

Cummings Associates

**Projections for Likely
Gaming Revenues in Kansas –
Update Regarding Methodology**

DRAFT

July 16, 2008

Update Regarding Methodology

In order to develop projections for the specific proposals now before the Kansas Lottery Gaming Facility Review Board, I have refined my analyses of the performance of other facilities across the Midwest. (I have also zeroed in on the specific sites, sizes, and features of the proposed facilities, as described in separate reports for each.)

Exhibit 1 presents an updated and resorted version of Exhibit 10 from my previous report regarding consumer spending on slot machines. Again, the figures for each facility/market represent the amount that the average adult who lives within ten miles spends on slot machines or similar gaming devices each year. At greater distances (and below-average per capita incomes), the average adult spends less.¹

To make it more readable, I have spread this exhibit over two pages. “Midwest Standard” is indicated in the lower middle of the first page by a bright yellow bar at \$700, with lighter yellow bars ten percent above and ten percent below this benchmark.

The three columns in this and the following exhibits now represent “large” urban markets on the left (500,000+ distance-adjusted adults, which typically means over a million population in the metropolitan area), smaller cities in the middle (Des Moines, Dubuque, and so forth, along with miscellaneous markets that don’t really fit either of the extremes), and “rural” facilities on the right – at least 20 miles from the nearest population center over 10,000, and often a much greater distance.

This information is translated into power ratings in **Exhibit 2**. Here I’ve put everything onto one page in order to better present the big picture: rural markets do better. Many urban markets do worse, but that part of the picture is clouded by many old-style riverboats and/or other cramped facilities. If you limit the analysis to “modern” facilities, the nine large urbans average 102, the five smaller cities average 101, and the three (non-Indian) rural markets average 111.

Since none of the smaller urban and rural facilities had more than \$170 million invested in them, I’m confident that the larger Kansas facilities, with much greater investment, will average slot power ratings of at least 102. (By the time we review Kansas City, I may raise that further.) Since there are many Harrah’s facilities above “Midwest Standard,” and Mulvane is at least a little bit rural, I have assumed 104 for Harrah’s at Mulvane. This equals the best of the (totally) new Iowa facilities, Riverside near Iowa City, which cost \$130 million, including a championship golf course. The Isle Waterloo cost more (\$170 million), but is not doing as well.

With increasing “rurality,” I assume 110 for the facilities at Wellington and 112 for Dodge City. The Penn National facility in Cherokee County would not, in my experience, be “rural,”

¹ A great deal of the debate regarding the likely performance of the facilities at Wellington versus Mulvane revolves around the *rate* at which spending declines with distance. I addressed this issue in my presentation of June 3, and will do so again on July 24.

but rather, close enough to Joplin to characterize as “small city.” In its Phase 1, it would also offer fewer amenities (and cost less) than the typical “new Midwest Standard” represented by Riverside and Waterloo. I therefore estimate its likely slot power rating, perhaps generously, at 102.

The pari-mutuel facilities will still suffer substantial deficits versus the “full” casinos of Kansas, due in part to their inability to offer table games, but more importantly to the very limited amounts that they will be able to invest in their facilities and players’ rewards because of the much greater share that goes to the state from the race tracks. I have left The Woodlands at 95, but now assume 104 for Camptown (rural!) until a casino opens in Southeast Kansas. With the additional competition from better table games, I then drop Camptown’s slot power rating to 102.

Exhibit 3 presents a similar analysis for table games, with **Exhibit 4** depicting the power ratings that correspond. There are two major differences from slots: (1) much lower spending overall, with Midwest Standard coming in at \$95 versus \$700 (I tried hard to justify \$100 for tables, but just couldn’t), and (2) large urbans now strong, with smaller urbans very weak. If, in fact, Metropolis and Upstate Wisconsin were considered “rural” rather than small urban/mixed, *none* of the smaller cities would demonstrate spending over \$95, and almost all come in rather far below that figure.

I am tentatively confident Kansas City Kansas’s tables will do all right (power rating 102+, which will dominate the 86 to 95 demonstrated by Missouri’s session-loss-limited casinos). With rural facilities all over the map, I’m also happy to assume a table rating of 100 for Dodge City. Joplin, too, is fairly clear: it is a small urban market. I’m perhaps somewhat optimistically assuming 90 for Penn Cherokee (which will still do well with tables due to the weak non-banked table games at its Oklahoma competition. Even its slots will do better, as I’m assuming a two-point [relative] drop in Oklahoma casinos’ slot power ratings when Penn Cherokee opens because it will offer better table games.)

