

## AGENDA

### KANSAS LOTTERY GAMING FACILITY REVIEW BOARD

9 am, Thursday, August 21, 2008 and

9 am, Friday, August 22, 2008

Topeka Ramada Inn

420 SE 6<sup>th</sup> Street, Topeka, Kansas

#### A. CALL TO ORDER

#### B. APPROVAL OF THE AGENDA

#### C. BOARD ITEMS

##### 1. Regarding the southeast gaming zone:

- a. Presentations by and responses to board questions posed to staff, Review Board consultants and the applicant
- b. Final presentation by Kansas Penn Gaming LLC (15 minutes)

##### 2. Regarding the south central gaming zone:

- a. Presentations by and responses to board questions posed to staff, Review Board consultants and the applicants
- b. Final presentations by:
  - i. Sumner Gaming Joint Venture LLC (15 minutes)
  - ii. Penn Sumner LLC (15 minutes)
  - iii. Marvel Gaming (15 minutes)

##### 3. Executive session

- a. Attorney client communication
- b. Background reports

At this point it is anticipated that the Board will recess until 9 am, Friday, August 22

4. Discussion and vote on lottery gaming facility management contract for the southeast zone
5. Discussion and vote on lottery gaming facility management contract for the south central zone

D. OTHER MOTIONS

E. STAFF REPORTS

6. Executive Director
7. Chief Gaming Officer
8. Director of Administration

F. ADJOURNMENT

	Sumner Gaming Joint Venture (Harrah's)	Penn Sumner, LLC	Marvel Gaming
Consultants Gross Gaming Revenue Average <sup>1</sup>	\$186,517,947	\$123,056,120	\$132,595,701
Applicant Gross Gaming Revenue (Year 1)*	\$206,000,000	\$158,045,000	\$217,335,000
Consultant percentage of Applicant Estimate for Gross Gaming Revenue	90%	78%	61%
Gross Gaming Revenue to State <sup>2</sup>	\$41,033,948	\$30,764,030	\$29,171,054
Gross Gaming Revenue to Local W/C average (3%)	\$5,595,538	\$3,691,683	\$3,977,871
Gross Gaming Revenue to Problem Gaming W/C average (2%)	\$3,730,358	\$2,461,122	\$2,651,914
Full Time Employees*	1187	Approximately 1100	1500
Investment in Infrastructure*	\$535 Million	\$340 Million	\$368 Million
Ancillary Revenue Year 3*	\$52,000,000	\$37,369,000	\$47,255,000
Gaming Visitor Estimates (Consultants) <sup>3</sup>	2,906,746 (Wells) 2,306,238 (Cummings) 2,606,492 (average)	1,652,697 (Wells) 1,625,720 (Cummings) 1,639,209 (average)	1,814,910 (Wells) 1,801,492 (Cummings) 1,808,201 (average)
Gaming Visitor Estimates (Applicants)*	2,900,000	2,048,511 – 2,983,927	3,207,800
Consultant average percentage of Applicant Estimate for Visitors	90%	80% - 55%	56%
Hotel*	175 rooms	350 rooms	304 rooms
Restaurants*	5 restaurants	4 restaurants	- KS Prime Steakhouse

<sup>1</sup> Gross gaming revenue average calculated from Cummings' Exhibit B-3 projections and Wells' Scenario 3 Mid Case projections.

<sup>2</sup> Revenue to State calculated according to schedules negotiated during contract negotiations (see attached)

\* Based on information provided by applicant in Executive Summary of proposal (included in July 10-11 packet)

<sup>3</sup> Based on Wells' Scenario 3 Mid Case for visits and Cummings Exhibit 3: Detail for Visitation by Source.

	<ul style="list-style-type: none"> <li>- Paula Deen buffet</li> <li>- Toby Keith restaurant</li> <li>- others</li> </ul>	<ul style="list-style-type: none"> <li>- Epic buffet</li> <li>- Hollywood Diner</li> <li>- Creamery coffee and pastry shop</li> <li>- Signature specialty dining</li> </ul>	<ul style="list-style-type: none"> <li>- Iconic buffet with live stations</li> <li>- bistro</li> <li>- deli</li> <li>- grab and go</li> </ul>
Retail Development*	Retail outlet	1,500 sq. ft. retail development, Hollywood memorabilia museum	
Entertainment*	Outdoor amphitheatre	1750 seat (30,000 sq. ft.) entertainment venue 200 seat sports bar, entertainment lounge	Entertainment venue/ conference center
Conference Center*	Convention/ concert/ conference/ event center	4,000 sq ft. Conference Center	See above
Other*	<ul style="list-style-type: none"> <li>- 18 hole golf course and clubhouse</li> <li>- 44 space RV park with hookups</li> <li>- Sporting clay facility</li> <li>- Spa and health club</li> <li>- 3 bars</li> </ul>	<ul style="list-style-type: none"> <li>- 50 space RV park with hookups</li> <li>- Dedicated off ramp from turnpike</li> <li>- 2000 sq. ft. health and beauty spa</li> <li>- Outdoor pool and cabana deck</li> </ul>	<ul style="list-style-type: none"> <li>- Health club</li> <li>- 100 space RV park with hookups and convenience store</li> <li>- Pavilion/ tennis/ recreation and activity center</li> <li>- Off site guided hunting and fishing facility</li> <li>- Coordinated marketing and promotion with Wellington golf club</li> </ul>
Management Experience*	LC member Harrah's Entertainment and its subsidiaries own or manage 49 casinos. Harrah's is the largest casino operator in the world, as measured by total annual revenues	Parent company (Penn National Gaming, Inc.) has operated Class III gaming casinos since 1997. It is a leading, diversified, multi-jurisdictional owner and operator of gaming and pari-mutuel properties. It currently owns or operates 19 casinos and/or pari-	Extensive experience in the executive team proposed for the facility (primarily four (4) former senior executives of the Horseshoe Gaming Holding Corporation ("Horseshoe"), including Roger Wagner, Jon Wolfe, Dominic Polizzotto,

		mutuel racetrack facilities.	and Karen Greene, all of whom worked for Horseshoe until it was sold to Harrah's Entertainment in 2004).
Funding for Community Programs*	An additional 1% to fund services under interlocal agreement	500 sq ft of advertising space on site for free ads to local businesses (10 yr commitment) \$4,132 per mo. To CLC until CLC mortgage is satisfied Up to \$12,500 per year to support CLC (10 yrs) Up to \$62,440 per year to Wellington Chamber of Commerce (10 yrs) Up to \$40,586 per year to Sumner County for Economic Development (10 yrs) \$250,000 to fund for restoring historic buildings in Wellington, with a yearly contribution to match earnings (10 yrs)	EMT and fire substation with ladder truck and ambulance; construction of a training tower to train firefighters and emergency personnel; funding for training programs at the gaming facility; matching funds for facility employees of 5% for the down payment on a house in Sumner County (not to exceed \$7,500 each). Investment of \$2.3million in improvements in the existing Wellington golf course.
Anticipated Length of Construction*	24 months	23 months from groundbreaking	24 Months

**LOTTERY GAMING FACILITY CONTRACTS  
DISTRIBUTION OF GAMING REVENUE**

**South Central Gaming Zone (Sumner County)**

**Sumner Gaming Joint Venture, LLC (Harrah's Kansas)**

State:

22% of all annual Lottery Gaming Facility Revenues up to \$300 million;  
24% of all annual Lottery Gaming Facility Revenues \$300-350 million;  
26% of all annual Lottery Gaming Facility Revenues \$350-400 million;  
28% of all annual Lottery Gaming Facility Revenues \$400-500 million;  
30% of all annual Lottery Gaming Facility Revenues above \$500 million

Sumner County: 1%

Sedgwick County: 1%

City of Mulvane: 1%

Problem Gambling and Addictions Fund: 2%

**Contract Language:**

*Manager will be paid the following percentages of the Lottery Gaming Facility Revenues generated at the Lottery Gaming Facility depending upon the applicable annual revenues, as follows: (i) 73% of all annual Lottery Gaming Facility Revenues up to \$300 million, (ii) 71% of all annual Lottery Gaming Facility Revenues above \$300 million and up to \$350 million, (iii) 69% of all annual Lottery Gaming Facility Revenues above \$350 million and up to \$400 million, (iv) 67% of all annual Lottery Gaming Facility Revenues above \$400 million and up to \$500 million, and (v) 65% of all annual Lottery Gaming Facility Revenues that exceed \$500 million. The foregoing revenue thresholds shall be adjusted upward upon any additional capital expenditure by Manager of at least \$100 million, with the parties hereby agreeing to negotiate such adjustment in good faith.*

**Revised 5.28.08**

**LOTTERY GAMING FACILITY CONTRACTS  
DISTRIBUTION OF GAMING REVENUE**

**South Central Gaming Zone (Sumner County)**

**Penn Sumner, LLC (Hollywood Casino-Wellington)**

State:

25% of all annual Lottery Gaming Facility Revenues up to \$250 million;  
27% of all annual Lottery Gaming Facility Revenues \$250-300 million;  
32% of all annual Lottery Gaming Facility Revenues above \$300 million

Sumner County: 2%

Sedgwick County: 1%

Problem Gambling and Addictions Fund: 2%

Contract Language:

*Manager will be paid the following percentages of the Lottery Gaming Facility Revenues generated at the Lottery Gaming Facility depending upon the applicable annual revenues, as follows: (a) 70% on all annual Lottery Gaming Facility Revenues up to \$250 million; (b) 68% on all annual Lottery Gaming Facility Revenue above \$250 million and up to \$300 million; and (c) 63% on all annual Lottery Gaming Facility Revenues that exceed \$300 million.*

**LOTTERY GAMING FACILITY CONTRACTS  
DISTRIBUTION OF GAMING REVENUE**

**South Central Gaming Zone (Sumner County)**

**Marvel Gaming (Trailhead Casino Resort)**

State:

22% of all annual Lottery Gaming Facility Revenues up to \$250 million;  
27% of all annual Lottery Gaming Facility Revenues \$250-300 million;  
32% of all annual Lottery Gaming Facility Revenues above \$300 million

Sumner County: 2%

Sedgwick County: 1%

Problem Gambling and Addictions Fund: 2%

Contract Language:

*Manager will be paid the following percentages of the Lottery Gaming Facility Revenues generated at the Lottery Gaming Facility during each fiscal year, as follows: (a) 73% of Lottery Gaming Facility Revenues up to Two Hundred Fifty Million Dollars (\$250,000,000); (b) 68% of Lottery Gaming Facility Revenues between Two Hundred Fifty Million Dollars (\$250,000,000) and Three Hundred Million Dollars (\$300,000,000); (c) 63% of Lottery Gaming Facility Revenues over Three Hundred Million Dollars (\$300,000,000).*



**PENN NATIONAL**  
GAMING, INC.

August 11, 2008

Members of the Lottery Gaming Facility Review Board  
c/o Stephen Martino, Executive Director  
Kansas Racing and Gaming Commission  
700 S.W. Harrison  
Suite 420  
Topeka, Kansas 66603-3754

**Re: Clarification And Updates Regarding Development and Management of  
Lottery Gaming Facilities in the South Central and Southeast Kansas  
Gaming Zones**

Dear Members of the Lottery Gaming Facility Review Board:

Thank you for this opportunity to respond to questions raised by the Review Board during the telephone conference on August 5, 2008 regarding our pending applications in the Southeast and South Central Kansas Gaming Zones. We are pleased to provide the following information and stand ready to promptly respond to any additional questions that may arise.

**QUESTIONS PRESENTED**

**Question 1: Who will manage the southeast zone casino? How will those decisions be made?**

Our casino in southeast Kansas would be managed and operated pursuant to the Management Contract that has been entered into between the Kansas Lottery Commission and Kansas Penn Gaming ("Kansas Penn Gaming"), a wholly owned subsidiary of Penn National Gaming ("PNG"). We have identified in Exhibit E of that Management Contract ten "Key Employee" positions in Kansas Penn Gaming that will be responsible for the day-to-day management of the facility. For your reference I have attached a copy of Exhibit E as Attachment 1. At this early stage, we cannot yet tell you the name behind each of the positions. We can assure you that given our deep bench of General Managers, Assistant General Managers, and operations executives as well our strong recruiting capabilities, these positions will be filled with qualified, experienced and energetic executives. Consistent with our decentralized corporate philosophy, each of these managers, as employees of the local company, will execute their duties with an appropriate level of authority, discretion and autonomy so as to ensure that the highest standards of operation are achieved within the regulatory framework and market conditions applicable to each of our facilities.

Having said that, one of the hallmarks of PNG is its ability to provide significant managerial and operational support to its 19 gaming facilities throughout the United States and Canada. The breadth and depth of our experience developing and operating gaming facilities very similar in nature to those we propose in Kansas is second to none. In that regard, I would direct your attention to the testimony of Richard Schuetz, a consultant retained by the Kansas Lottery Commission to evaluate the management abilities of PNG to operate the southeast Kansas facility. Mr. Schuetz addresses in detail the interrelation of Penn's corporate leadership and local management teams and concludes with the following statement:

"The fact of the matter is that PENN offers an excellent level of management competence that well surpasses any level of desire mandated or implied by KELA. Kansas would be well served by a company of this high level of competence."

I have attached for your reference a complete copy of Mr. Schuetz' report pertaining to our management capabilities as Attachment 2. In short, the management of both Kansas facilities would be the primary responsibility of a general manager of each property who will in turn report to a regional head of operations of PNG. Of course, as described in our earlier submissions, we anticipate a high level of cooperation and synergies in the marketing functions of the two Kansas facilities as well as other potential synergies such as in the area of purchasing and procurement.

**Question 2: Clarify the statement of Peter Carlino on the analyst call of July 24 or 25 stating that if Penn National is not awarded the south central gaming zone casino then it would not proceed with its planned facility for the southeast zone.**

The referenced statement by our Chairman, Peter Carlino, accurately reflects management's view that a singular investment in the State of Kansas at the Cherokee County location may not be economically viable given the nearby and material competition and the limited demographics. However, no final decision on the southeast zone has been made by the PNG Board of Directors. Management's current view was not reached in a vacuum, but only after months of evaluation and re-evaluation as market conditions dramatically changed in the area.

From the outset of our application to the Lottery Commission and request for endorsement from the Cherokee County Board of County Commissioners, we have repeatedly emphasized the necessity of a "first to market" strategy for a first class destination resort in southeast Kansas to be successful and asked for an expedited review of our application. As we have indicated to the Lottery Commission, we were prepared to move very quickly with all resources necessary to be "first to market." For a variety of factors beyond the control of all parties, an expedited review did not occur. Notably, PNG continued to pursue its application and continued other efforts to maintain a competitive advantage and protect the southeast franchise for the state and itself. In conjunction with Cherokee County, we have pursued all avenues available to challenge the legality of the Quapaw facility under Federal law. Those efforts continue, but in light of the current position of the United States Department of Justice, the prospects for success in this regard have diminished.

It was against this evolving factual background that Mr. Carlino noted in response to a question that a singular investment in Cherokee County may not make economic sense. A contrary conclusion is difficult to defend, particularly in light of recent testimony by consultants to the State of Kansas to the same effect. I would respectfully request, however, that Mr. Carlino's statement not be taken out of context. The message he also delivered that day was that PNG was prepared to make a

\$615 million dollar investment, of readily available capital, in the State of Kansas today. We are prepared to take on all competition and build two first class gaming facilities as committed to in our Management Contracts with the Kansas Lottery Commission. Mr. Carlino's remarks were not intended to imply a withdrawal; it was a message that PNG is fully prepared to bring to fruition the benefits of significant economic development through gaming and tourism to all parts of Kansas designated for this opportunity. Moreover, to make it abundantly clear, PNG is absolutely willing to build a destination resort in the southeast zone if it also receives approval with respect to the south central zone. Indeed, PNG stands ready to amend its existing contracts in writing this week to reflect this commitment.

**Question 3: Does the statement of Peter Carlino constitute a withdrawal from the southeast gaming zone?**

No. Neither Mr. Carlino's statement nor the strategy discussed above in any way constitutes a withdrawal of PNG's application for the southeast Kansas gaming zone currently under consideration by the Board. To the contrary, PNG hopes to be ultimately selected by the State to operate lottery gaming facilities in both the south central and southeast Kansas gaming zones.

**Question 4: Would withdrawal from the southeast gaming zone lead to a larger development in the south central zone?**

No. In the event that the southeast Kansas gaming zone application is withdrawn, PNG would not modify its plans for the south central zone. We feel our Sumner County plan is appropriately designed with the largest number of hotel rooms to be developed in concert with a casino and a casino facility sized to allow for the immediate opportunity for increased gaming units as the market dictates.

Before I close, however, there is a point that needs to be emphasized. Throughout the course of the review process PNG has disclosed a great deal of financial information, which in conjunction with its status as a public company, has given the State a full and complete picture of our financial capabilities to implement our proposed projects. That picture discloses a large, diversified company with a balance sheet that is unparalleled in the gaming industry. Independent, well-established Wall Street analysts have recently addressed this point and concur with our conclusion:

Lehman Brothers Equity Research Company Update – August 1, 2008

“We continue to believe that PENN is uniquely positioned with a broad property portfolio, robust development pipeline and strong balance sheet, which should enable it to take advantage of current market dislocations at a low cost of capital.”

Jefferies & Company, Inc. Equity Research Report – July 25, 2008

“This makes Penn one of the least leveraged gaming companies in the market today with a cash kitty to purchase strategic assets in a heavily oversold market. We believe this opportunity gives Penn added value and expect to see strategic purchases within the year.”

Copies of the complete analyst reports are attached hereto as Attachment 3. Chairman All has also consistently made it clear that the ability to perform with respect to one's proposals is of paramount importance to the State of Kansas. Accordingly, particularly in these exceptionally volatile times for credit markets and macroeconomic conditions, we urge you to rigorously press the other applicants and their partners to disclose and elaborate on the certainty and timing of their financing, the conditions under which they can access the financing, their cost of capital and their other key terms and conditions. The Review Board is tasked with selecting a company that can perform and excel for years to come. We cannot convey strongly enough that PNG has the immediate and prospective ability to perform concerning both its contracts. The enclosed analyst reports (and many others that we can provide) independently confirm Penn's prospective ability. In addition to its established financial prowess, PNG does not bring with it any of the complications and risks attendant to litigation over land entitlements or those inherent to a small, start-up organization. In sum, Penn is the best positioned applicant in terms of financing and operations and we are the safest choice for the Review Board.

