Total GGR	Gaming Positions	Operations FTEs	Operations Payroll	Available Development Capital (\$M)	Construction FTEs	Construction Payroll (\$M)
Churchill Downs	\$251.2	2,750	2,464	\$65.1	\$279.5	932	\$70.4
Ellis Park	\$62.6	1,000	552	\$14.6	\$60.7	192	\$17.4
Kentucky Downs	\$365.5	3,750	3,596	\$95.0	\$415.0	1,476	\$111.7
Corbin/London	\$128.6	1,500	1,134	\$30.0	\$144.0	495	\$40.0
Bluegrass Downs	\$53.6	800	473	\$12.5	\$54.0	166	\$15.0
Red Mile/ Keeneland	\$170.1	2,000	1,749	\$46.2	\$182.0	684	\$51.7
Thunder Ridge	\$32.8	500	289	\$7.6	\$32.6	94	\$8.5
Turfway Park	\$78.9	1,000	696	\$18.4	\$85.5	258	\$23.3
Total Kentucky	\$1,143.3	13,300	10,953	\$289.3	\$1,253.4	4,297	\$338.0
<i>Avg. per Casino</i>	<i>\$142.9</i>	<i>1,663</i>	<i>1,369</i>	<i>\$36.2</i>	<i>\$156.7</i>	<i>537</i>	<i>\$42.3</i>

Source: Spectrum Gaming Group

About This Report

This executive summary, and the attendant report, were 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.

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

Each Spectrum project is customized to our client's specific requirements and developed from the ground up. Our findings, conclusions and recommendations are based solely on our research, analysis and experience. Our mandate is not to tell clients what they want to hear; we tell them what they need to know. We will not accept, and have never accepted, engagements that seek a preferred result.

Our public-sector clients have included the Atlantic City Convention and Visitors Authority, the Connecticut Division of Special Revenue, Delaware Lottery, Georgia Lottery, Maryland Lottery, Commonwealth of Massachusetts, the New Jersey Casino Reinvestment Development Authority, Ohio Casino Control Commission, Ohio Lottery, West Virginia Lottery, the Puerto Rico Tourism Company, and the Singapore Ministry of Home Affairs.

Private-sector clients have included Caesars Entertainment, Carnival Corp., Casino Association of Indiana, Casino Association of New Jersey, Hard Rock International, Genting,

National Indian Gaming Association, Revel Entertainment, Seneca Gaming Corp., and Wynn Resorts.

Our principals have testified before the following government bodies:

- Georgia Joint Committee on Economic Development and Tourism
- Illinois Gaming Board
- Indiana Gaming Study Commission
- International Tribunal, The Hague
- Massachusetts Joint Committee on Bonding, Capital Expenditures, and State Assets
- New Hampshire Gaming Study Commission
- New Jersey Assembly Tourism and Gaming Committee
- National Gambling Impact Study Commission
- New Jersey Senate Legislative Oversight Committee
- New Jersey Senate Wagering, Tourism & Historic Preservation Committee
- Ohio House Economic Development Committee
- Ohio Senate Oversight Committee
- Pennsylvania Gaming Control Board
- U.S. House Congressional Gaming Caucus
- U.S. Senate Indian Affairs Committee
- U.S. Senate Select Committee on Indian Gaming
- U.S. Senate Subcommittee on Organized Crime

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