The best assumption for table play near Wichita remains unclear to me. While technically a “small city” (total population just half a million, with distance-adjusted adults around 200,000), and blue-collar, I suspect that it contains enough Asians and upscale types to play bigger. Harrahs and Marvel (in its former incarnation Binion’s/Horseshoe) also have a track record of good performance with table games. I am therefore assuming 98 for the table games at Harrah’s Mulvane, 100 for the more rural Marvel at Wellington, and 95 for Penn National at Wellington. Due to my uncertainty, however, I am varying my “high” and “low” projections by eight power-rating points in the Wichita area rather than the five points by which I vary them elsewhere.²

These assumptions are summarized in **Exhibit 5**. My projections based on these assumptions are presented in separate reports for each proponent, with a summary for the South-Central Zone as a whole.

² A one-point change in a power rating typically affects gaming revenues by 2-3%. This is because the power rating affects three factors that contribute to win: (a) baseline spending, (b) market share, and (c) the “reach” of the facility.

I would emphasize several aspects of my methodology. First, it does not assume “generic” casinos or casino performance. It assumes performance similar to that of actual casinos in real-world markets: the Horseshoe at Bluffs Run, the Ameristar at Council Bluffs, Harrah’s at Joliet, Harrah’s North Kansas City, Riverside, the Isle at Waterloo, etc. These are (almost) all “brand” names, benefit from Total Rewards or similar players’ programs, are managed by experienced hands, and so forth. At the same time, however, *any* model is an abstraction from the real world. Neither my models nor anyone else’s can capture *all* the factors that contribute to the performance of casinos, including such important but difficult-to-quantify intangibles as Harrah’s Total Rewards program, Marvel executives’ expertise in promoting their “gaming” theme, nor the attractions of Penn National’s “Hollywood.” These would all represent additions to (or, less likely, subtractions from) the projections that I have developed based on the experience elsewhere.

Second, my gravity-model methodology focuses on the residents that surround each facility. I assume that the “reach” of each casino extends across several states, but beyond the immediate local market area (50 to 150 miles, depending upon the location and size of competitors), my models indeed become less specific and more “generic,” in that they reflect only the *typical* ability of most casinos to attract from greater distances. The extent to which proponents are willing and able to bring extraordinary numbers of distant customers to their facilities by bus, plane, train, and/or automobile would therefore also add to the projections that I present here.

Finally, physical appearance is only one element that contributes to my power ratings, and is, in my experience, not one of the most critical. There are *many* unprepossessing facilities near the tops of Exhibits 1 through 4 – but if you’re rural (easy to get to), easy to park at, and invest a lot in your players (which low- if not no-taxed Indian facilities find easy to do), you can be very “attractive.” For example, the Eastern Shawnee Travel Center, Peoria Gaming Center, and Little Turtle facilities in Oklahoma are ugly little “gasinos,” right next door (in two cases) to physically much more attractive full-scale casinos (and just down the road from one in the third case), yet the little gasinos are *packed*. They clearly offer the gaming experience that many customers desire. I am therefore cautious in discounting the ability of less-attractive casinos to compete against those with more glitz.

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**Projections for Likely
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Exhibits**

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Exhibit 1: Gaming-Device Spending Ratios in Major US Markets

(Total Annual Spending on Slots and/or VLTs Per "Distance-Adjusted" Adult in 2007)