In conclusion, I would again thank the Board for this opportunity to address its questions and clarify the record before you. Please feel free to contact me if there is any other information you would deem helpful to your deliberations. Thank you for time and attention.

Very truly yours,



Thomas N. Auriemma  
Vice President, Chief Compliance Officer

TNA/sls

# COMMENTS ON REBUTTALS OF CHEROKEE AND SUMNER COUNTY APPLICANTS AND RESPONSES TO QUESTIONS FROM THE BOARD

August 15, 2008

## EXECUTIVE SUMMARY

### I. Introduction

The purpose of this document is to consolidate the important responses of all consultants to the various claims made by applicants in their rebuttals to the consultant reports that were presented in Topeka on July 24-25, and to respond to the questions and concerns that were raised by the Review Board in the Conference Call meeting on August 5. The intent of the Executive Summary is to keep the responses relatively short and direct. Supporting materials, more detailed discussions, and documentation are provided in the Appendix. Comments of individual consultants are identified in the Executive Summary and the Appendix.

### II. General Guidelines for the Board

The following suggestions are intended to assist the Review Board members in how they should evaluate different dimensions of the comparisons of applicants.

1. The Review Board members should be sensitive to the *probability of a project being developed* (or alternatively, the probability it would not be executed as proposed) for whatever reason. The following are examples of this principle:
  - a. With respect to financing, it is more important that a particular applicant would be able to achieve their complete financing with some mix of debt and equity contributions than to come up with the specific amount of equity that they had claimed they would supply (though the two are clearly related.)
  - b. If a project is of questionable profitability, or if market conditions (i.e. degree of competition, interest rates, cost of capital) have changed enough that it is less likely that a particular proposal will be economically viable, it becomes increasingly likely that a particular applicant might not execute the proposal, even if it means forfeiting the \$25 million deposit.
2. In Zones where multiple applicants are competing for a single license (all Zones besides the Southeast), the important dimensions of the information and analysis provided by applicants and the State's consultants are not so much the absolute values of forecasts of economic variables, but *rather the comparative values*. The Review Board should be sensitive to, and try to resolve in their own minds:
  - a. How much stronger or weaker the gaming revenues will be for Project A in comparison to Project B and/or Project C and/or Project D, etc.

- b. How much more or less the various non-gaming assets (i.e. convention facilities, retail shopping, golf courses, sporting facilities, restaurant offerings, branded products, etc.) will *comparatively* enhance or detract from visitorship and/or gaming revenues; and
  - c. How much more or less location, access, convenience of parking, travel time, regional competition, and distance issues will *comparatively* affect visitorship, gaming revenues, and total spending at proposed Lottery Gaming Facilities in comparison to one another.
  
- 3. It is not the Review Board’s task to select the most profitable proposal among competing proposals. Profitability fulfills the interests of the shareholders of the successful applicants, but the Review Board is charged with *selecting those projects that maximize revenues to the State of Kansas, enhance tourism for the State of Kansas, and are otherwise in the best interests of the State of Kansas.*
  - a. However, a highly profitable operation is more likely to reinvest into the project in the future than a less profitable operation, *ceteris paribus.*
  - b. Higher profits at a casino complex will lead to greater State corporate tax obligations, and therefore greater tax collections for the State.
  
- 4. When evaluating the *Net Economic Benefits* of a particular project, and for that matter, when evaluating the comparative tourism impacts of various projects, it is important for the Review Board to distinguish between spending that is merely shuffled or redirected within the region (i.e. money that used to be spent at local businesses such as restaurants or movie theaters which is now spent at the casino) versus *new spending* that would not take place in the region unless that particular facility was there. *New spending* can lead to new job creation and injections of new incomes (in the form of higher incomes for existing residents and/or previously non-existent incomes for new residents to the region.) The following are illustrations of *new spending that leads to Net Economic Benefits* (examples a, b and c) and *spending that does not create any significant Net Economic Benefits* (example d):
  - a. Tourism spending by out-of-state residents (residing 100 miles away or more) who otherwise would not have visited and spent in the region;
  - b. Amounts spent by local residents at the Lottery Gaming Facility who otherwise would have spent similar amounts outside the region either in gambling vacations (i.e. to Las Vegas) or other expenditures out-of-region (i.e. vacationing in the Bahamas);
  - c. Amounts spent by out-of-staters in Kansas Lottery Gaming Facilities that otherwise would have been spent on the other side of the state line. (This applies in particular to Cherokee County, Sumner County, and Wyandotte County.) In such cases, the fiscal benefits may create *Net Economic Benefits* for Kansas but there may not be as much in the way of new income or new employment impacts for the multi-state regional economy. For example, in Cherokee County, if the Downstream Casino had never been built, but a Lottery Gaming Facility of the same size and appearance was constructed on the Penn National site, then there would have been no

difference on regional employment or incomes in comparison to the effects of the actual Downstream Casino. However, with a Lottery Gaming Facility in Cherokee County (and no Downstream Casino in Oklahoma), there would have been significant fiscal benefits in the form of management fees and other tax payments to the State of Kansas and to local Kansas governments.

- d. Spending that reflects a reallocation of economic activity from local businesses to the Lottery Gaming Facility. ***This situation generates very little in terms of Net Economic Benefits.*** Such cases may result in new jobs in the casino complex but lost jobs elsewhere in the local economy; new incomes for casino employees but lost income for displaced employees; and new tax collections for the State from the casino, but lost tax collections for the State from reduced business activity elsewhere in the region. It is important to note that, even with equal amounts of shifts in spending to a casino from other activities, there could be different amounts of shifting (in either direction) in total employment and total tax collections, depending on labor intensity and relative tax rates.
5. Some areas of analysis in both the applicants' and the consultants' reports are more ***scientific*** than others. Thus, one can expect greater reliability in gravity models that estimate visitation and revenues as a function of the income levels and distance of residences from a casino site than one could expect in evaluating the impact of a water park, a golf course, iconic architecture, or a branded restaurant on the same variables. The Cummings and Wells methodologies attempt to capture the effects of non-gaming amenities through "attraction factors" and "power ratings," but this is inherently more subjective than issues of income, residential location, location of competitors, and travel time. In general, analysts can state that additional non-gaming amenities will increase visitation and gaming revenues, but it is far more difficult to say by "how much."
  6. **Honesty and candor are important and valued attributes.** Because of their desire to win, applicants often try to make the best case for themselves in a competitive bidding environment. This can sometimes lead to confusing or only partially complete responses; in extreme cases, it may lead to "misleading" responses. The willingness of an applicant to provide candid but unflattering responses should be compared to alternative statements which might be less conflicting to their application, but less than complete or not insightful when compared to reality. The tendency of an applicant to provide "honest" responses with respect to difficult or challenging questions is likely to be highly correlated with their tendency, if awarded a gaming license, to be candid and "honest" when confronted with difficult or challenging situations as an operator in a regulated environment. On the other hand, if an applicant shows a pattern of not being forthcoming in their bid presentations, or is "misleading" with respect to information given to the Review Board in public testimony, then such an applicant may be equally unforthcoming or "misleading" when confronted with uncomfortable regulatory situations as an operator.

### **III. Issues Related to Applicant Rebuttals or Questions from the Review Board**

#### ***Issue #1: Does distance matter? (submitted by Eadington and Wells)***

Basic economics says when prices are higher, *ceteris paribus*, consumers reduce the number of units consumed. This is the **Law of Demand**.

Consider an individual who lives in Wichita, 10 miles from Mulvane and 24 miles from Wellington. Assume that such an individual would require an additional 25 minutes per trip (coming and going) to visit a casino in Wellington rather than Mulvane, and an additional travel cost of \$14 per trip (at 50 cents per mile). Such an individual might choose to visit a Mulvane casino 40 times in a year, but a Wellington casino only 36 times per year; the average length of stay at the Mulvane casino might be 120 minutes, whereas the average length of stay at the Wellington casino might be 110 minutes; and the average gaming spend at a Mulvane casino might be \$75 per visit whereas the average gaming spend at a Wellington casino might be \$72. Over the course of a year, this customer would spend a total of \$3,000 on gaming in Mulvane versus \$2,592 in Wellington; he would have spent \$200 on travel costs to travel to Mulvane versus \$432 on travel costs to Wellington; and he would have spent 16.7 hours commuting to Mulvane versus 29.4 hours commuting to the casino at Wellington. If the cost of travel time is \$10 per hour, then the total outlays for our consumer is \$4,367 for Mulvane whereas his outlays for the Wellington casino would be \$5,082. Wellington is more expensive and generates less gaming revenue.

It is a well-established principal of gravity modeling that the greater the distance between a business and a population center, the lower the participation rate and frequency of visits from the subject population center. This is true for the gaming industry, as well as many other types of commercial businesses. Thus, in the case of the gaming industry, greater distances will result in lower gaming revenues.

#### ***Issue #2: Where do all applicants stand with respect to financing and their ability to perform under their contract with the Lottery? (Submitted by Mills)***

All new projects require an investment by the investor and their creditors (lenders) in some percentage proportion, such as 20% equity and 80% debt. The proportion of the equity contribution is typically a function of the current market environment. The current economic environment, which has changed dramatically since mid-2007, will typically require a larger equity contribution by the investors.

A creditor will not proceed on a multi-hundred million dollar project without a significant contribution by the investors. Discussions with bankers and real estate developers suggest that no construction project can go forward in the current market without an appropriate cash equity contribution from the investment group. The contribution needs to be liquid assets, which is considered to be cash or cash equivalents. Bankers want the investor to assume a fair share of the risk of investing in any new project. Acceptable non-cash

contributions represent tangible assets such as the purchase of land or buildings. The logic is that the creditor expects the investor to contribute assets that will be at risk.

Any loan analysis requires the submission of a net worth statement on the part of the investors. The approval of any loan is based on the ability to contribute current cash for the down payment and the ability of investors to meet future payments. A review of liquid assets is an essential part of the review process.

For an asset to be liquid, it needs an established market with enough participants to absorb a selling of the asset without materially impacting the price of the asset. There also needs to be a relative ease in the transfer of ownership and the movement of the asset. Typical liquid assets include cash, most stocks, money market instruments and government bonds.

The current analysis starts with the capability to contribute cash or equivalents from the liquid assets of the enterprise. Additional considerations include the ability to obtain loans to fund any equity contributions, as well as the capability to provide additional equity investors. The following discussion addresses the financial dimensions of the various applicants in Sumner and Cherokee County.

### **Harrah's Kansas, owned by Sumner Gaming Joint Venture, LLC**

The Sumner Gaming Joint Venture, LLC is the joint venture of Harrah's Sumner Investment Company, LLC with an ownership of 40% and Sumner Gaming and Resorts, LC with an ownership of 60%. "Harrah's Kansas" will be the operating casino of the joint venture company. The Harrah's Sumner Investment Company LLC is the 40% Non-Managing Member. It is a subsidiary of Harrah's Operating Company Inc., a 100% owned subsidiary of Harrah's Entertainment, Inc.

Harrah's Entertainment considers itself to be the world's largest casino entertainment provider. Their business is primarily conducted through a wholly-owned subsidiary, Harrah's Operating Company, Inc. Harrah's owns, operates, and/or manages 51 casinos (under such names as Bally's, Caesars, Harrah's, Horseshoe, Rio, and its London Clubs casinos in the UK), primarily in the US and the UK. Operations include a wide range of venues for delivering gaming, including casino hotels, dockside and riverboat casinos, racinos, and Native American gaming establishments. It included operations in 12 different states in the United States, and in the UK, Uruguay, and South Africa. It operates properties in the region, in Kansas City and St. Louis, Missouri. Additional Harrah's Midwest properties are in Illinois, Indiana, and Iowa.

Sumner Gaming and Resorts LC is a newly-formed Kansas limited liability company created in August 2007. Its major stockholders, Bruce Christenson, Bruce McPherson, and Michael McPherson have spent a life-time specializing in the development of residential and commercial real estate. All the stockholders have Kansas connections.

The Joint Venture plans to construct the Harrah's Kansas Casino Resort at a cost of \$560 million. The Joint Venture plans on contributing \$174 million in equity funding with Harrah's Sumner Investment Company funding \$76 million and Sumner Gaming and Resorts funding \$98 million. The remaining \$386 million is expected to be funded through Wells Fargo. A letter from Wells Fargo (Section II, p. 11) indicates high confidence in its ability to put in place financing for this project. Expectations are that it will take the form of a senior secured revolving credit facility and a senior secured construction loan.

Harrah's equity contribution (\$76 m) will be financed through a draw on the company's revolving credit facility. As of March 31, 2008, \$7.25 billion in borrowings was outstanding under the Credit Facilities with an additional \$0.2 billion committed to back letters of credit. After consideration of these borrowings and letters of credit, \$1.8 billion of additional borrowing capacity was available to the Company under the Credit Facilities as of March 31, 2008.

Sumner Gaming and Resorts investors suggest that their equity contributions will come from existing personal cash or other liquid investments and/or personal lines of credit. A review of their personal assets leaves doubt about their ability to provide the full \$98 million contribution.

As of June 30, 2008, Sumner Gaming and Resorts had invested \$14.5 million, leaving \$83.5 million to contribute. Based on confidential documents submitted to me through requests of the Racing and Gaming Commission, I was able to estimate that there are about \$42.5 million in liquid assets among the partners. This leaves the Investment group short by \$41 million.

If the additional development proposal that the partners proposed (across the Interstate from the main casino project) were not included, the equity contribution for Sumner Partners would drop by \$19 million. According to my analysis, this would still leave the group short by \$22 million.

Finally, if the project ultimately comes in over budget (and nothing else changes), my analysis suggests Sumner Gaming and Resorts would not have the capability to provide additional cash without selling some of their investments.

### **Trailhead Casino Resort, owned by Marvel Gaming LLC**

Marvel Gaming LLC is a newly formed LLC that includes a combination of trusts and individuals, some with extensive gaming experience. This group includes 10 different members of the Binion family, seven who have set up individual trusts. Other individual equity contributors include members of the Marvel Gaming management team. They include Roger Wagner, Jon Wolfe, Dominic Polizzotto, Karen Greene, Lloyd Buzzi, and Andrew J. Astrachen. The LLC has no existing casino operations.

The Trailhead Casino Resort total cost for the project is \$407.4 million. The funding for the project will consist of an equity contribution of \$ 142.6 million. This represents 35% of the total cost. The company will finance the remaining \$263.9 million with a term loan of \$138.9 and a second mortgage of \$125 million.

Can this investment group put together the required financing for this project? A review of the assets and net worth of the individual investors provides assurance that they have the assets and liquidity to finance the project. Their assets exceed the cost of this project and more than 50% of the assets are considered liquid. Marvel has also supplied a letter of interest in financing the project from Deutsche Bank.

### **Hollywood Casino-Wellington, owned by Penn Sumner, LLC**

Penn Sumner, LLC is owned 100% by Penn National Gaming. Penn National Gaming is one of the leading companies in the Casino and Gaming sub-industry of the service industry. The Company now owns or operates nineteen gaming facilities in fifteen jurisdictions, including Colorado, Florida, Illinois, Indiana, Iowa, Louisiana, Maine, Mississippi, Missouri, New Jersey, New Mexico, Ohio, Pennsylvania, West Virginia, and Ontario.

When looking at the long term, can Penn generate enough cash to meet future commitments? The CFO/LT Debt (Cash Flow from Operations to Long Term Debt) ratio has been increasing but is still far from being able to pay off long term debt in the future. The CFO/Capital expenditure ratio indicates that the excess cash being generated can barely meet current investment needs, let alone the payment of long term debt. On the other hand, there was only one year that Penn was not able to cover its capital expenditures from operating cash flows (free cash flow). This was the situation prior to July 1, 2008.

### **Termination of Penn National's Takeover Bid<sup>1</sup>**

On June 15, 2007, the Company announced that it had entered into a merger agreement that, at the effective time of the transactions contemplated thereby, would result in the Company's shareholders receiving \$67 per share. More than a year later (July 3, 2008) Penn announced that the \$6.1 billion takeover bid by Fortress Investment Group and Centerbridge Partners had been terminated. The end of the takeover bid is a blessing for Penn. Under the termination agreement, Penn will receive \$1.475 billion in cash. It consists of a break-up fee of \$225 million and a seven-year interest free loan of \$1.25 billion from the combined group of Fortress, Centerbridge, Wachovia Corp. and Deutsche Bank.

The \$1.25 billion debt will be classified as "redeemable preferred equity with a repurchase date in 2015. It can be paid off with cash, its own common stock, or a

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<sup>1</sup> <http://www.reuters.com/articlePrint?articleId=USWNAS024420080703>; Penn National says takeover deal terminated Thu Jul 3, 2008 12:15pm EDT

combination of the two. Preferred equity allows Penn to forgo any interest or dividend payments and if Penn uses the money to repay its debt, it greatly reduces future required interest payments.

This infusion of cash allows Penn to make a huge dent in its overleveraged debt structure of \$2.97 billion. Penn has stated that it will use the \$1.475 cash infusion to repay its existing debt and to acquire or develop additional gaming properties.

The latest information supplied by Susquehanna Financial Group, LLP, July 8, 2008 indicate that Penn will use \$600 million to repay debt and \$200 million to repurchase stock. The remainder \$600 million will be used for new developments.

Needless to say, from the perspective of the Kansas Lottery Gaming Facility Review Board, the Penn proposals should now be more favorably considered. Reducing the debt will result in favorable debt/equity ratios as well as reasonable interest charges ratios. But, ultimately, it means that there is assurance of \$600 million to meet equity contributions for the Sumner project.

**In summary:**

**Penn National** currently has \$600 million cash and equivalents to meet the equity requirements for the Kansas proposal.

**Marvel Gaming** has the required equity to meet current commitments.

**The Sumner Joint Venture** could have a problem meeting its equity commitment. Harrah's has the ability to meet the total equity requirement if Sumner Gaming Resort falls short in their contributions.

***Issue #3: Counting Tourists: Unique Guests versus Head Counts of Visitors  
(submitted by Eadington)***

The consultants were concerned by a statistic noted by Harrah's with respect to "the percentage of business generated by visitors who live more than 100 miles from the casino." In the case of Council Bluffs, a Harrah's spokesperson claimed that between 30% and 40% of their visitors came from beyond the 100 mile "threshold", thus defining them as tourists according to the Kansas standards that have been established. The gravity models suggest a high proportion (90%+) of gaming spend comes from residents who live within 100 miles. On inquiry, we were told Harrah's is using a "unique guests" standard per time period (i.e. quarter.) The following discussion reconciles these statements.

The following assumptions lead to a situation where 40% of the unique guests to a casino are "tourists" but only 10% of the gaming revenues and only 7% of the head count visitors are attributable to tourists. Local visitors frequent the casino on average 5.0

times per month. Tourist visitors frequent the casino 1.2 times per month. There are 6,000 unique local visitors over the quarter, and 4,000 unique tourist visitors. Tourists spend \$70 per day per visit, whereas locals spend \$50 per day per visit. The results are summarized in the following Table:

MONTH	UNIQUE LOCAL VISITORS	UNIQUE TOURIST VISITORS	AVERAGE LOCAL VISITS PER MONTH	AVERAGE TOURIST VISITS PER MONTH	Headcount local visits per month	Headcount tourist visits per month	AVERAGE LOCAL SPEND PER VISIT	AVERAGE TOURIST SPEND PER VISIT	TOTAL LOCAL SPEND PER MONTH	TOTAL TOURIST SPEND PER MONTH
JAN	5,000	1,500	5.0	1.2	25,000	1,800	\$50	\$70	\$1,250,000	\$126,000
FEB	5,000	2,000	5.0	1.2	25,000	2,400	\$50	\$70	\$1,250,000	\$168,000
MAR	5,000	1,500	5.0	1.2	25,000	1,800	\$50	\$70	\$1,250,000	\$126,000
<b>QUARTER</b>	<b>6,000</b>	<b>4,000</b>			75,000	6,000				
							<b>TOTAL</b>		<b>\$3,750,000</b>	<b>\$420,000</b>

***Issue #4: Customers at a distance do not translate into large volumes of business (Submitted by Cummings)***

Harrah’s statement (as we interpret it) is that up to 40% of its customers reside more than 100 miles distant from the specific casinos that they visit. This is not inconsistent with the Cummings and Wells gravity models’ projections that only 7-14% of the Kansas casinos’ revenues will likely come from such distances. That is because the greater the distance, the less frequently customers tend to visit. Cummings provides an example: based on its players’ club data, a very ordinary Midwestern casino finds that 32% of its customers (by counting unique individuals) reside more than 100 miles away. But these customers only contribute 5% to its business, because they only visit an average of three times per year, versus 19 times per year for those who live within 100 miles.

***Issue #5: The “stairsteps” in CBRE’s “Bridge” that attempt to link the Cummings and Marvel Projections are weak (Submitted by Cummings)***

Marvel Gaming presented a “bridge” analysis by CBRE which bridged the substantial gap between the Cummings projections and Marvel’s by means of six “steps.” If one believes that CBRE’s perspective, and their model parameters, do reflect the actual state of the world, then their higher projections for gaming revenues would be appropriate. However, with limited exceptions, it is my professional opinion that their positions do **not** reflect the real world of “typical,” or even “good” Midwestern casino performance.

- a. The effects of distance upon casino patronage *are* substantial. I have seen no evidence to suggest that the elasticity of spending due to distance alone, in the absence of any effects from competition, is less steep than my assumption of -0.70;

- b. Oklahoma casinos *do* represent significant competition for customers from Oklahoma. They are clearly performing better today than CBRE's suggested power rating of 65 (at least as it works in my model). Just because they are not physically attractive does not mean they cannot compete on the basis of location, easy micro-access, and plentiful rewards for their players that they can afford due to their lightly-taxed status;
- c. The "bypass" effect, in which the gravity models indicate that *some* customers (but not a large number) from Wichita will still travel to Oklahoma is real. Customers drive past one casino to get to another all the time. Which is the "superior" property is, like beauty, in the eye of the beholder. Moreover, Marvel's assumptions regarding its market share from the Wichita area are very similar to the findings of Cummings and Wells;
- d. CBRE adds \$20 million to Marvel's gaming win based on the position that "Gravity models cannot accurately forecast spending in a situation where a large city has inferior casinos closer to a far superior property that is more distant." They base this position on evidence of Houston residents visiting a casino in Lake Charles, Louisiana. The two situations, however, are very different: *Houston has no casinos nearby. Oklahoma City and Tulsa do.* Not all these casinos, moreover, are unattractive. I have seen no evidence here or anywhere else regarding this supposed failure of gravity models;
- e. I agree that a hotel makes a positive contribution to gaming win. I have seen little evidence, however, to support the position that "each hotel room built at a casino generates about \$75,000 in incremental GGR per year." I am highly skeptical of supply-based techniques such as this. If this is indeed the case, why not add 1,000 hotel rooms, or 2,000?
- f. High volumes of table business are an exception in the Midwest, not the rule. Based upon the weakness of Oklahoma's table competition, I have already projected exceptionally high table revenues for Marvel's Wellington casino (14.4% – which would rank it third among all the casinos west of Chicago). I see no reason to add another \$7 million as CBRE proposes.

On the other hand, as I have stated previously, my projections do not include poker revenues, which Marvel projects at roughly \$7 million. Since these revenues vary widely across the casinos of the Midwest, I will note only that this is the highest among all the applicants in Kansas.

***Issue #6 (addressed by Eadington): Penn National entered into evidence a report that Eadington submitted to a New York Court in a 2006 case regarding a possible tribal casino to be built near Southampton, Long Island, in New York, 90 miles from the center of New York City. They claimed that this demonstrated Eadington did not believe "distance matters" in cases of monopoly casinos.***

The declaration cited is not directly applicable to Sumner County and the differences in distance between Mulvane and Wellington. As opposed to Wellington versus Mulvane, the casino in question in New York was approximately 90 miles from New York City and

its metro population of about 10 million. The quote attributed to me refers to another proposed casino 25 miles closer to New York City. Eadington argued that the proposed New York casinos in question would both be largely supply constrained, too small to meet market potential. Such a casino would experience capacity utilization of 100% fairly frequently, not unlike the Foxwood's and Mohegan Sun casinos in Connecticut, or the Pechanga Casino in Temecula, California. Thus, for casinos of similar size and attributes, the determining factors on revenues would be less "distance related" and more "supply/demand related" than would be the case if there were abundant casino facilities for the "local" population.

For Mulvane versus Wellington, there is not an issue of supply constraint (certainly not in the same sense as the proposed Long Island casinos.) Wichita has a population of about 500,000, and all of the proposed Sumner County casinos would be built to a size that will accommodate the anticipated demand. Eadington made a statement that distance matters as it relates to the differential visitation and spending if customers must drive 14 miles more (10 to 15 minutes more each way) to go to one location rather than the other. The distance question and its effect on gaming revenues was really not an issue in the New York case.

***Issue #7: The travel time from Wichita to Harrah's Mulvane is not as long as Penn contends (Submitted by Cummings)***

Penn's assumption that two stoplights between Exit 33 and Harrah's Mulvane casino would delay traffic by 90 seconds each is highly exaggerated. An estimate of 14 seconds each is more realistic: 56% (probability of red or yellow) x 25 seconds (average delay IF stopped) = 14 seconds. The resulting difference between the travel times to Harrah's and to Penn's casinos (even *with* their dedicated off-ramp) is therefore roughly 10.5 minutes, not 7.95 minutes.

The Cummings models reflect this difference of 10.5 minutes between the two facilities. If, however, Penn's claim was correct and Harrah's casino was indeed 152 seconds (2.53 minutes) further from most of Wichita than we have estimated, the Cummings methodology projects that its revenues would be roughly 10% less, at \$156 million in 2007 dollars (or \$181 million in 2013 dollars). This would still exceed the Marvel and Penn casinos proposed for Wellington by margins of 20% and 26%, respectively.

***Issue #8: Penn's projection of incremental revenue from its "Southern Strategy" is not realistic (Submitted by Cummings and Probe)***

**(Cummings)** Penn's projection of \$16.5 million additional revenue due to synergies between its proposed casinos in Cherokee and Sumner Counties is highly aggressive. The Cummings model indicates that the areas of market overlap from which Penn projects this revenue to come are only generating \$1.4 million (in 2013 dollars) *before* such synergies. Penn's consultant Morowitz projects no more than \$3.2 million in gaming revenues from

these areas. Cross-promotion and other synergies are unlikely to increase the casinos' baseline levels of business by the multiple of five to ten that Penn projects.

**(Probe)** Probe has conducted a quantitative and qualitative assessment of the Penn National "Southern Strategy." While we agree with statements put forth regarding operational and community involvement synergies, we offer another view regarding the advantage of the Southern Strategy with regards to marketing impact.

In their supporting material for the Southern Strategy, Penn National stated, "Our collective experience demonstrates that a five percent increase in the *share* of a patron's gaming budget is achievable from a joint marketing strategy" (emphasis added). Penn National postulated that in the overlap area between the South East and South Central trade areas, greater frequency of advertising messages would generate two additional trips to southern Kansas casinos from the overlap area.

If two additional trips represent "a five percent increase in the *share* of a patron's gaming budget", it implies that the average visitation is 40 trips each year. In Penn National's spreadsheet submissions for Sumner, the average visits for those within 100 miles of the Sumner property is only 5.25 visits per year. An additional two trips from the overlap zone is a 38% increase in the average trips from those in the trade area furthest from the properties. We are not convinced this increase in trips from the overlap zone as outlined would be achieved through marketing synergies.

Certainly, there is an advantage in the ability to cross-market properties. There are efficiencies that would be achieved by coordinating marketing and advertising efforts across properties. Additionally, having data from multiple properties provides a more complete picture of total customer worth. This provides an ability to reward play aggregated from multiple properties at a greater level than from single property. Guests are also able to earn greater reward levels faster, assuming that they are visiting multiple properties.

However, this implies that there will be a compelling reason for trial at both properties. In this context, the properties are the same brands with similar proposed amenities and features (or a subset thereof). Our research has shown that there exists a certain amount of variety seeking behavior in Casino entertainment. While casinos strive for loyalty, there are significant numbers of customers who belong to multiple clubs and frequent multiple properties for a variety of entertainment experiences, much like one would have a favorite restaurant but dine a variety of outlets over time. In competitive local markets we have tracked, 80% of carded and 50% of the general market may visit multiple properties in a three-month period.

Placing differentiated properties across the Southern zones increases the probability that the Kansas Lottery will provide gaming environments and products that appeal the widest variety of potential gaming customers. Indeed, having different properties may generate incremental trips from out market and Oklahoma as gaming patrons try each of the different properties.

Finally, the Kansas Lottery has retained the ability to create a statewide customer loyalty program, which could provide a similar or greater impact on revenue through coordinated marketing, given the potential to coordinate efforts across four properties and the lottery.

**Issue #9: The importance of construction impacts and impacts on public infrastructure (Submitted by Houston and Cunningham)**

There remains a degree of uncertainty as to the commitment each applicant has made to investments in public infrastructure in affected jurisdictions. As a result, Civic Economics cannot claim to have incorporated those investments fully into the calculation of construction impacts. We did, however, include all such investments described in the templates provided by the applicants.

During our time in Topeka, such commitments grew as the Sumner applicants made new or formalized promises to cover local costs. However, given the scale of the casino projects and the likely investment in infrastructure, we do not believe such calculations would substantially change the relative impacts of the various applicants.

The chart that follows is unchanged from our original report:

CONSTRUCTION IMPACTS SUMMARY					
SOUTH CENTRAL GAMING ZONE					
	Direct	Indirect	Induced	Total	Relative Impacts
<b>ECONOMIC OUTPUT</b>					
Total revenues associated with construction (\$ Millions, 2007 Dollars)					
Marvel Gaming	\$ 199.4	\$ 63.7	\$ 87.1	\$ 350.2	
Penn Sumner LLC	\$ 152.9	\$ 49.6	\$ 66.8	\$ 269.3	
Sumner Resorts/Harrah's	\$ 261.6	\$ 84.5	\$ 112.7	\$ 458.9	
<b>EMPLOYMENT</b>					
Total workers, including full-time and part-time					
Marvel Gaming	2,064	500	811	<b>3,375</b>	
Penn Sumner LLC	1,554	385	622	<b>2,561</b>	
Sumner Resorts/Harrah's	2,674	657	1,050	<b>4,380</b>	
<b>WAGES</b>					
Total wages paid to workers identified above (\$ Millions, 2007 Dollars)					
Marvel Gaming	\$ 90.7	\$ 21.7	\$ 26.1	\$ 138.5	
Penn Sumner LLC	\$ 69.3	\$ 16.8	\$ 20.0	\$ 106.1	
Sumner Resorts/Harrah's	\$ 116.8	\$ 28.6	\$ 33.7	\$ 179.1	

Source: Applicant Submissions, IMPLAN, Civic Economics

**Issue #10: The importance of Net Economic Impacts (Submitted by Houston and Cunningham)**

**Net Economic Impacts** are the result of both Export Revenues and Import Substitution. These both result in the injection of new spending into the region, spending that would not exist without the facility in question. Without Net Economic Impacts, there are no significant changes in incomes or employment in the region.

**Export Revenues** are those revenues that are drawn from out-of-state visitors who would not otherwise gamble in Kansas. The Cummings report forecasts **Export Revenues** of \$8.2 million at Harrah’s, \$12.4 million at Penn, and \$14.9 million at Marvel. In our

understanding of the model, this reflects two factors: (1) the relative proximity of the three proposed facilities to the Oklahoma market and (2) the relative attractiveness of the three as determined by the number of gaming positions, access, and intangibles.

The Wellington locations would be expected to draw several million dollars more from out-of-state, which is one of the clearly stated intentions of the KELA. In this case, Marvel provides 30% more in Import Revenues than does Harrah's.

**Import Substitution Revenues** were well described by Professor Eadington as "shadow tourists." It represents spending by Kansans that would otherwise occur out-of-state without the ability to gamble locally.

The Cummings report forecasts **Import Substitution Revenues** of \$42.8 million at Penn, \$47.6 million at Marvel, and \$50.7 million at Harrah's. Again, our understanding is that these numbers reflect the same factors described above.

The difference among the three is quite small, with Harrah's drawing only 6.5% more Import Substitution Revenue than Marvel. These numbers suggest that any of the three proposals will do well in drawing gaming spending from Wichita area residents that would have otherwise been spent in casinos out of state.

In our analysis, based on the Cummings model, all three applicants would have very comparable economic impact values, with Marvel holding an advantage of 5.3% over Harrah's and 13.2% over Penn in total economic impact.

***Issue #11: Fiscal Impact on K-12 Schools (addressed by Candace Evert, Meridian Business Advisors)***

With respect to estimates of new students generated by the employees of the casino facility, Meridian has not changed its methodology to estimate new students. However, when supported by data and interviews, we have reduced the capital construction requirements of new students by taking into account the existing unused capacity in each school district.

With respect to state revenue aid per student, Meridian has estimated the state aid revenue per student and we added it to our previous revenue estimates.

For the Cherokee County School Districts, Meridian has allocated the estimated number of new students among the three districts in the County--Riverton, Galena and Baxter Springs. Previously all costs were allocated to Galena only.

As a result of these changes, we submit the following adjusted estimates:

Mulvane School District

3-Year Summary	Original Analysis	Revised Analysis
Revenue	\$ 9,592,376	\$5,765,330
Costs	24,524,276	9,842,269
Surplus/(Deficit)	(\$14,931,900)	(\$4,076,939)

Wellington School District-Penn

3-Year Summary	Original Analysis	Revised Analysis
Revenue	\$15,385,861	\$8,755,467
Costs	6,580,158	3,426,124
Surplus/(Deficit)	\$ 8,805,703	\$5,329,343

Wellington School District-Marvel

3-Year Summary	Original Analysis	Revised Analysis
Revenue	\$10,867,187	\$7,335,094
Costs	6,580,158	7,168,979
Surplus/(Deficit)	\$ 4,287,029	\$ 166,115

Cherokee County School Districts:

3-Year Summary	Original Analysis	Revised Analysis
Revenue	\$1,854,358	\$2,206,837
Costs	7,162,190	4,159,026
Surplus/(Deficit)	(\$5,307,832)	(\$1,952,189)

The Appendix presents a more detailed explanation for each of these tables.

***Issue #12: Development Contracts with Local Governments (Submitted by Candace Evert, Meridian Business Advisors; note: the Kansas Lottery also responded to this issue)***

Meridian relied on the contribution to infrastructure costs as indicated on the Proposer’s “templates” as submitted to Kansas Racing and Gaming Commission. Those contributions are presented in the Appendix.

In general, the language in the local government endorsements, predevelopment agreements or contracts with the Kansas Lottery are not specific as to costs. The endorsements, agreements or contracts do not refer to the “template” contributions. Therefore, these are only verbal “promises” by the applicants and without supporting Memoranda of Understanding with the various governmental entities, they should be treated as such. Also, agreements are with one local government, either the city or county. However, in Sumner County, both city and county jurisdictions could well have costs associated with the casino facility. No agreements have been developed for School Districts.

***Issue #13: Property tax timing (addressed by Candace Evart, Meridian Business Advisors)***

One proposer argued that property tax revenue on the casino facilities would not be realized or available for governmental spending until the second or third year of the project. The proposer also noted that work in progress (WIP) on construction projects does not go on the assessed value rolls.

Meridian assumed in the original analysis that the value of the land and one-third of the value of improvements would go on the assessed value roll in year 1 and revenue on that value would be generated in year one. We further assumed that two-thirds of the value of the improvements would go on the roll in year 2, and revenue on the entire value of the project would be generated in year 2.

Meridian re-contacted county officials and revised the property tax revenue calculations to reflect information obtained from them. We continue to place the value on the rolls as before, but property tax on that value is generated in the year following.

WIP is still added as before upon verification of the Appraisers that the percentage of work in progress as of January 1 goes on the rolls.

The effect of these revisions lowers the original property tax revenue estimates as summarized in the Appendix.

***Issue #14: The questions raised regarding Harrah's liquidity and projected cash flow position (submitted by Mills)***

The following discussion addresses the issues raised by Brad Belhouse, Vice President of Corporate Finance for Harrah's Entertainment in his letter of August 4, 2008, which is a written response to the July 24-25 Topeka meetings where I presented my findings. I will respond to the points made in that letter in this response.