Large Urban Markets	Smaller Cities & Misc. Markets	Rural Markets
		Deadwood, SD \$909
		S Dakota Indian avg. (8) \$873 e
		Upstate Michigan avg. \$840 e
		Colorado (2) \$840
		Kansas Natives avg. \$818 e
	Mississippi / Louisiana \$809	
Horseshoe / Bluffs Run, IA \$791		Terribles Lakeside. IA \$794
		Diamond Jo Worth, IA \$791
Ameristar Council Bluffs, IA \$779		Iowa Natives average \$784 e
Midwest Standard +10%		
	Upstate Wisconsin avg. \$770 e	
	Mt. Pleasant, MI \$769 e	
	Metropolis, IL/KY \$753 o	
Albuquerque, NM avg. \$752		IOC Marquette, IA \$750 o
	Dubuque Greyh Park, IA \$748	
Harrahs Council Bluffs, IA \$746		
Harrahs Joliet, IL \$745 o		Emmetsburg, IA \$744
	Other New Mexico avg. \$740	
	IOC Boonville, MO \$739 o	
	Atlantic City, NJ \$730	
	Riverside, IA \$729	
Harrahs NKCMO \$724		Wisconsin Dells \$715 e
		Mohegan Sun, CT \$700 o
"Midwest Standard"		
	Prairie Meadows, IA \$697	
	IOC Waterloo, IA \$697	
Ameristar KCMO \$690		
Michigan City, IN \$685		
	Dubuque Riverboat, IA \$682 o	
Harrahs W St Louis \$680		
Argosy Riverside, MO \$680		
	Argosy Sioux City, IA \$674 o	
Elgin (Chicago) IL \$672 o		
		Foxwoods, CT \$669 o
Joliet Empress, IL \$667 o		
	Niagara (NY) casino \$662	
	IOC Bettendorf, IA \$658 o	
East St Louis, IL \$656 o		
	Southern Delaware \$656	
Aurora (Chicago), IL \$655 o		

Exhibit 1: Gaming-Device Spending Ratios in Major US Markets

(Total Annual Spending on Slots and/or VLTs Per "Distance-Adjusted" Adult in 2007)

Large Urban Markets		Smaller Cities & Misc. Markets		Rural Markets	
Ameristar St Chas, MO	\$641	Catfish Bend Burlington, IA	\$655		
		St Jo MO	\$640 o		
Hammond, IN	\$636 o				
Resorts, E Chicago IN	\$636 o				
Midwest Standard -10%					
		Green Bay, WI	\$627 e	Charles Town, WV	\$626
		Rhythm City, IA	\$621 o		
Detroit (avg / 3 facils)	\$609 o			Caruthersville, MO	\$615 o
				Salamanca, NY	\$608
		Mark Twain, MO	\$603 o		
		Clinton, IA	\$601 o	French Lick, IN	\$601
Cincinnati (avg), OH/IN	\$593 o				
		Jumers Rock Island, IL	\$593 o		
Louisville, KY/IN	\$581 o				
Majestic Star, Gary IN	\$576 o				
Milwaukee, WI	\$567 e o	Wheeling, WV	\$561		
		Peoria, IL	\$554 o		
IOC KCMO	\$552 o				
KCKS 7th St Casino	\$547 e o	South Dakota VLTs	\$541		
Delaware Park	\$541				
Admiral / downtown St Louis	\$515 o	Evansville, IN	\$499 o		
		Montana VLTs (2)	\$497		

e = estimated
o = old boat or capacity-constrained market

(1) Nevada local markets would be off this scale, somewhere north of \$1000/adult.
(2) Colorado and Montana statistics do not include Native American facilities

Exhibit 2: Gaming-Device "Power Ratings"

(Total Annual Spending versus benchmark of \$700)