At that meeting, I claimed (in Slide 21): "First Quarterly report (3/31/2008) has negative free cash flows for the next 3 years. Is it possible to commit to new projects?" I fully understand that future cash flow projections are not provided by SEC financial statements. Slide 21 was a statement that drew a conclusion from all the prior slides. Prior slides had reviewed future commitments for Harrah Entertainment. I combined the Deutsche Bank report of projected cash flows with the quarterly report of future cash outflows to arrive at my conclusion about negative cash flows.

With respect to Point 1.A, I agree that I pulled the wrong figure from the Deutsche Bank report. The figure did only represent the HOC group and did leave out the CMBS group. I concur that the prior 12 months resulted in EBITDA of \$2.8 billion. My slide dealt not

with past performance but anticipated future EBITDA for the remainder of 2008 as well the next two years.

With respect to Point 1.B, Mr. Belhouse suggests that the future cash commitments are already included in the EBITDA for that year. In many cases, an expense item may be matched with revenues in one year but not paid until the following year or even several years later. Mr. Belhouse has the ability to verify whether an item is accrued or paid. I invite him to do so.

With respect to Point 1.C, Mr. Belhouse points out that they have \$1 billion in cash and have a credit facility of another \$1.8 billion. I am sure that he would agree that using that \$1.8 billion line of credit increases the total debt.

In addition, Mr. Belhouse uses the Last Twelve Month EBITDA of \$2.8 billion for future projections and then uses the average interest expense of \$1.7 billion taken from the HOC figures. CMBS has an additional \$6.5 billion of debt. Using their weighted average interest rate of 7.5% adds another \$500 million in interest. That leaves \$600 million left to cover additional capital expenditures and debt maturities.

My objective in the presentation was to provide a picture of the financial liquidity and financial flexibility to meet future commitments. This discussion focused on two issues. First, is Harrah's Entertainment generating positive cash flows from operations that can be used for capital investments and debt reduction? Harrah's clearly generates lots of cash to meet its operating commitments. Even the last quarter (II-08) when it recorded losses, it still generated positive cash flows.

The second issue is whether Harrah's has the capacity to meet its normal capital maintenance as well as its new committed projects without incurring more debt. Or more importantly, can it make an additional commitment to develop a \$500 million project in Kansas?

To address this, we need to talk Free Cash Flow. That is cash flow from operations less normal maintenance capital expenditures and less other committed new capital projects.

Assuming maintenance expenditure of \$400 million a year and that just the Caesars and Margaritaville projects, which total over \$1.7 billion, will go forward, Harrah's are going to need more debt to fulfill their commitments.

The Deutsche Bank report provided projections for the HOC part of Harrah's and suggested negative free cash flows. Reuters also provided an evaluation of Harrah's which looked at the whole company and reached a similar conclusion.

NEW YORK, June 17 (Reuters) - Harrah's Entertainment Inc's debt may weaken from already distressed levels as heavy capital spending and interest payments absorb cash flows at a time when the casino operator is also facing declining gambling revenues.

The point is that Harrah's do have the borrowing capacity to meet these commitments, but the circumstances might call for future capital constraints.

Mr. Belhouse noted various negative considerations in my Slide 23. These are my responses to his points. With respect to Point 2.A, the negative trend referred to the last four years of data based on the annual reports. I do note that that ratio has improved for the first quarter of 2008. With respect to Point 2.B, according to the first quarter data provided in their financial template, the total capital was stated as \$3.097 billion, not the \$6 billion suggested by Mr. BellHouse. I derived my "six times" figure using the information provided by Harrah's.

I hope that this will clear up some of the discrepancies brought up my Mr. Belhouse.

***Issue # 15: A Note Regarding the Impact of Brand and Branding (Submitted by Probe)***

In our report and presentation regarding ancillary development, we noted that a strong brand, which connects deeply with the target segments for a product, creates additional gravity to draw customers to the property. Probe offers the following data regarding the impact of brand upon a company's ability to earn sustained economic profits.

David Aaker notes in his book Brand Asset Management:

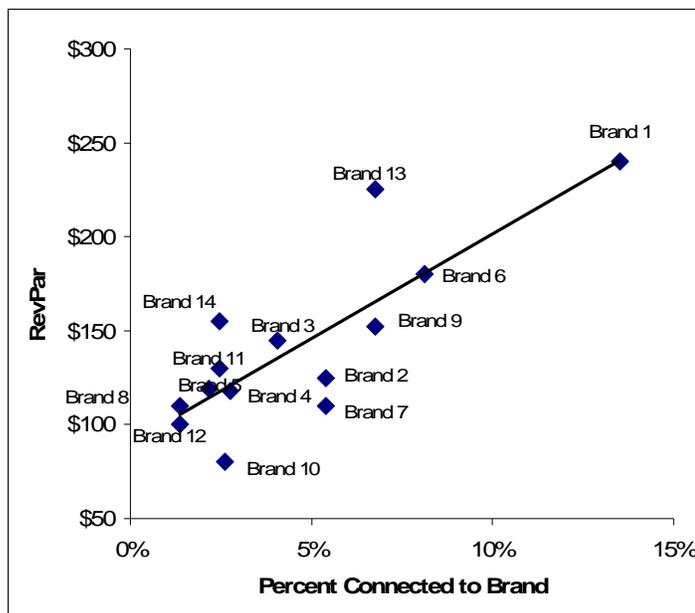
- 72% of consumers would pay a 20% premium for their favorite brand
- 50% of consumers would pay a 25% premium for their favorite brand
- 40% of consumers would pay a 30% premium for their favorite brand
- And for 25% of consumers, price is no object for brand loyalty

In addition, he reports that 70% of consumers want to use a brand to guide purchases and that 50% of purchases are brand driven.

As an example of how brand strength translates to economic advantage in the casino industry, we summarize research Probe partners have conducted regarding the relationship between Consumer Brand Connection and the Revenue per Available Room (RevPar)<sup>2</sup> generated by hotels on the Las Vegas Strip. Figure 1 below shows the linear relationship between the percentage of people who indicate that they are connected most to a specific Las Vegas Strip property, and the RevPar generated by that property. Brands to the right, with a connection to a larger proportion of the population, are able to generate greater revenue per available room.

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<sup>2</sup> RevPar, or Revenue per Available room is a key financial statistic in the hotel industry. It is a standardized measure of the revenue generated by the enterprise which can be used to compare different periods or different properties. It is computed for a specific period by dividing the total room revenue generated by the number of available rooms that period. Total-RevPar would measure all revenue generated by a property (including F&B, Spa, Casino, other amenities, etc) by the number of available rooms.



However, brand strength among the general population is not necessarily a guarantee of greater RevPar in a highly differentiated and competitive market. Some brands are unable to generate the RevPar that would be expected given the percent connected to the brand (Brand 2, Brand 7, Brand 10). In these cases, product factors such as size of the property or the quality of the product limit the ability to capitalize on the brand connection.

Conversely, certain brands (Brand 13, Brand 14) are able to generate greater RevPar than would be expected given the measured consumer connection to these Brands. This is because the brands either have a greater connection with a niche segment (Brand 14) or offer a niche product, such as convention space, which enhances the ability to generate greater RevPar (Brand 13).

The data show that stronger Brands are able to generate greater revenue in the casino industry, especially in a general consumer application. Brand's which can connect to a well defined target segment can also create a sustained advantage for creating economic profits.

## APPENDIX

### **This Appendix Provides Detailed Discussions and Additional Data of Issues Summarized Above**

#### *Issue #1: Does distance matter? (submitted by Eadington and Wells)*

**(Eadington)** Basic economics says when prices are higher, *ceteris paribus*, consumers reduce the number of units consumed. This is the *Law of Demand*.

The following hypothetical example is only for illustration. Consider an individual who lives in Wichita, 10 miles from Mulvane and 24 miles from Wellington. Assume that such an individual would require an additional 25 minutes per trip (coming and going) to visit a casino in Wellington rather than Mulvane, and an additional expenditure (in gasoline and wear-and-tear on his vehicle) of \$14 per trip (at 50 cents per mile). Because all consumers are constrained by time and money budgets, such an individual might choose to visit a Mulvane casino 40 times in a year, but a Wellington casino only 36 times per year; the average length of stay at the Mulvane casino might be 120 minutes, whereas the average length of stay at the Wellington casino might be 110 minutes; and (because of average travel costs) the average gaming spend at a Mulvane casino might be \$75 per visit whereas the average gaming spend at a Wellington casino might be \$72. For this hypothetical individual over the course of a year, he would spend a total of \$3,000 on gaming in Mulvane versus \$2,592 in Wellington; he would have spent \$200 on travel costs (at 50 cents per mile) to travel to Mulvane versus \$432 on travel costs to Wellington; and he would have spent 16.7 hours commuting to Mulvane versus 29.4 hours commuting to the casino at Wellington. If we impute a cost of travel time at, say \$10 (the opportunity cost for commuting time), then the total outlays for our hypothetical consumer is \$4,367 for Mulvane (of which 69% of outlays are spent on gambling) whereas his outlays for the Wellington casino would be \$5,082, of which only 51% would be for gambling. This kind of logic, when extended to the entire target population in the Wichita area, could very well explain the differentials that Wells, Cummings, and Christiansen Capital Advisors all arrived at in their projections.

**(Wells)** Penn National Gaming, Inc. challenged WGR's assumption that a casino located in Mulvane would generate higher gaming revenues than a casino located in Wellington.

The major population center for the south central gaming zone area is located in Sedgwick County (Wichita). Exhibit 1 shows that the Mulvane casino development site is located 17.8 miles south of Wichita (a drive time of approximately 22 minutes). Wellington, on the other hand, is located 33.7 miles south of Wichita (a drive time of approximately 38 minutes).

**Exhibit 1**  
**Sumner County**  
**Distances & Drive Time**

From:	To:	Miles	Minutes	Increased Miles	Native Lights
Wichita	Mulvane	17.8	22		24.4%
Wichita	Wellington	33.7	38	15.9	61.7%
Wichita	First Council	72.4	78	38.7	
Wichita	Native Lights	73	79	39.3	
Mulvane	First Council	54.6	56		
Wellington	First Council	38.7	40		

Two Oklahoma casino are located approximately three and four miles (respectively) south of Arkansas City, KS. The First Council Casino is the closest and is located only 55 miles from Mulvane and 39 miles from the Wellington casino sites.

**Source: WGR & Mappoint; August 2008**

It is a well-established principal of gravity modeling that the greater the distance between a business and a population center, the lower the participation rate and frequency of visits from the subject population center. This is true for the gaming industry, as well as many other types of commercial businesses. Thus, in the case of the gaming industry, greater distances will result in lower gaming revenues.

***Issue #2: Where do all applicants stand with respect to financing and their ability to perform under their contract with the Lottery? (Submitted by Mills)***

No further comments provided.

***Issue #3: Counting Tourists: Unique Guests versus Head Counts of Visitors (submitted by Eadington)***

In another matter that deserves clarification is the statistic noted by Harrah’s with respect to “the percentage of business generated by visitors who live more than 100 miles from the casino.” In the case of Council Bluffs, for example, Harrah’s spokespersons claimed that between 30% and 40% of their visitors came from beyond the 100 mile “threshold”, thus defining them as tourists according to the Kansas standards that have been established. However, the gravity models have made a strong case that a very high proportion (90%+) of head count visits and gaming spend comes from residents who live within 100 miles. The following discussion attempts to reconcile these statements.

Consider the following situation. Local visitors who come to the casino frequent the casino on average 5.0 times per month. Tourist visitors to the casino frequent the casino 1.2 times per month. There are 6,000 unique local visitors over the quarter, and a total of

4,000 unique tourist visitors. Tourists spend \$70 per day per visit, whereas locals spend \$50 per day per visit. As the following table shows, it is possible to have 40% of the unique casino visitors over the entire quarter be tourists, but because of the differences in frequency of visit, locals still generate 90% of gross gaming revenues. Since it was reported to us that Harrah’s measured “unique guests” and then categorized them as “local” or “tourist” based on the 100 mile definition for their residence relative to the casino, it is possible to have 40% of one’s “unique guests” be tourists but still have 90% of gaming revenues and 93% of visits “through the door” generated by locals.

MONTH	UNIQUE LOCAL VISITORS	UNIQUE TOURIST VISITORS	AVERAGE LOCAL VISITS PER MONTH	AVERAGE TOURIST VISITS PER MONTH	Headcount local visits per month	Headcount tourist visits per month	AVERAGE LOCAL SPEND PER VISIT	AVERAGE TOURIST SPEND PER VISIT	TOTAL LOCAL SPEND PER MONTH	TOTAL TOURIST SPEND PER MONTH
JAN	5,000	1,500	5.0	1.2	25,000	1,800	\$50	\$70	\$1,250,000	\$126,000
FEB	5,000	2,000	5.0	1.2	25,000	2,400	\$50	\$70	\$1,250,000	\$168,000
MAR	5,000	1,500	5.0	1.2	25,000	1,800	\$50	\$70	\$1,250,000	\$126,000
<b>QUARTER</b>	<b>6,000</b>	<b>4,000</b>			75,000	6,000				
							<b>TOTAL</b>		<b>\$3,750,000</b>	<b>\$420,000</b>

***Issue #4: Customers at a Distance do not translate into large volumes of business (Submitted by Cummings)***

The major differences between each of the applicants’ projections and those of Cummings and Wells are largely due to much higher volumes of business projected by the applicants at a distance.

Harrah’s, in particular, testified that *no* property of theirs obtained as little as 7% of its “business” from beyond 100 miles, in contrast to a KLGFRB consultant’s projections for that level at its casino in Mulvane.<sup>3</sup> Harrah’s cited examples such as its casinos in North Kansas City (42% from beyond 100 miles), Southern Indiana (40%), Council Bluffs (37%), and Saint Louis (Maryland Heights, 36%).

Our interpretation of these figures is that they represent the proportions of “unique visitors” at each of these facilities. In other words, out of all the people who visited Harrah’s North

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<sup>3</sup> Cummings Associates, *Projections for the Likely Gaming Revenues of Sumner Gaming Joint Venture, L.C. (“Harrah’s Mulvane”)*, July 16, 2008. Exhibit 2 of that report indicates that \$13.23 million out of \$174.17 million in total gaming revenues (in 2007\$) would come from beyond 100 miles, or 7.6%. Exhibit 3 indicates that 152,663 visitors out of a total of 2.3 million would come from beyond 100 miles, or 6.6%. The higher proportion of revenues than of visitors reflects higher spending per visit from more distant customers.

Kansas City, for example (and registered for player tracking – which, however, is mandatory in Missouri),<sup>4</sup> 42% lived more than 100 miles away.

This type of statement, however, does not fully reflect the contributions of these visitors to the total volume of business at each facility. That is because (as we all agree), most people who live at very great distances visit *less frequently* than those who live nearby. And while the longer-distance visitors do spend more on each visit,<sup>5</sup> this does not fully offset their lower rates of visitation, so they spend less on an annual basis than those who live nearby.

These effects are graphed, based on players' club data, for a relatively run-of-the-mill Midwestern casino in Cummings Exhibit 1.<sup>6</sup>

The impacts of these effects on *total* visitation and spending are graphed in Cummings Exhibit 2. As indicated in this exhibit, 32% of Casino Z's (unique) customers live more than 100 miles away, but they contributed only 5% of its *business* (dollar win) in this representative sample year.

Our interpretation is therefore that both perspectives are correct, and there is no great disagreement. Harrah's, with its Total Rewards program, is likely somewhat above average in seeing approximately 40% of its customers at some of its facilities live more than a hundred miles away from that facility, but this state of the world is fully consistent with our projections that such distant customers would contribute less than ten percent to its business at Mulvane. They will simply visit less frequently than folks from Wichita.

***Issue #5: The “stairsteps” in CBRE’s “Bridge” that attempt to link the Cummings/Wells Projections and the Marvel Projections Are Weak (Submitted by Cummings and Wells)***

**NOTE: THE CUMMINGS EXHIBITS ARE TO BE FOUND AT THE VERY END OF THIS REPORT.**

(Cummings) Marvel Gaming presented a powerpoint to the Board on July 24 which contained a “bridge” analysis by CBRE of the differences between the Cummings projections and the Marvel projections for gaming revenues at its facility at Wellington.<sup>7</sup> The elements of this bridge, or steps in the stairs, included:

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<sup>4</sup> It is mandatory in Missouri due to that State's statute regarding loss limits. In other jurisdictions it is not mandatory, and casinos typically see only 40-50% of their revenues come from members of their players clubs. Player's club data are therefore samples (except in Missouri), may be skewed in unknown directions, and should be interpreted with caution.

<sup>5</sup> Distance acts as a filter, deterring more casual fans.

<sup>6</sup> This casino is not small, serves a medium-sized competitive market in the Midwest, and is not a major brand name. I call it “Casino Z” to distinguish it from Casinos X and Y whose data I have previously presented elsewhere (and will do so again later).

<sup>7</sup> *Marvel Gaming Response*, dated July 25, 2008 (presented to the KLGFRBoard on July 24), with additional supporting material delivered July 21 and 30.

a. Less effect of distance upon casino revenues	\$21.4 million
b. Lower “Power Ratings” for Oklahoma casinos	\$9.3 million
c. Wichitans won’t “bypass” Wellington casino	\$9.7 million
d. More revenue from OKC and Tulsa	\$20.0 million
e. Additional contributions from Marvel’s hotel	\$22.1 million
f. Additional contributions from table games	\$7.0 million
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Total difference between the projections	\$89.5 million

I myself would have parsed our differences differently,<sup>8</sup> but I appreciate the effort that CBRE devoted to reverse-engineering my gravity models. CBRE’s analysis did not duplicate my models with great precision, but the six items they identified *do* represent substantial differences between our models. If one believes that the CBRE perspective does indeed reflect the state of the world, then their higher projections for gaming revenues would be appropriate. With limited exceptions, however (regarding points [e] and [f], respectively the hotel and table games, or more accurately, poker), I believe that CBRE’s positions do *not* reflect the real world of “typical,” or even “good” Midwestern casino performance.

My perspective on each of these points is as follows:

**2a. The Effects of distance *are* substantial**

The CBRE folk assert that when the distance doubles, the public’s spending on casino gambling typically declines by 33%. My models, in contrast, assume that it declines by 38.4%.

In terms of “elasticities,” or proportional changes expressed in logarithmic terms, my assumption is that the elasticity of spending with respect to distance is -0.70. CBRE’s assumption is that it is -0.575; in other words, the curve (or slope of the line) is less steeply negative.

In my previous powerpoint presentations to the Board, I included several slides which depicted spending-versus-distance relationships. I will duplicate these here (and add one), and highlight the elasticities with respect to distance that are reflected in the data from each.

Cummings Exhibit 3 depicts visitation to Las Vegas vs. distance. Elasticity = -1.01.<sup>9</sup>

Cummings Exhibit 4 depicts visitation to Mississippi casinos vs. distance. Elasticity = -1.41.<sup>7</sup>

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<sup>8</sup> And did so, in my powerpoint *Gaming Revenue Projections for the South-Central Gaming Zone of Kansas*, presented to the KLGFRBoard on July 24, 2008. I will re-use some of this material below.

<sup>9</sup> These graphs, and figures, admittedly represent the relationships between visitation and distance, not spending and distance. Spending per visit does increase with distance, so the downward slope would indeed be less steep for spending. The visitation curves are so steep, however, that any reasonable rise in spending per visit would still leave a substantial decline in (aggregate) spending versus distance. (Competition from other casinos does remain a factor in the declines with distance in these three graphs.)

Cummings Exhibit 5 depicts visitation to Laughlin, Nevada, vs. distance. Elasticity = -1.91.<sup>7</sup>

Cummings Exhibit 6 depicts slot spending at Casino X vs. distance.<sup>10</sup> Elasticity = -0.90.

Cummings Exhibit 7 depicts slot spending at Casino Y vs. distance, over the region in which competition from other casinos is not a serious factor.<sup>11</sup> Elasticity = -0.89.

Finally, Cummings Exhibit 8 depicts slot spending at Casino Z vs. distance.

Cummings Exhibit 9 focuses on the region in which competition should have the least substantial impacts. Over this regions: Elasticity = -0.90.

Because the gravity models indicate that a small portion of the decline, even at short distances, is due to competition from casinos afar, I have settled upon -0.70 rather than -0.90 as the most reasonable assumption for the decline in spending at casinos due to distance alone. I believe this is generous with respect to distant visitation.

I have seen nothing in this or any other data to suggest that the elasticity of spending due to distance alone, in the absence of any effects from competition, is less steep than my assumption of -0.70.<sup>12</sup>

## **2b. Oklahoma casinos represent significant competition for customers from Oklahoma**

The CBRE folk posit that the five casinos in Kay County, Oklahoma, just south of Arkansas City, and all the other casinos of Oklahoma present minimal competition for

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<sup>10</sup> Casino X is a small Southwestern casino located (with only one close neighbor) at a great distance from any other casino competition. Its graph should therefore represent essentially the decline-with-distance *per se*, with almost no contribution from casino competition.

<sup>11</sup> Casino Y is a medium-sized Midwestern casino located (with only one close neighbor) at a moderate distance from other casinos. The left-hand portion of its graph should therefore largely represent the decline-with-distance effect alone.

<sup>12</sup> Marvel also argues, in its powerpoint dated July 25, that since “Christensen” (but evidently meaning Cummings) uses a steeper curve for “racinos” than for “land-based casinos,” the Marvel Gaming resort should be granted a less-steep curve than “riverboat” facilities. I agree that higher-quality facilities have greater “reach” than casinos of lesser attractiveness, but also believe that this is fully reflected in the operation of my “power ratings” as later on this page. (Importantly, both these power ratings and the overall elasticity with distance that I discuss above are not a priori assumptions; they are both estimates based on analysis of actual performance.) The inference that I use a steeper curve for slots at tracks than for (other) land-based facilities is incorrect, but likely due to a lack of clarity in my previous reports. In footnote 1 of my May 26 report, *Projections for the Market Potential of the Four Gaming Zones of Kansas*, I indicated that “race tracks” suffer declines with distance that are more severe than those for slot gaming. By this I meant “pari-mutuel wagering at race tracks.” The footnote has unfortunately not been updated sufficiently from its ancient origin, circa 1994, a time at which no race track had slot machines, when there would have been no such confusion.

In addition, as should be clear from a review of the power ratings charts in my previous reports, slot machines at race tracks perform essentially identically to those at other casinos. The Horseshoe at Bluffs Run, for example, has a slot power rating of 113, the highest of *any* casino in any large Midwestern market.

a new casino in Kansas. CBRE argues that the “power rating” of the slots at those casinos should generally be 65, versus my original assumption of 90. (After [re]visiting many casinos in Oklahoma subsequent to my draft “Revenue Potential” report, I raised my power rating for Oklahoma slots in general to 100, although it varies from facility to facility within the range of 90 to 105.)

CBRE misunderstands the effects of my “power rating” parameter, perhaps because I have not explained it thoroughly in previous reports. It is not simply “fair share,” meaning that a casino with a power rating of 90 would achieve 90% of the (slot) revenues of one with a power rating of 100. In addition to (i) “fair [market] share,” however, my models also apply this parameter to (ii) absolute levels of spending at each casino and (iii) the rate of decline in market share as distance increases (the “Reilly” gravity effect, so that weaker casinos have less “reach” than stronger ones). In my models, therefore, power rating has roughly three times the impact that a simple “fair share” parameter would have.

As a result, if I reduced my slot model’s power ratings of Oklahoma casinos to 65 as suggested, the model indicates that win per slot per day at its “border” casinos today (both near Wichita and in Northeast Oklahoma) would be \$41-\$43.<sup>13</sup> My observations of these casinos, and the simple fact that so many are in business in these areas, indicate that these casinos are doing far better – hence my power rating of 100 for most of them. With such a rating, my model indicates win per slot per day of about \$85 – which remains less than what I hear tell is their actual performance.

I would emphasize once again that the *physical* attractiveness of a casino is only one element in its power rating, and in my experience, not one of the most critical. There are *many* unprepossessing facilities that achieve high revenues for their locations – but they are almost always rural (easy to get to), easy to park at, and Native American, hence lightly taxed, if at all, and therefore able to invest substantial amounts in their *players* (or employees) rather than their facilities. I will cite once again the Eastern Shawnee Travel Center, Peoria Gaming Center, and Little Turtle facilities in Oklahoma. These are ugly little “gasinos,” right next door in two cases, and just down the road in the third, from much more attractive full-scale casinos, yet these ugly little storefronts are *packed* with customers. I am therefore cautious in discounting the ability of less-attractive casinos to compete with those that have more glitz.

## 2c. “Bypass” effect real – No major dispute about market shares from Wichita

Marvel marvels at the fact that the “Cummings model proposes that Wichita customers will drive by a closer **superior** Sumner County facility to visit a [sic] **inferior** Oklahoma property farther away . . . CBRE disagrees and proposes that Wichita customers will not drive past a superior property to visit a more distant, inferior one.”<sup>5</sup>

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<sup>13</sup> Before the opening of the new Downstream Casino Resort near Galena, Kansas.

I have two issues with these statements. First, the “bypass” effect is real. Customers drive past one casino to get to another all the time. The real fact is that which is the “superior” property is, like beauty, in the eye of the beholder: a customer may prefer one property because he likes the machine at the corner of the second aisle, because of the crispy French fries at the snack bar, because of the \$9 buffet, because of the \$2 steak special, because of a cute blackjack dealer, or because one property gives him 5% cash back on his or her coin-in versus 3% at the other. As I noted above, at least some of the ugly “gasinos” in Oklahoma are *packed* – while space remains open at nearby full-scale casinos that look a lot more attractive.

The gravity model simply quantifies this dimension of human behavior. Experience has shown that just as some customers drive past one shoe store to get to another, past one grocery store to get to another, past one shopping mall to get to another, some gamblers will drive past one casino (or two or three) to get to another. Gravity models have worked well in other markets. I see no reason to believe they will not work here just because one shows that “too much” will go to some casino(s) other than the one that the proponent thinks will be the best.

Second, on another slide within their powerpoint, *Marvel agrees that a substantial amount of business will “leak out” of Wichita to other casinos.* On the slide titled “Wellington and Mulvane Propensity Analysis,” Marvel indicates that they expect their casino to get 95% of the gaming spending generated by the people who live within 25 miles of their facility. This radius extends only to the southern suburbs of Wichita. They then expect to obtain only 80% of the spending by people who live within 25 to 50 miles of their facility, which includes (and is almost entirely comprised of) the bulk of Wichita. So Marvel, too, expects 20% of Wichita’s potential spending on gaming to go somewhere else – to the tune of roughly \$32 million!<sup>14</sup>

As indicated in Cummings Exhibit 10, we really do not differ significantly on the market share that Marvel’s Wellington casino will likely achieve among the residents of Kansas. CBRE’s position that (almost) no one will “bypass” a Wellington casino is at substantial variance with Marvel’s own analysis of the likely sources of its gaming revenues.

## **2d. Exceptional volumes of business from Oklahoma City and Tulsa are not assured**

As the fourth step in their bridge, CBRE adds \$20 million to gross gaming revenues based on the position that “Gravity models cannot accurately forecast spending in a situation where a large city has inferior casinos closer to a far superior property that is more distant.”<sup>5</sup> In their supporting documentation, CBRE develops a calculation of this

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<sup>14</sup> Marvel’s slide shows the 25-50 mile region to have “Revenue Potential in Market” of \$161.4 million, but its projected “Wellington Share of Market” is only \$129.1 million. The difference is \$32.3 million.

number based upon estimates of the contributions of the residents of Houston to the (then-)new casino L’Auberge du Lac at Lake Charles, Louisiana.

I believe I follow the calculations that CBRE performed, but disagree very strongly that there is any parallel between the two situations. ***Houston has no casinos nearby. Oklahoma City and Tulsa do.*** These Oklahoma casinos are moreover not always the (admittedly) fairly ugly properties that litter the state, but are in some cases (the Cherokee Casino at Catoosa [adjacent to Tulsa], the Riverwind Casino at Norman, and the Firelake Grand Casino at Shawnee) fully comparable with casinos far above “Midwest Standard” elsewhere. Their only significant deficit, in my opinion, is their inability to offer “real” table games (and for that, see Point 2.f below). Even if one does not share my belief that physical attractiveness is among the *least* of the elements contributing to the success of competing casinos, that standard alone would not make the Marvel casino a “far superior property” in comparison to these.

I have seen no evidence here, or anywhere else, of this supposed failure of gravity models. I therefore once again see no reason to believe that Oklahomans will patronize a casino in Sumner County in numbers substantially greater than those predicted by those models.

## **2e. A hotel is a positive factor for gaming revenues, but by how much?**

I agree that a hotel adds to the “reach” of a casino, and moreover to its attractiveness even among locals who desire a night out on the town (or in the country, as the case may be) without the need to drive home afterwards.

I am, however, highly skeptical of “supply-based” techniques to develop revenue projections. I am well aware of the industry rule of thumb that “Each hotel room built at a casino generates about \$75,000 in GGR per year,”<sup>5,15</sup> but I have never seen convincing data to that effect. I would observe that among the five examples cited in Marvel’s slide show, only two exceeded that rate. These data were presented:

Isle of Capri, Boonville, MO	\$27,570 / incremental room
Argosy Riverside, Kansas City [sic], MO	\$79,458 / incremental room
Delta Downs, Vinton, LA	\$193,966 / incremental room <sup>16</sup>
Isle of Capri, Bettendorf, IA	\$18,958 / incremental room
Harrah’s, Metropolis, IL	\$55,077 / incremental room

The high variance of this distribution does not convince me that your typical hotel room generates an ***additional*** \$75,000. And if it did, why not add 1,000 hotel rooms? Or 2,000? Obviously, the bucks stop rising somewhere – but where?

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<sup>15</sup> Penn National actually uses the higher figure of \$91,250 per room (exactly \$250/room/day) in its calculations of the “Sumner County – Hotel Impact” in its powerpoint *Sumner County Kansas: Penn Proposal vs. Mulvane Proposal*.

<sup>16</sup> With a year’s gap due to Hurricane Rita. . .

I moreover do not understand how or why the contributions from hotel rooms are incremental to those from a reduced effect of distance (Point 2.a) or exceptional volumes of business from Oklahoma City and Tulsa (Point 2.d). In particular, CBRE proposes that the residents of Oklahoma City and Tulsa – most of whom, with driving times of two hours plus, would presumably like to stay overnight – would add roughly \$20 million to gaming win . . . and then 304 hotel rooms would add \$22 million more. This looks like double-counting to me.

In concluding this point, I concede that my gravity-model projections do not incorporate all the prospective benefits of adding a hotel. They do incorporate *some*, in that the underlying data base and calculations regarding the “Midwest Standard” benchmark include many properties which have hotels. I am highly skeptical, however, of the proposition that “each hotel room generates about \$75k in GGR per year.”

## **2f. High volumes of table business the exception not the rule**

Finally, CBRE adds \$7 million due to the superiority (versus Oklahoma) of the table games at Kansas casinos in general, and at Marvel’s facility in particular.

I appreciate Marvel’s focus this segment of the business, and their expertise at it in the past, as management at Binion’s/Horseshoe casinos. I believe I have captured much if not all of this superiority in my power ratings for table games: 100 for Marvel, 98 for Harrah’s, 95 for Penn Wellington, and only 60 for table games in Oklahoma (rising to 80 with nearby competition).<sup>17</sup>

The power rating I have assumed for Marvel is far above average for a market the size of Wichita. As indicated in Exhibit 4 of my “Methodology” report of July 16, only two of the twenty casinos that are in comparable markets have power ratings of 100 or above. I am thus assuming “top 10%” performance for Marvel.<sup>18</sup>

Based on these assumptions, my models project that Marvel’s Wellington casino would achieve \$18.7 million in table win (in 2007 dollars), versus \$111.5 million from its slots. Table win would therefore amount to 14.4% of total gaming revenues, a relatively high figure for the Midwest. As indicated in Cummings Exhibit 11, Marvel’s Trailhead would rank far above average for this area. I therefore do not understand the propriety of adding another \$7 million to table revenues.

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<sup>17</sup> As described above, these power ratings for Oklahoma table games have multiple impacts in my model, and thus reflect far greater weakness than if they were simply “fair share” parameters. My models suggest that their share of the Sedgwick County market would be about 1%, versus roughly 8% for slots.

<sup>18</sup> And close to that for the other applicants in the South-Central Zone, because only one other casino among the twenty most comparable has a power rating above 90.

On the other hand, as I have stated previously, my projections do not include revenues from the poker room. Marvel projects \$7.1 million in such revenues in its Fiscal Year 3. Since these revenues vary widely across the casinos of the Midwest, I will note only that this is the highest among all the applicants in Kansas.

**(Wells)** CBRE, consultants for Marvel Gaming, prepared the schedule that was included in the Marvel rebuttal to the consultants (refer to Exhibit 1 below). Before discussing the schedule results, it is important to note that the methodologies used by CBRE and Wells Gaming Research (WGR) to project the gaming revenues for Wellington and Mulvane were substantially different. Key differences included:

- CBRE used a straightforward spreadsheet analysis to evaluate the impact of their mileage ranges. In contrast, WGR used already aggregated county level gravity model output that was computed in detail at the census tract level.
- CBRE used fixed assumptions based strictly on mileage distances from either Mulvane or Wellington. They did not take into account the difference in the distance from other casinos. The dynamics of the assumptions change based on the distance that exists between a given population center and its nearest casino, not solely on the distance of the subject population center from either Mulvane or Wellington.

The methodology used by CBRE and Marvel resulted in a difference of only \$8.3 million between the Mulvane and Wellington casino development sites (refer to Exhibit 1). WGR feels that the assumptions used by CBRE were far too aggressive with respect to the gaming participation rate and to the market share. Because these assumptions were fixed, they do not take into account the dynamics of distance and competition. The assumptions for Mulvane should not be the same as those for Wellington.

It is important to note that WGR's methodology did not include strict mileage distance ranges. Rather, WGR used detailed census track level data in the gravity model. The gravity model, in turn, aggregated the results by county. Even though WGR's data was aggregated by county, it was conducted in far greater depth and took into account the dynamics of the competitor impacts. CBRE's analyses did not take the impact of competitor casinos into account or go into the same level of detail as WGR's.

WGR revised CBRE's schedule using aggregated output data from our gravity model for each of the distances from the Wellington and Mulvane sites (refer to Exhibit 2, below).

It is WGR's position that CBRE understated four key project assumptions:

1. Propensity to gamble in close geographic areas
2. Frequency of gaming visits
3. Market share to be achieved by a Mulvane versus a Wellington casino
4. Amount of business that Marvel would get from Oklahoma tourists beyond 100 miles

Because of developing different assumptions for the Wellington and Mulvane sites, the schedule that we believe to be comparable to the one produced by CBRE shows a difference of \$70.1 million in gaming revenues rather than \$8.3 million.