Large Urban Markets	Smaller Cities & Misc. Markets	Rural Markets
		Deadwood, SD 129.9
		S Dakota Indian avg. (8) 124.7 e
		Upstate Michigan avg. 120.0 e
		Colorado (2) 120.0
		Kansas Natives avg. 116.9 e
	Mississippi / Louisiana 115.5	
Horseshoe / Bluffs Run, IA 113.0		Terribles Lakeside, IA 113.4
Ameristar Council Bluffs, IA 111.3		Diamond Jo Worth, IA 113.0
		Iowa Natives average 112.0 e
Midwest Standard +10%		
	Upstate Wisconsin avg. 110.0 e	
	Mt. Pleasant, MI 109.9 e	
Albuquerque, NM avg. 107.4	Metropolis, IL/KY 107.6 o	IOC Marquette, IA 107.1 o
Harrahs Council Bluffs, IA 106.6	Dubuque Greyh Park, IA 106.9	
Harrahs Joliet, IL 106.4 o		Emmetsburg, IA 106.3
	Other New Mexico avg. 105.7	
	IOC Boonville, MO 105.6 o	
	Atlantic City, NJ 104.3	
	Riverside, IA 104.1	
Harrahs NKCMO 103.4		Wisconsin Dells 102.1 e
"Midwest Standard"		
	Prairie Meadows, IA 99.6	Mohegan Sun, CT 100.0 o
	IOC Waterloo, IA 99.6	
Ameristar KCMO 98.6		
Michigan City, IN 97.9	Dubuque Riverboat, IA 97.4 o	
Harrahs W St Louis 97.1		
Argosy Riverside, MO 97.1		
Elgin (Chicago) IL 96.0 o	Argosy Sioux City, IA 96.3 o	
Joliet Empress, IL 95.3 o		Foxwoods, CT 95.6 o
	Niagara (NY) casino 94.6	
	IOC Bettendorf, IA 94.0 o	
	Southern Delaware 93.7	
East St Louis, IL 93.7 o	Catfish Bend Burlington, IA 93.6	
Aurora (Chicago), IL 93.6 o		
Ameristar St Chas, MO 91.6	St Jo MO 91.4 o	
Hammond, IN 90.9 o		
Resorts, E Chicago IN 90.9 o		
Midwest Standard -10%		
	Green Bay, WI 89.6 e	Charles Town, WV 89.4
	Rhythm City, IA 88.7 o	
		Caruthersville, MO 87.9 o
Detroit (avg / 3 facils) 87.0 o		Salamanca, NY 86.9
	Mark Twain, MO 86.1 o	
	Clinton, IA 85.9 o	
	Jumers Rock Island, IL 84.7 o	French Lick, IN 85.9
Cincinnati (avg), OH/IN 84.7 o		
Louisville, KY/IN 83.0 o		
Majestic Star, Gary IN 82.3 o		
Milwaukee, WI 81.0 e o		
	Wheeling, WV 80.1	
IOC KCMO 78.9 o	Peoria, IL 79.1 o	
KCKS 7th St Casino 78.1 e o		
Delaware Park 77.3	South Dakota VLTs 77.3	
Admiral / downtown St Louis 73.6 o		
	Evansville, IN 71.3 o	
	Montana VLTs 71.0	

e = estimated

o = old boat or capacity-constrained market

Exhibit 3: Table-Game Spending Ratios in Major US Markets

(Total Annual Spending on Table Games Per "Distance-Adjusted" Adult in 2007)

Large Urban Markets		Smaller Cities & Misc. Markets		Rural Markets
		Metropolis, IL/KY	\$113 o	
Hammond, IN	\$109 o			Iowa Natives average
				\$108 e
Albuquerque, NM avg.	\$107 ±			
Resorts, E Chicago IN	\$107 o			
Harrahs Joliet, IL	\$105 o			
Elgin (Chicago) IL	\$105 o			Kansas Natives avg.
				\$105 e
Midwest Standard +10%				
Michigan City, IN	\$103			
Louisville, KY/IN	\$103 o			
		Upstate Wisconsin avg.	\$100 e	
Aurora (Chicago), IL	\$99 o			Diamond Jo Worth, IA
				\$99
Joliet Empress, IL	\$97 o			
Cincinnati (avg), OH/IN	\$97 o			Caruthersville, MO
				\$97
Majestic Star, Gary IN	\$96 o			
Detroit (avg / 3 facils)	\$95 o			Terribles Lakeside. IA
				\$95
Horseshoe / Bluffs Run, IA	\$95			
"Midwest Standard"				
				Wisconsin Dells
				\$93 e
		Riverside, IA	\$93	
				Emmetsburg, IA
				\$93
		Other New Mexico avg.	\$93 ±	
Ameristar Council Bluffs, IA	\$92			
				French Lick, IN
				\$92
Harrahs NKCMO	\$90 b			
Harrahs W St Louis	\$87 b			

Exhibit 3: Table-Game Spending Ratios in Major US Markets

(Total Annual Spending on Table Games Per "Distance-Adjusted" Adult in 2007)

Large Urban Markets		Smaller Cities & Misc. Markets		Rural Markets
		IOC Boonville, MO	\$87 b o	
Midwest Standard -10%				
East St Louis, IL	\$84 o			
Argosy Riverside, MO	\$83 b	Evansville, IN	\$83 o	
		Argosy Sioux City, IA	\$83 o	
Ameristar KCMO	\$82 b			
Harrahs Council Bluffs, IA	\$82	Dubuque Greyh Park, IA	\$81	
		Prairie Meadows, IA	\$79	
		IOC Waterloo, IA	\$79	
Ameristar St Chas, MO	\$77 b			IOC Marquette, IA \$78 o
		Green Bay, WI	\$77 e	
		Catfish Bend Burlington, IA	\$75	
		St Jo MO	\$69 o	
Admiral / downtown St Louis	\$68 b o			
Milwaukee, WI	\$68 e o	Peoria, IL	\$68 o	
		Dubuque Riverboat, IA	\$67 o	
IOC KCMO	\$66 b o			
		IOC Bettendorf, IA	\$64 o	
		Mark Twain, MO	\$64 b o	
		Clinton, IA	\$64 o	
				Deadwood, SD \$61 b
		Jumers Rock Island, IL	\$56 o	
				S Dakota Indian avg. (8) \$55 e
		Rhythm City, IA	\$46 o	
				Colorado (2) \$34 b