<i>Exhibit 1</i>									
<b>Wellington - CBRE schedule presented in response to consultants by Marvel</b>									
Distance from Casino	Estimated Population Over Age 21	Wellington Share	Propensity	Potential Gamers	Annual Visits	Average Loss Per Trip	Revenue Potential in Market	Wellington Trips	Wellington Share of Market
0 - 10 miles	7,143	100%	45%	3,214	25	\$41.00	\$3,294,709	80,359	\$3,294,709
10 - 25 miles	106,180	95%	40%	42,472	18	\$65.00	\$49,692,240	726,271	\$47,207,628
25 - 50 miles	374,934	80%	35%	131,227	15	\$82.00	\$161,409,087	1,574,723	\$129,127,270
50 - 100 miles	395,323	40%	26%	102,784	12	\$92.00	\$113,473,514	493,363	\$45,389,406
<b>TOTAL RESIDENT GAMERS</b>	<b>883,580</b>	<b>69%</b>		<b>279,697</b>			<b>\$327,869,550</b>	<b>2,874,716</b>	<b>\$225,019,012</b>
Okla Tourists +100 miles	1,297,091	8%	40%	518,836	6	\$90.00	\$280,171,656	249,041	\$22,413,732
All Other Tourists +100 - 200 miles	2,805,999	2%	40%	1,122,400	2	\$100.00	\$224,479,920	44,896	\$4,489,598
Invited Premium Gamblers	1,700	100%	100%	1,700	1.2	\$2,500.00	\$5,100,000	2,040	\$5,100,000
Transient Intercept on I35 & 160	29,000	100%	100%	29,000	1	\$40.00	\$1,160,000	29,000	\$1,160,000
<b>TOTAL TOURIST GAMERS</b>	<b>4,133,790</b>			<b>1,671,936</b>			<b>\$510,911,576</b>	<b>324,977</b>	<b>\$33,163,331</b>
<b>TOTAL POTENTIAL GGR</b>		<b>31%</b>		<b>1,951,633</b>			<b>\$838,781,126</b>	<b>3,199,693</b>	<b>\$258,182,343</b>
<b>Mulvane - CBRE schedule presented in response to consultants by Marvel</b>									
Distance from Casino	Estimated Population Over Age 21	Mulvane Share	Propensity	Potential Gamers	Annual Visits	Average Loss Per Trip	Revenue Potential in Market	Mulvane Trips	Mulvane Share of Market
0 - 10 miles	64,490	100%	45%	29,021	25	\$41.00	\$29,746,013	725,513	\$29,746,013
10 - 25 miles	300,622	95%	40%	120,249	18	\$65.00	\$140,691,096	2,056,254	\$133,656,541
25 - 50 miles	93,250	80%	35%	32,638	15	\$82.00	\$40,144,125	391,650	\$32,115,300
50 - 100 miles	413,419	35%	26%	107,489	11	\$92.00	\$108,778,807	413,832	\$38,072,583
<b>TOTAL RESIDENT GAMERS</b>	<b>871,781</b>	<b>73%</b>		<b>289,396</b>			<b>\$319,360,041</b>	<b>3,587,249</b>	<b>\$233,590,436</b>
Okla Tourists +100 miles	1,297,091	8%	40%	518,836	6	\$90.00	\$280,171,656	249,041	\$22,413,732
All Other Tourists +100 - 200 miles	2,633,898	2%	40%	1,053,559	2	\$100.00	\$210,711,840	42,142	\$4,214,237
Invited Premium Gamblers	1,700	100%	100%	1,700	1.2	\$2,500.00	\$5,100,000	2,040	\$5,100,000
Transient Intercept on I35 & 160	29,000	100%	100%	29,000	1	\$40.00	\$1,160,000	29,000	\$1,160,000
<b>TOTAL TOURIST GAMERS</b>	<b>3,961,689</b>	<b>7%</b>		<b>1,603,096</b>			<b>\$497,143,496</b>	<b>322,224</b>	<b>\$32,887,969</b>
<b>TOTAL POTENTIAL GGR</b>		<b>33%</b>		<b>1,892,491</b>			<b>\$816,503,537</b>	<b>3,909,473</b>	<b>\$266,478,406</b>
<b>Advantage Mulvane</b>							<b>-\$22,277,589</b>	<b>709,780</b>	<b>\$8,296,063</b>

Source: CBRE schedule presented by Marvel in response to consultants before KS LGFRB, July 25, 2008

<b>Exhibit 2</b>									
<b>Wellington - CBRE schedule revised by WGR with more realistic assumptions</b>									
Distance from Casino	Estimated Population Over Age 21	Wellington Share	Propensity	Potential Gamers	Annual Visits	Average Loss Per Trip w/ Inflation	Revenue Potential in Market	Wellington Trips	Wellington Share of Market
Counties w/in 10 miles	16,964	86%	36%	6,107	24	\$64.03	\$9,385,104	126,049	\$8,071,189
Counties w/in 10 - 25 miles	424,037	49%	32%	135,692	21	\$73.97	\$210,773,934	1,396,269	\$103,279,228
Counties w/in 25 - 50 miles	164,359	16%	29%	47,664	19	\$80.59	\$72,985,573	144,899	\$11,677,692
Counties w/in 50 - 100 miles	979,397	3%	33%	323,201	21	\$72.86	\$494,544,086	203,617	\$14,836,323
<b>TOTAL RESIDENT GAMERS</b>	<b>1,584,757</b>	<b>18%</b>		<b>512,664</b>			<b>\$787,688,697</b>	<b>1,870,834</b>	<b>\$137,864,431</b>
Okla Tourists +125 miles	595,914	2%	33%	196,652	6	\$90.00	\$106,191,875	23,598	\$2,123,837
All Other Tourists +100 - 200 miles	2,805,999	2%	33%	925,980	2	\$100.00	\$185,195,934	37,039	\$3,703,919
Invited Premium Gamblers	1,700	100%	100%	1,700	1.2	\$2,500.00	\$5,100,000	2,040	\$5,100,000
Transient Intercept on I35 & 160	29,000	100%	100%	29,000	1	\$40.00	\$1,160,000	29,000	\$1,160,000
<b>TOTAL TOURIST GAMERS</b>	<b>3,432,613</b>			<b>1,153,331</b>			<b>\$297,647,809</b>	<b>91,677</b>	<b>\$12,087,756</b>
<b>TOTAL POTENTIAL GGR</b>		<b>14%</b>		<b>1,665,995</b>			<b>\$1,085,336,506</b>	<b>1,962,511</b>	<b>\$149,952,187</b>
<b>Mulvane - CBRE schedule revised by WGR with more realistic assumptions</b>									
Distance from Casino	Estimated Population Over Age 21	Mulvane Share	Propensity	Potential Gamers	Annual Visits	Average Loss Per Trip w/ Inflation	Revenue Potential in Market	Mulvane Trips	Mulvane Share of Market
Counties w/in 10 miles	346,927	82%	35%	121,424	23	\$67.34	\$188,075,788	2,290,065	\$154,222,146
Counties w/in 10 - 25 miles	76,186	47%	33%	25,141	22	\$71.76	\$39,691,199	259,962	\$18,654,864
Counties w/in 25 - 50 miles	186,173	23%	30%	55,852	20	\$78.38	\$87,557,907	256,919	\$20,138,319
Counties w/in 50 - 100 miles	975,471	3%	33%	321,905	22	\$71.76	\$508,198,540	212,458	\$15,245,956
<b>TOTAL RESIDENT GAMERS</b>	<b>1,584,757</b>	<b>25%</b>		<b>524,323</b>			<b>\$823,523,434</b>	<b>3,019,403</b>	<b>\$208,261,284</b>
Okla Tourists +125 miles	584,115	2%	33%	192,758	6	\$90.00	\$104,089,293	23,131	\$2,081,786
All Other Tourists +100 - 200 miles	2,633,898	2%	33%	869,186	2	\$100.00	\$173,837,268	34,767	\$3,476,745
Invited Premium Gamblers	1,700	100%	100%	1,700	1.2	\$2,500.00	\$5,100,000	2,040	\$5,100,000
Transient Intercept on I35 & 160	29,000	100%	100%	29,000	1	\$40.00	\$1,160,000	29,000	\$1,160,000
<b>TOTAL TOURIST GAMERS</b>	<b>3,248,713</b>	<b>4%</b>		<b>1,092,644</b>			<b>\$284,186,561</b>	<b>88,938</b>	<b>\$11,818,531</b>
<b>TOTAL POTENTIAL GGR</b>		<b>20%</b>		<b>1,616,967</b>			<b>\$1,107,709,995</b>	<b>3,108,342</b>	<b>\$220,079,816</b>
<b>Advantage Mulvane</b>							<b>\$22,373,489</b>	<b>1,145,830</b>	<b>\$70,127,628</b>

Source: CBRE - Marvel Sumner County schedule revised by Wells Gaming Research

**Issue #6 (addressed by Eadington): Penn National entered into evidence a report that Eadington had submitted to a New York Court in a 2006 case regarding a possible tribal casino to be built near Southampton, Long Island, in New York, 90 miles from the center of New York City. They claimed that this demonstrated Eadington did not believe “distance matters” in cases of monopoly casinos.**

Penn National entered into evidence a report that Eadington submitted to a New York Court in a 2006 case: Shinnecock Tribe v. State of New York, regarding a possible tribal casino to be built near Southampton on Long Island, in New York, 90 miles from the center of New York City. The main issue was the size that such a casino would be (as measured in Gross Gaming Revenues), and whether the tribe would be inclined to build a relatively small versus a large casino. Eadington was asked to rebut a report submitted by the Innovation Group that essentially argued that a relatively small casino would

result, whereas Eadington was arguing the casino could be quite large, in the magnitude of Foxwood's or Mohegan Sun, in Connecticut.

As part of the study, Eadington utilized a report that had been submitted by the Shinnecock Tribe for their site, but it had apparently been plagiarized from an earlier Innovation Group study undertaken for another tribe in Mastic, New York, 25 miles closer to New York City than the Southampton site. In addressing the question of whether that study had any relevance for the Southampton site, Eadington noted it would, primarily because of the absence of significant casino competition in the region, and the substantial population of New York City's metropolitan area.

The Shinnecock declaration is not directly applicable to Sumner County and the differences in distance between Mulvane and Wellington. As opposed to Wellington versus Mulvane, the casino in question in New York was approximately 90 miles from the center of New York City and its metro population of about 10 million. (Long Island has a population of about 2 million, with greatest density concentrated in and near New York City.) The quote attributed to me refers to another proposed casino 25 miles closer to New York City.

For the Sumner County case, Eadington stands by his original statement. The proposed New York casinos in question were largely supply constrained (i.e. as monopoly casinos within 100 miles of 10 million population, they would generate revenue performance largely based on the size of the casino, its amenities, and the ability of public sector infrastructure to get customers to the casinos.) There would be very limited supply of casino facilities (especially table games and slot machines) compared to the "local" population (within 100 miles.) Such a casino would experience capacity utilization of 100% fairly frequently, not unlike the Foxwood's and Mohegan Sun casinos, or the Pechanga Casino in Temecula, California. Thus, for casinos of similar size and attributes, the determining factors on revenues would be less "distance related" and more supply/demand determined than would be the case if there were abundant casino facilities for the "local" population.

For Mulvane versus Wellington, however, there is not an issue of supply constraint (certainly not in the same sense as the proposed Long Island casinos.) Wichita has a population of about 500,000, and all of the proposed Sumner County casinos would be built to a size that will accommodate the anticipated demand. Eadington made a statement in Topeka on July 25 that distance matters as it relates to the differential visitation and spending if customers must drive 14 miles more (10 to 15 minutes more) to go to one rather than the other. With a largely locals' market where individual consumers must decide how often to visit, how long to spend at the facility once they arrive, and how much it costs them (in time and money costs) to visit each time, Eadington indicated such incremental distance changes are going to have *some* impact. How much impact is something that Eadington would defer to the other State consultants who were charged with estimating revenue potential for the various casinos. Eadington did not conduct a specific revenue generating estimate for this particular case, but studies by Richard Wells and Will Cummings, along with the Christiansen Capital Associates reports, all came to

similar conclusions on the differential effects of the additional distance in comparing Mulvane and Wellington casinos.

***Issue #7: The travel time from Wichita to Harrah’s Mulvane is not as long as Penn contends (Submitted by Cummings and Wells)***

**(Cummings)** In addition to disputing the strength of the “distance” effect discussed above, Penn National argues that its facility at Wellington (Exit 19) is not all that much further in terms of travel time from Wichita than the proposed Harrah’s facility at Mulvane (Exit 33). They estimate that the difference amounts to only 7.95 minutes:<sup>19</sup>

**Exit 33 Harrah’s Mulvane Casino:**

	Distance (Feet)	MPH	Feet per Second	Travel Time (Seconds)
[Exit 33] to Toll Plaza	3,860	30	44.01	88
to Hwy K-53	560	15	22.01	25
Signal				90
to Intersection	3,500	50	73.35	48
Signal				90
to Parking	1,650	20	29.34	90 <sup>20</sup>
				-----
				431 seconds
				<b>7.18 minutes</b>

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<sup>19</sup> Calculations, and presentation thereof, taken from the Penn National powerpoint, *Penn Proposal vs. Mulvane Proposal*, presented to the KLGFR Board on July 25, 2008. Calculations attributed to David Lotz, P.E.

<sup>20</sup> Both these calculations are in error. I assume that there are one or more typos in the powerpoint, and that the “to Parking” phase of the trip to each casino is indeed intended to be 90 seconds.

**Exit 19 Hollywood Wellington Casino:**

	Distance (Feet)	MPH	Feet per Second	Travel Time (Seconds)
[Exit 33 to] Exit 19	73,640	65	95.36	772
... to Toll Plaza	2,000	30	44.01	45
... to Parking	1,200	20	29.34	90 <sup>13</sup>
				-----
				908 seconds
				<b>15.13 minutes</b>
				<b>7.95 Minutes</b>

**Differential**

Note, however, that this differential includes *two* 90-second stops due to traffic signals on the way to Harrah’s. I believe these delays to be exaggerated.

Consider a typical 90-second cycle at a traffic light:

Green:	40 seconds	(44% of the cycle)
Yellow:	5 seconds	( 6% of the cycle)
Red:	45 seconds	(50% of the cycle) <sup>21</sup>

Forty-four percent of the time, one will cruise through without *any* delay. Even if one has to stop, however, he (or she) will not always have to stop for the full 50 seconds of yellow + red. One is just as likely to hit the very end of that phase of the cycle as he (or she) is to hit the very beginning; thus, *if* one is stopped, the average delay will only be on the order of 25 seconds. The *overall* average (or *expected value* of) delay can therefore be calculated as:

$$56\% \text{ (probability of red or yellow) } \times 25 \text{ seconds (average if stopped) } = 14 \text{ seconds}$$

This is much less than the 90 seconds assumed by Penn National.<sup>22</sup> The two lights combined should therefore average 28 seconds delay rather than 180 seconds, a difference of 152 seconds or 2.53 minutes. The difference in travel time between the two sites would then be 7.95’ + 2.53’ = 10.48 minutes.

This is almost precisely the difference in travel times used in the Cummings models. Based upon travel times reported by mapquest.com, I have estimated travel times from almost all zip codes in the area to the Penn site at Wellington (assuming, as they do, a dedicated exit ramp) to be 10.5 minutes greater than to the Harrah’s site at Mulvane. Examples include:<sup>23</sup>

<sup>21</sup> Original calculations by Dr. William R. Eadington. Cummings added the yellow light.

<sup>22</sup> I should perhaps observe here that traffic engineers say that proper signalization *speeds up* traffic rather than slows it down. The average delay with a four-way stop sign, for example, would likely be much greater than the 14 seconds calculated here for a stoplight.

<sup>23</sup> The data from mapquest.com included passage through the toll booth at each site. Cummings then added 90 seconds at Harrah’s Mulvane to negotiate streets and entrance, 60 seconds at Penn Wellington.

From zip code:	67202 (Downtown Wichita)	67219 (North side of Wichita)
To Harrah's (Mulvane)	21.5"	27.5"
To Penn (Wellington)	32.0"	38.0"

I believe these calculations are generous to Penn. On the return trip from their casino at Wellington, one would not benefit from their dedicated exit ramp. One would moreover have a *left* turn to get onto the Turnpike at Wellington, while the customers from Harrah's would have two *right* turns getting back to the Turnpike from their site at Mulvane, and should therefore experience even less delay at each of the two lights assumed there. Finally, it may be that casino traffic would dominate other traffic on Kansas 53. If so, the signals should cycle in favor of Harrah's, perhaps 60 seconds on and 30 seconds red (rather than 45-45), reducing the average delay at each light (going *to* the casino) to 11.2 seconds.

In order to illustrate the difference that these assumptions make, I have re-run my models, assuming the full 90 seconds delay at each light on the way to Harrah's Mulvane casino. This would add 2.53 minutes to the travel time for almost all customers. Only those coming from the west on Kansas 53, or from the north via Broadway rather than the Turnpike would not be affected. I have assumed that these would be negligible. The resulting projections are:

	2 x 14-second delays <sup>24</sup>	2 x 90-second delays
<b>In 2007 dollars:</b>		
Harrah's slots:	\$151.3 million	\$135.6 million
Harrah's tables:	\$22.8 million	\$20.4 million
	-----	-----
Harrah's total:	\$174.2 million	\$156.0 million
<b>In 2013 dollars:<sup>25</sup></b>		
Harrah's slots:	\$175.5 million	\$157.3 million
Harrah's tables:	\$26.5 million	\$23.7 million
	-----	-----
Harrah's total:	\$202.0 million	\$181.0 million

The difference amounts to roughly 10%: \$18 million in 2007 dollars, or \$21 million in 2013. Each minute of delay (or travel time) therefore represents roughly \$7.2 million in 2007-dollar gaming win at this location, or \$8.3 million in terms of 2013 dollars.

<sup>24</sup> As originally projected in *Projections for the Likely Gaming Revenues of Sumner Gaming Joint Venture, L.C.* ("Harrah's Mulvane"), July 16, 2008.

<sup>25</sup> Assuming escalation at 2.5% per year between 2007 and 2013.

Even with this additional 2.53 minute delay, however, my forecast for the Mulvane facility remains 20% to 26% above my projections for the Marvel and Penn National facilities at Wellington, respectively.

**(Wells)** Penn also questioned WGR’s calculations that were based on the distance (miles) between the development sites. It was Penn’s position that the calculations would be more applicable if based upon drive time.

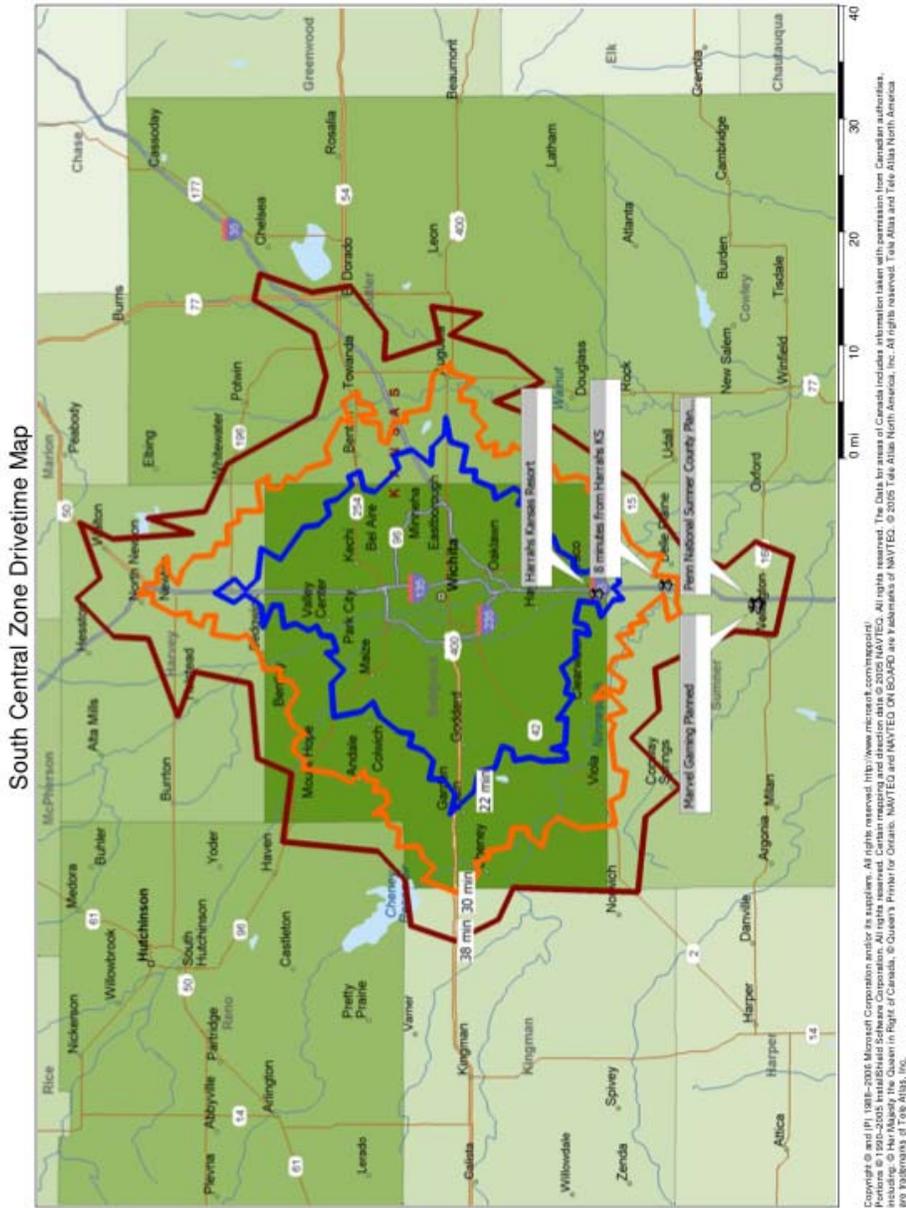
Penn believes that due to a high speed limit on the I-35 toll road and good micro access, the travel time from Wellington to Mulvane would take approximately eight minutes rather than the 16 minutes originally estimated by WGR. The availability of rapid travel on I-35 was the primary reason that WGR adjusted the drive times for all three applicants when responding to Penn’s question.

WGR adjusted the south central casino sites by placing each eight minutes closer to Wichita, and recalculating the gaming revenues accordingly. The results are summarized in Exhibit 2. Refer to the south central drive time map (Exhibit 3) on page 3 to pinpoint the original sites and the eight-minute adjusted sites for Marvel and Penn.

<i>Exhibit 2</i>			
<b>Adjusted Drive Time (from 16 Minutes to 8 Minutes)</b>			
<b>Scenario 3 Mid Case w/ Inflation</b>			
Casino	2010	2011	2012
<b>Marvel Gaming</b>			
Original Site (16 mins from Harrah's KS)	\$131,775,139	\$134,991,402	\$138,363,216
Alternate Site (8 mins from Harrah's KS)	\$164,423,170	\$168,500,942	\$172,778,208
<i>Difference</i>	<i>\$32,648,031</i>	<i>\$33,509,540</i>	<i>\$34,414,992</i>
<b>Penn National Sumner County Planned</b>			
Original Site (16 mins from Harrah's KS)	\$119,688,227	\$122,612,240	\$125,679,360
Alternate Site (8 mins from Harrah's KS)	\$152,586,654	\$156,379,296	\$160,354,896
<i>Difference</i>	<i>\$32,898,427</i>	<i>\$33,767,056</i>	<i>\$34,675,536</i>
<b>Harrah's Kansas Resort</b>			
Original Site (22 mins from Wichita)	\$193,997,484	\$198,835,894	\$203,911,008
Alternate Site (14 mins from Wichita)	\$214,239,242	\$219,609,212	\$225,240,288
<i>Difference</i>	<i>\$20,241,758</i>	<i>\$20,773,318</i>	<i>\$21,329,280</i>
<b>Harrah's versus Marvel &amp; Penn National</b>			
Marvel Disadvantage (Original Site)	(\$62,222,345)	(\$63,844,492)	(\$65,547,792)
Marvel Disadvantage (Alternate Site)	(\$49,816,072)	(\$51,108,270)	(\$52,462,080)
Penn National Disadvantage (Original Site)	(\$74,309,257)	(\$76,223,654)	(\$78,231,648)
Penn National Disadvantage ((Alternate Site)	(\$61,652,588)	(\$63,229,916)	(\$64,885,392)

WGR did the above calculation in the event that Penn’s contention were correct. However, if it were correct, it would apply to all three casino development sites. WGR, however, remains skeptical about Penn’s contention that drive time substitutes directly

for distance. Exhibit 2 shows that even though WGR did decrease the drive times by eight minutes for all three applicants, there are still significant relative differences between the three projects. For example, the gaming revenue difference between Harrah's and Marvel is approximately \$52 million, while the difference between Harrah's and Penn is \$65 million.



On an individual casino basis, the results of decreasing the drive times by eight minutes shows that Marvel's gaming revenue increases by approximately \$34 million, Penn National's by \$35 million, and Harrah's by \$21 million.

***Issue #8: Penn’s projection of incremental revenue from its “Southern Strategy” is not realistic (Submitted by Cummings)***

Penn National projects incremental revenue of \$16.5 million from a “Southern Strategy” of cross-promoting the casinos it has proposed in both Cherokee and Sumner Counties. This is based upon 2.0 incremental person-trips from 54.5% of 196,700 (adult) people who live within 100 and 150 miles of **both** casinos, with spending per trip of \$76.95.<sup>26</sup>

The 54% participation rate and 2.0 incremental trips per person strike me as highly aggressive. I do not base my models upon such factors, but for comparison, in my base cases for each of the casinos (which assume that the other is operating), the “overlap” areas are projected to generate a total of roughly \$0.7 million for Penn’s Wellington casino, in 2007 dollars, and \$0.5 million for Penn’s Cherokee County casino – a total of just \$1.2 million. Even when escalated to 2013 dollars, this total would amount to just \$1.4 million.

It seems highly aggressive to me to expect more than a tenfold increase in business from these areas due to cross-promotion or any other factor. Even the Morowitz models show, with a generous interpretation (by me) of the “overlap” area,<sup>27</sup> and somewhat greater “reach” of casinos with distance in general (according to Morowitz), only \$3.2 million in gaming win for both casinos operated separately in 2013 – \$1,615,321 for Penn Cherokee, and \$1,549,581 for Penn Sumner

The increment of \$16.5 million would therefore represent an increase of roughly fivefold from the Morowitz projections for the volumes of business that would otherwise be going to the two casinos when operated without any cross-promotion.

What Penn appears to have overlooked in its calculations is the relatively modest market shares that its casinos would be obtaining from these relatively distant areas. The residents of Washington County, Oklahoma, for example, may indeed be “participating” in casino gaming at a rate of 54%, but they are likely to allocate very little of that to either Cherokee or Sumner County, Kansas, casinos. Morowitz estimates 0.6% market share for the Wellington casino from this county, and 0.9% to Cherokee in 2013. My estimates are actually *more* generous, at 1.3% and 1.8%, respectively. It should be clear, however, that

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<sup>26</sup> Penn National powerpoint presentation to the KLGFRBoard July 25, 2008, with supporting material delivered with overall “rebuttal” letter dated July 31. The areas of overlap do not appear to include those which are closest to each of the casinos, but rather just those that are (a) within 100 miles of each casino or (b) within 150 miles (but not within 100 miles) of each casino. Since the two casinos are roughly 150 miles apart as the crow flies (177 miles driving), this appears to be the most reasonable interpretation. It is also clear from the supporting documentation that this is the area for which the population of 196,700 was estimated.

<sup>27</sup> Cummings calculations from data presented in Morowitz Gaming Advisors, LLC, *Penn National Gaming: Executive Summary of Revenue and Economic Impact Projections of a Cherokee Casino*, June 25, 2008, and *Penn National Gaming: Executive Summary of Revenue and Economic Impact Projections of a Sumner Casino*, June 23, 2008, in the tables regarding “Residential Drive-In Market” and “Tourist and Total Drive-In Market” from each report, columns for 2013. I have summed all the contributions projected by Morowitz from every county that is involved in the overlap even if only a portion of the county lies within the overlap area.

with either miniscule market share, the average gaming adult would be making only a fraction of a visit each year to either Penn Wellington or Cherokee. Adding two visits per year would therefore represent a very large increase from their original very low rates of visitation.

The following are highlights of our report and testimony for consideration by the Board in its deliberations for Sumner and Cherokee Counties.

***Issue #9: The importance of construction impacts and impacts on public infrastructure (Submitted by Houston and Cunningham)***

No additional discussion.

***Issue #10: The importance of Net Economic Impacts (Submitted by Houston and Cunningham)***

As was noted at the Topeka hearings, Civic Economics relied on the gravity models of Cummings and Wells in quantifying the two components of Net Economic Impacts: import substitution and exports. Cummings’ analysis provided us with sufficient detail to place values on both components, and we provided those in our report.

In addition, it should be noted that their models were in substantial agreement with regard to three of the four proposed casinos. Only with regard to the Harrah’s Mulvane proposal were their outcomes noticeably divergent, with Wells forecasting particularly high “Net or New Revenue” and Cummings particularly low.

The chart below is unchanged from our original report:

<b>EXPORT AND IMPORT SUBSTITUTION IN KANSAS CASINOS, 2011</b>			
<b>SOUTH CENTRAL ZONE</b>			
	<b>Marvel Gaming</b>	<b>Penn Sumner</b>	<b>Sumner Resorts/Harrah's</b>
<b>Wells</b>			
Estimated Gaming Revenue	\$ 134,991,402	\$ 122,612,240	\$ 198,835,894
Estimated Gaming Export	<i>Wells methodology did not allow a breakdown of these values</i>		
Estimated Gaming Import Substitution	<i>Wells methodology did not allow a breakdown of these values</i>		
Net or New Revenue	\$ 75,199,538	\$ 64,439,443	\$ 109,229,495
<b>Cummings</b>			
Estimated Gaming Revenue	\$ 130,200,000	\$ 123,500,000	\$ 174,200,000
Estimated Gaming Export	\$ 14,900,000	\$ 12,400,000	\$ 8,200,000
Estimated Gaming Import Substitution	\$ 47,600,000	\$ 42,800,000	\$ 50,700,000
Net or New Revenue	\$ 62,500,000	\$ 55,200,000	\$ 58,900,000
<b>Average Net Revenue</b>	<b>\$ 68,849,769</b>	<b>\$ 59,819,722</b>	<b>\$ 84,064,748</b>
<b>Net as a % of Gaming Revenue</b>	<b>51.0%</b>	<b>48.8%</b>	<b>42.3%</b>

SOURCE: Wells, Cummings, Civic Economics

We have been told by our fellow consultants, and by the Wichita newspaper, that there remains some confusion about the implications of “net impacts” as used in our report. First, we would emphasize that no credible economic impact analysis would be built from the total revenue associated with a project when much of that activity would have occurred within the study area without the new project.

The same is true of a massive new business activity such as casino gaming. While any new casino in Kansas will substantially increase total gaming activity in Kansas, the key is to identify the extent to which that activity is new to the region rather than simply diverted from existing local businesses.

Further, we feel our emphasis on this issue is consistent with the legislative mandate to increase tourism and provide for the greater good in Kansas. Other than the direct fiscal impact to the state government, total gaming revenue is simply not the appropriate benchmark for comparison among the applicants.

In order to explore the two components of net impacts (Export Revenues and Import Substitution Revenues), we reviewed the Cummings analysis because it provided the necessary data to isolate these factors, whereas this was not possible from the Wells analysis.

**Export Revenues** are those revenues that are drawn from out-of-state visitors who would not otherwise gamble in Kansas. The Cummings report forecasts **Export Revenues** of \$8.2 million at Harrah’s, \$12.4 million at Penn, and \$14.9 million at Marvel. In our understanding of the model, this reflects two factors: (1) the relative proximity of the three to the Oklahoma market and (2) the relative attractiveness of the three as determined by the number of gaming positions, access, and intangibles.

While these numbers represent relatively little of the total gaming revenues at any of the three facilities, it is worth noting that the Wellington locations would be expected to draw several million dollars more from out of state, which is one of the clearly stated intentions of the KELA. In this case, Marvel provides 30% more in Export Revenues than does Harrah’s.

**Import Substitution Revenues** were well described by Professor Eadington as “shadow tourists.” It represents spending by Kansans that would otherwise occur out-of-state without the ability to gamble locally.

The Cummings report forecasts **Import Substitution Revenues** of \$42.8 million at Penn, \$47.6 million at Marvel, and \$50.7 million at Harrah’s. Again, our understanding is that these numbers reflect the same factors described above.

This time, though, the difference among the three is quite small, with Harrah’s drawing only 6.5% more Import Substitution Revenue than Marvel. These numbers suggest that any of the three proposals will do well in drawing gaming spending from Wichita area residents that would have otherwise been spent in casinos out of state. This makes sense

intuitively, as gamblers willing to travel beyond Kansas would find the 14 mile distance between Exits 19 and 33 to present little deterrent compared with the drive to Oklahoma or Kansas City.

If our analysis had been based solely on the Cummings model, then, all three applicants would have presented very comparable economic impact values, with Marvel holding an advantage of 5.3% over Harrah’s and 13.2% over Penn in total economic impact. We would emphasize again, though, that the Wells model produced a substantial advantage for Harrah’s, which we do not analyze here simply because we cannot isolate the components of that advantage.

With respect to new gaming spending, both the Wells and Cummings analyses point to another significant factor in weighing the relative benefits of the three proposals. The distance between Exits 33 and 19 clearly acts as something of a deterrent to the casual Wichita area gambler, an effect both analysts call “friction.” This friction between the population center and the casino reduces the amount of area spending that used to go to other discretionary activities but that will instead go to gaming.

Averaged, the models show all three proposed Sumner casinos will draw significant new gaming spending from Wichita area residents as shown in the table below.

<b>NEW GAMING SPENDING BY KANSANS</b>			
<b>SOUTH CENTRAL REGION (2007 Dollars)</b>			
	Marvel Gaming	\$	63,745,932
	Penn Sumner	\$	63,236,399
	Sumner Resorts/Harrah's	\$	102,453,200

*Source: Wells, Cummings, Civic Economics*

We recognize that this table has created some degree of confusion, with one reporter describing it as a substantial advantage for an Exit 33 casino. However, we would emphasize again that these numbers are, at best, neutral for the regional economy and represent a substantial diversion of spending from existing businesses in the region.

Of course, we recognize that the Board is explicitly charged with considering gaming revenue in its deliberations, as there are few consumer activities subject to an effective tax rate of 22% to the State. However, it should also be noted that shifting spending from traditional activities like dining, bowling, or movie going may in fact result in reduced revenue to local taxing jurisdictions if effective sales, lodging, and amusement taxes in any of those jurisdictions.

**Cherokee County**

Because the Board is presented with only one proposed casino in **Cherokee County**, our analysis of economic impacts is clearly of less importance than in Sumner. In addition, it may be argued that the development of the \$300 Million Downstream facility will

provide Cherokee County residents and businesses with substantially all the economic impacts a casino on an adjacent tract might. Downstream will draw its workforce and source services and materials within the same market area, though one might assume the Quapaw tribe will prefer to retain tribal members and Oklahoma firms where possible.

The addition of a second casino off Missouri Exit 1 would, of course, provide the incremental increase in economic impacts shown in our earlier report. Moreover, because Downstream sits outside the county and state, Kansas jurisdictions will receive no direct fiscal benefits from it despite the likelihood that they will incur costs in supporting new residents and business drawn to the area.

***Issue 11: Fiscal Impact on K-12 Schools (addressed by Candace Evert, Meridian Business Advisors)***

Meridian has not changed its methodology to estimate new students. The methodology is:

Proposer's estimate of number of operating employees  
less  
Number of employees commuting from out of County per US Census  
equals  
Number of new employees.

Number of new employees equals number of new households.  
Number of new households equals number of new students  
(1 student/household per Kansas Department of Education and local school district superintendents)

Meridian has added another step to its methodology to account for existing capacity to accommodate the new students. We re-contacted School District representatives, and where there is available capacity, we have decreased the capital construction requirements from our original analysis based on that capacity in elementary, middle and high schools.

Meridian added another source of revenue to its estimates. State of Kansas school districts are funded through both State and local sources. MBA added an estimate for State aid, which was not included in the previous analysis.

Per the School District Finance and Quality Performance Act and Bond and Interest State Aid Program, the analysis estimates the total State Financial Aid amount to be funded for each new student added to the school district by the development. The Local Effort portion of this amount is estimated to be made up primarily of the property tax revenue generated by the school district's levy. Other Local Effort items, such as special education services state aid, ending balances, mineral production tax receipts and bonds in lieu of tax payments are not included as they are difficult to estimate, may not be impacted by the casino, and make up a small percentage of the total Local Effort amount.

The State’s portion of school revenue is estimated by subtracting revenues generated through the Local Effort from the total contribution required by the Aid Program. When the Local Effort revenue exceeded total contribution amounts, only the Local Effort amount was used.

The result of this change was to increase total revenues estimated to be generated for each school district as a result of the development.

For the Cherokee County School Districts, Meridian talked with each of the three Cherokee County School District superintendents to obtain their estimates on how the estimated number of new students generated by the casino facility would be allocated among the three districts. Their opinion (averaged) was: 23% to Riverton, 38% to Galena, and 39% to Baxter Springs. We then asked them for the available capacity in their schools: 80 seats at Riverton, 0 at Galena, and sufficient capacity in middle and high schools at Baxter Springs with no capacity at elementary level. Information from the Superintendents indicated 20 students per classroom and \$200,000 to construct a classroom.