e = estimated
o = old boat or capacity-constrained market
b = betting limits

(1) Deadwood and Colorado suffer from \$5 bet limits, Missouri from \$500 session loss limit
(2) Colorado statistics do not include Native American facilities
(3) Mississippi (\$150±), East Coast (\$200±) and Nevada markets are off this scale.

Exhibit 4: Table-Game "Power Ratings"

(Total Annual Spending versus benchmark of \$95)

Large Urban Markets		Smaller Cities & Misc. Markets		Rural Markets	
Hammond, IN	114.7 o	Metropolis, IL/KY	118.9 o	Iowa Natives average	113.7 e
Albuquerque, NM avg.	113.1 ±				
Resorts, E Chicago IN	112.6 o				
Harrahs Joliet, IL	110.5 o			Kansas Natives avg.	110.5 e
Elgin (Chicago) IL	110.5 o				
Midwest Standard +10%					
Michigan City, IN	108.4				
Louisville, KY/IN	108.4 o				
		Upstate Wisconsin avg.	105.3 e	Diamond Jo Worth, IA	104.2
Aurora (Chicago), IL	104.2 o			Caruthersville, MO	102.1
Joliet Empress, IL	102.1 o				
Cincinnati (avg), OH/IN	101.8 o				
Majestic Star, Gary IN	101.1 o				
Detroit (avg / 3 facils)	100.0 o				
Horseshoe / Bluffs Run, IA	100.0			Terribles Lakeside, IA	100.0
"Midwest Standard"					
		Riverside, IA	97.9	Wisconsin Dells	97.9 e
Ameristar Council Bluffs, IA	96.8	Other New Mexico avg.	97.4 ±	Emmetsburg, IA	97.9
				French Lick, IN	96.8
Harrahs NKCMO	94.7 b				
Harrahs W St Louis	91.6 b	IOC Boonville, MO	91.6 b o		
Midwest Standard -10%					
East St Louis, IL	88.4 o				
Argosy Riverside, MO	87.4 b	Evansville, IN	87.4 o		
		Argosy Sioux City, IA	87.4 o		
Ameristar KCMO	86.3 b				
Harrahs Council Bluffs, IA	86.3	Dubuque Greyh Park, IA	85.3		
		Prairie Meadows, IA	83.2		
		IOC Waterloo, IA	83.2		
				IOC Marquette, IA	82.1 o
Ameristar St Chas, MO	81.1 b	Green Bay, WI	81.1 e		
		Catfish Bend Burlington, IA	78.9		
		St Jo MO	72.6 o		
Admiral / downtown St Louis	71.6 b o	Peoria, IL	71.6 o		
Milwaukee, WI	71.6 e o	Dubuque Riverboat, IA	70.5 o		
		IOC Bettendorf, IA	67.4 o		
IOC KCMO	69.5 b o	Mark Twain, MO	67.4 b o		
		Clinton, IA	67.4 o		
				Deadwood, SD	64.2 b
		Jumers Rock Island, IL	58.9 o	S Dakota Indian avg. (8)	57.9 e
		Rhythm City, IA	48.4 o		
				Colorado (2)	35.8 b

e = estimated
o = old boat or capacity-constrained market
b = betting limits

Exhibit 5: Assumptions for Kansas Projections

	Kansas City	Harrah's Mulvane	Marvel Wellington	Penn Wellington	Penn Cherokee	Dodge
Slot Performance						
High	107.0	110.0	116.0	116.0	107.0	117.0
Baseline	102.0	104.0	110.0	110.0	102.0	112.0
Low	97.0	98.0	104.0	104.0	97.0	107.0
Table Performance						
High	107.0	106.0	108.0	103.0	95.0	105.0
Baseline	102.0	98.0	100.0	95.0	90.0	100.0
Low	97.0	90.0	92.0	87.0	85.0	95.0

Note: 100 = "Midwest Standard." Higher slot baseline here typical of new facilities.