***Issue #12: Development Contracts with Local Governments (Submitted by Candace Evert, Meridian Business Advisors; note: the Kansas Lottery also responded to this issue)***

Meridian relied on the contribution to infrastructure costs as indicated on the Proposer’s “templates” as submitted to Kansas Racing and Gaming Commission. Those contributions are:

**Sumner County**

	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>Harrah's</b>			
<b><u>Infrastructure Contribution</u></b>			
Roads/Streets		4,706,055	
Water/Sewer		4,630,950	
Storm Drains		462,500	
Police/Fire/EMS		<u>4,293,610</u>	
Total		\$14,093,115	

**Penn Sumner**

	<u>2009</u>	<u>2010</u>	<u>Total</u>
<b><u>Infrastructure Contribution</u></b>			
Roads/Streets	2,513,941	7,541,823	10,055,764
Water/Sewer	661,563	1,984,688	2,646,251
Storm Drains	included in Roads/Streets		
Police/Fire/EMS	-	-	-
Total			<u>\$ 12,702,015</u>

**Marvel Gaming, LLC**

<u>Infrastructure Contributions</u>	<u>2009</u>	<u>2010</u>
Roads/Streets	2,000,000	
Water/Sewer	19,000,000	
Storm Drains		
Law Enforcement Building	<u>3,000,000</u>	
Total	\$ 24,000,000	

**Cherokee County**

**Kansas Penn Gaming**

<u>Infrastructure Contributions</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
Roads/Streets	1,161,342	497,718	1,659,060
Water/Sewer	1,161,342	497,718	1,659,060
Storm Drains	included in Roads/Streets		
Police/Fire/EMS			
Total			<u>\$3,318,120</u>

In general, the language in the local government endorsements, predevelopment agreements or contracts with the Kansas Lottery are not specific as to costs. The endorsements, agreements or contracts do not refer to the “template” contributions. Therefore, these are only verbal “promises” by the applicants and without supporting Memoranda of Understanding with the various governmental entities, they should be treated as such. Also, agreements are with one local government, either the city or county. However, in Sumner County, both city and county jurisdictions could well have costs associated with the casino facility. No agreements have been developed for School Districts.

In order to bring these “promises” to reality, we would recommend:

- a. Written assurance from the successful applicant that, at a minimum, infrastructure contributions will be as stated in the “template” unless actual costs are lower;
- b. Written agreements for both city and county jurisdictions which will share the minimum infrastructure contribution based on costs incurred by each jurisdiction;
- c. Written agreements with school districts regarding a minimum contribution.

Following are detailed information on the language in the agreements, endorsements and contracts.

**Sumner County**

	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>Harrah's</b>			
<b><u>Infrastructure Contributions</u></b>			
Roads/Streets		4,706,055	
Water/Sewer		4,630,950	
Storm Drains		462,500	
Police/Fire/EMS		<u>4,293,610</u>	
		14,093,115	

Source: Harrah's Template for amount of contributions.

Notes:

1. In the "Lottery Gaming Facility Management Contract," we could not find any reference to commitments or contribution to cover infrastructure costs. Harrah's representative at the July Topeka meeting indicated that financial commitments were in the Contract.
2. Resolution No. 2008-1 between Mulvane and Sumner Gaming Joint Venture, dated January 16, 2008, includes "Exhibit A to Resolution of Endorsement Findings of Fact" which states: "12. The Proposal includes a plan for public safety, including but not limited to, emergency medical, police and fire protection, including construction of appropriate facilities for the same and such other general technology to be used to protect the public.....". "13. The Proposal identifies infrastructure improvement necessary for access to and operation of the gaming facility, extension of utility services; and a plan for payment of the costs of such infrastructure improvements. All infrastructure improvements will meet the rules and regulations of the City."

***MBA Recommendations to Review Board/Department of Racing and Gaming:***

1. Request a copy of "The Proposal" or parts of the proposal noted in City of Mulvane-Sumner Gaming Resolution. (See above)
2. Request written assurance that Harrah's will contribute at a minimum the amount listed above totaling \$14.09 million.  
(Note: in Meridian's opinion some of the infrastructure costs stated in Template may in fact be County costs, so a Predevelopment Agreement with the Sumner County is needed.)
3. Request Predevelopment Agreement between County and Penn Sumner or request written assurance that County of Sumner infrastructure costs will also be covered. If costs have not been estimated or are uncertain at this time, request written assurance of what level of funding is committed.

**Penn Sumner**

<u>Infrastructure Contributions</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
Roads/Streets	2,513,941	7,541,823	10,055,764
Water/Sewer	661,563	1,984,688	2,646,251
Storm Drains	included in Roads/Streets		
Police/Fire/EMS	-	-	-
			<hr/> 12,702,015

Sources: Penn Sumner's Template for amount of contributions.

Notes: "Predevelopment Agreement between Board of County Commissioners, Sumner County and Penn Sumner" dated December 12, 2007 states:  
"R. WHEREAS, the County desires to implement the Act and to support the Project provided there is no cost to the County to do so; ....  
"2) c. Provision for Adequate Infrastructure. Applicant agrees that in the development of the project, it shall construct, cause to be constructed, or provide the funds to the County for construction of adequate infrastructure to serve the project. Adequate infrastructure shall mean roadways, utilities, and public safety and emergency service facilities in a size and type to serve the employees and patrons of the project as determined by mutual agreement of the professional planning, engineering and technical consultants of applicant and County. Applicant shall agree to purchase and supply designated police, emergency and fire equipment and technology necessitated by the project."

***MBA Recommendations to Review Board/Department of Racing and Gaming:***

1. Request written assurance that Penn Sumner LLC will fund a minimum of \$12.7 million for County infrastructure identified in Template. (Note: in Meridian's opinion some of the infrastructure costs stated in Template may in fact be City costs, so a Predevelopment Agreement with the City of Wellington is needed.)
2. Request Predevelopment Agreement between City and Penn Sumner or request written assurance that City of Wellington infrastructure costs will also be covered. If costs have not been estimated or are uncertain at this time, request written assurance of what level of funding is committed.

**Marvel Gaming, LLC**

<u>Infrastructure Contributions</u>	<u>2009</u>	<u>2010</u>
Roads/Streets	2,000,000	
Water/Sewer	19,000,000	
Storm Drains		
Law Enforcement Building	<u>3,000,000</u>	
	24,000,000	

Sources: Marvel's Template for amount of contributions.

Notes: "Predevelopment Agreement between Board of County Commissioners, Sumner County and Marvel Gaming LLC" dated December 12, 2007 states: "R. WHEREAS, the County desires to implement the Act and to support the Project provided there is no cost to the County to do so; .... "2) c. Provision for Adequate Infrastructure. Applicant agrees that in the development of the project, it shall construct, cause to be constructed, or provide the funds to the County for construction of adequate infrastructure to serve the project. Adequate infrastructure shall mean roadways, utilities, and public safety and emergency service facilities in a size and type to serve the employees and patrons of the project as determined by mutual agreement of the professional planning, engineering and technical consultants of applicant and County. Applicant shall agree to purchase and supply designated police, emergency and fire equipment and technology necessitated by the project."

***MBA Recommendations to Review Board/Department of Racing and Gaming:***

1. Request written assurance that Marvel Gaming will fund a minimum of \$24 million for County infrastructure identified in Template. (Note: in Meridian's opinion some of the infrastructure costs stated in Template may in fact be City costs so a Predevelopment Agreement with the City of Wellington is needed.)
2. Request Predevelopment Agreement between City and Marvel Gaming or request written assurance that City of Wellington infrastructure costs will also be covered. If costs have not been estimated or are uncertain at this time, request written assurance of what level of funding is committed.

**Cherokee County**

**Kansas Penn Gaming**

<u>Infrastructure Contributions</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
Roads/Streets	1,161,342	497,718	1,659,060
Water/Sewer	1,161,342	497,718	1,659,060
Storm Drains	included in Roads/Streets		
Police/Fire/EMS			
			<u>3,318,120</u>

Sources: Kansas Penn's Template for amount of contributions.

Notes: Exhibit III, c-5 of the application states: "as part of the Resolution of Endorsement process PNGI entered into a predevelopment agreement with the County to (sic) *proved* adequate infrastructure to support the development of the facility and a review process by which adequate infrastructure will be qualified and quantified..."

Exhibit III-c-2 of application refers to a Resolution of Endorsement from Cherokee County Board of Commissioners.

Cherokee County Resolution No. 12-2007, dated July 22, 2007, "A Resolution of Endorsement..." states that the Endorsement is subject to the execution of a Predevelopment Agreement between the County and Kansas Penn Gaming, in a form satisfactory to the County." Dated July 22, 2007.

***MBA Recommendations to Review Board/Department of Racing and Gaming:***

1. Request written assurance that Kansas Penn will fund a minimum of \$3.3 million for County infrastructure identified in Template.
2. Request a copy of the Predevelopment Agreement with the County if there is one.

***Issue #13: Property tax timing (addressed by Candace Evart, Meridian Business Advisors)***

One proposer argued that property tax revenue on the casino facilities would not be realized or available for governmental spending until the second or third year of the project. The proposer also noted that work in progress (WIP) on construction projects does not go on the assessed value rolls.

Meridian assumed in the original analysis that the value of the land and one-third of the value of improvements would go on the assessed value roll in year 1 and revenue on that value would be generated in year one. We further assumed that two-thirds of the value of the improvements would go on the roll in year 2, and revenue on the entire value of the project would be generated in year 2.

Meridian re-contacted county officials and revised the property tax revenue calculations to reflect information obtained from them. We continue to place the value on the rolls as before, but property tax on that value is generated in the year following.

WIP is still added as before upon verification of the Appraisers that the percentage of work in progress as of January 1 goes on the rolls.

The effect of these revisions lowers the original property tax revenue estimates as summarized below.

All Jurisdictions-3 Yr Summary	Original Analysis	Revised Analysis
Harrah's Mulvane	\$31,803,627	\$18,090,830
Penn Sumner-Wellington	\$42,985,811	\$24,461,475
Marvel Gaming-Wellington	\$30,361,308	\$17,475,680
Penn-Cherokee	\$ 4,245,453	\$ 2,335,684

The following tables in the MERIDIAN BUSINESS ADVISOR EXHIBITS section present detailed information in the "3-Year Summary" schedules of the revisions discussed above.

## MERIDIAN BUSINESS ADVISOR EXHIBITS

### FISCAL IMPACT--3 YEAR SUMMARY\*

#### HARRAH'S KANSAS

\* 2 Years Construction + 1 Year Operating

Proposer's Estimates					
	<u>State</u>	<u>City of Mulvane</u>	<u>Sumner County</u>	<u>Sedgwick County</u>	<u>Mulvane Schools</u>
<b><u>REVENUE:</u></b>					
Gaming Rev. Sharing	\$ 61,896,900	\$ 2,579,038	\$ 2,579,038	\$ 2,579,038	\$ -
Property Tax	-	-	-	-	-
Sales/Use Tax	-	-	792,560	-	-
Income Tax	-	-	-	-	-
Developer Contributions	4,706,055	9,387,060	-	-	-
<b>Total</b>	<b>\$ 66,602,955</b>	<b>\$ 11,966,098</b>	<b>\$ 3,371,598</b>	<b>\$ 2,579,038</b>	<b>\$ -</b>
<b><u>COSTS:</u></b>					
Law Enforcement	\$ -	\$ 4,670,791	\$ 251,282	\$ -	\$ -
Public Works	4,706,055	5,093,450	-	-	-
Education	-	-	-	-	-
Fire Protection	-	-	1,736,724	-	-
EMS	-	-	792,271	-	-
<b>Total</b>	<b>\$ 4,706,055</b>	<b>\$ 9,764,241</b>	<b>\$ 2,780,277</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Surplus/(Deficit)</b>	<b>\$ 61,896,900</b>	<b>\$ 2,201,857</b>	<b>\$ 591,321</b>	<b>\$ 2,579,038</b>	<b>\$ -</b>

Consultant's Estimates					
	<u>State</u>	<u>City of Mulvane</u>	<u>Sumner County</u>	<u>Sedgwick County</u>	<u>Mulvane Schools</u>
<b><u>REVENUE:</u></b>					
Gaming Rev. Sharing	\$ 44,764,307	\$ 1,865,179	\$ 1,865,179	\$ 1,865,179	\$ -
Property Tax	170,406	6,058,488	6,411,682	-	5,450,254
State Contribution					315,076
Sales/Use Tax	11,142,720	-	2,102,400	-	-
Income Tax	8,371,995	-	-	-	-
Building Fees	-	33,647	-	-	-
Developer Contributions	4,706,055	9,387,060	-	-	-
<b>Total</b>	<b>\$ 69,155,483</b>	<b>\$ 17,344,375</b>	<b>\$ 10,379,262</b>	<b>\$ 1,865,179</b>	<b>\$ 5,765,330</b>
<b><u>COSTS:</u></b>					
Law Enforcement	\$ -	\$ 3,045,616	\$ 1,210,902	\$ -	\$ -
Public Works	4,706,055	28,061,508	-	-	-
Education	-	-	-	-	9,842,269
Building Inspection	-	126,866	-	-	-
Fire Protection/EMS	-	5,677,545	-	-	-
<b>Total</b>	<b>\$ 4,706,055</b>	<b>\$ 36,911,535</b>	<b>\$ 1,210,902</b>	<b>\$ -</b>	<b>\$ 9,842,269</b>
<b>Surplus/(Deficit)</b>	<b>\$ 64,449,428</b>	<b>\$ (19,567,160)</b>	<b>\$ 9,168,359</b>	<b>\$ 1,865,179</b>	<b>\$ (4,076,939)</b>

**FISCAL IMPACT--3 YEAR SUMMARY\***  
**PENN SUMNER, LLC**

\* 2 Years Construction + 1 Year Operating

<b>Proposer's Estimates</b>					
	<u>State</u>	<u>City of Wellington</u>	<u>Sumner County</u>	<u>Sedgwick County</u>	<u>Wellington Schools</u>
<b>REVENUE:</b>					
Gaming Rev. Sharing	\$ 46,360,736	\$ 1,717,065	\$ 1,717,065	\$ 1,717,065	\$ -
Property Tax	27,950	2,165,475	1,056,575	-	-
Sales/Use Tax	2,016,163	1,423,365	341,531	-	-
Income Tax	-	-	-	-	-
Developer Contributions	10,055,000	2,646,000	-	-	-
<b>Total</b>	<b>\$ 58,459,849</b>	<b>\$ 7,951,905</b>	<b>\$ 3,115,171</b>	<b>\$ 1,717,065</b>	<b>\$ -</b>
<b>COSTS:</b>					
Law Enforcement	\$ -	\$ 1,014,415	\$ -	\$ -	\$ -
Public Works	10,055,000	2,646,000	-	-	-
Education	-	-	-	-	600,000
Fire Protection/EMS	-	3,417,081	-	-	-
<b>Total</b>	<b>\$ 10,055,000</b>	<b>\$ 7,077,496</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 600,000</b>
<b>Surplus/(Deficit)</b>	<b>\$ 48,404,849</b>	<b>\$ 874,409</b>	<b>\$ 3,115,171</b>	<b>\$ 1,717,065</b>	<b>\$ (600,000)</b>

<b>Consultant's Estimates (Revised on 7/29/07)</b>					
	<u>State</u>	<u>City of Wellington</u>	<u>Sumner County</u>	<u>Sedgwick County</u>	<u>Wellington Schools</u>
<b>REVENUE:</b>					
Gaming Rev. Sharing	\$ 32,901,120	\$ 1,230,561	\$ 1,230,561	\$ 1,230,561	\$ -
Property Tax	218,832	7,253,405	8,233,772	-	8,755,467
State Contribution	-	-	-	-	-
Sales/Use Tax	12,897,696	3,041,909	2,433,528	-	-
Income Tax	4,294,720	-	-	-	-
Developer Contributions	10,055,000	2,646,000	-	-	-
<b>Total</b>	<b>\$ 60,367,368</b>	<b>\$ 14,171,875</b>	<b>\$ 11,897,860</b>	<b>\$ 1,230,561</b>	<b>\$ 8,755,467</b>
<b>COSTS:</b>					
Law Enforcement	\$ -	\$ 2,080,582	\$ 1,008,959	\$ -	\$ -
Public Works	10,055,000	2,849,798	-	-	-
Education	-	-	-	-	3,426,124
Fire Protection/EMS	-	2,502,918	-	-	-
<b>Total</b>	<b>\$ 10,055,000</b>	<b>\$ 7,433,298</b>	<b>\$ 1,008,959</b>	<b>\$ -</b>	<b>\$ 3,426,124</b>
<b>Surplus/(Deficit)</b>	<b>\$ 50,312,368</b>	<b>\$ 6,738,577</b>	<b>\$ 10,888,902</b>	<b>\$ 1,230,561</b>	<b>\$ 5,329,343</b>

**FISCAL IMPACT--3 YEAR SUMMARY\***  
**MARVEL GAMING LLC**

\* 2 Years Construction + 1 Year Operating

<b>Proposer's Estimates</b>					
	<u>State</u>	<u>City of Wellington</u>	<u>Sumner County</u>	<u>Sedgwick County</u>	<u>Wellington Schools</u>
<b>REVENUE:</b>					
Gaming Rev. Sharing	\$ 49,458,816	\$ 2,060,784	\$ 2,060,784	\$ 2,060,784	\$ -
Property Tax	157,500	3,229,741	4,848,139	-	3,810,585
Sales/Use Tax	-	430,094	344,075	-	-
Income Tax	-	-	-	-	-
Developer Contributions	2,000,000	22,000,000	-	-	-
<b>Total</b>	<b>\$ 51,616,316</b>	<b>\$ 27,720,619</b>	<b>\$ 7,252,998</b>	<b>\$ 2,060,784</b>	<b>\$ 3,810,585</b>
<b>COSTS:</b>					
Law Enforcement	\$ -	\$ 4,610,100	\$ -	\$ -	\$ -
Public Works	2,000,000	19,000,000	-	-	-
Education	-	-	-	-	49,500
Fire Protection/EMS	-	2,919,500	-	-	-
<b>Total</b>	<b>\$ 2,000,000</b>	<b>\$ 26,529,600</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 49,500</b>
<b>Surplus/(Deficit)</b>	<b>\$ 49,616,316</b>	<b>\$ 1,191,019</b>	<b>\$ 7,252,998</b>	<b>\$ 2,060,784</b>	<b>\$ 3,761,085</b>

<b>Consultant's Estimates</b>					
	<u>State</u>	<u>City of Wellington</u>	<u>Sumner County</u>	<u>Sedgwick County</u>	<u>Wellington Schools</u>
<b>REVENUE:</b>					
Gaming Rev. Sharing	\$ 31,822,968	\$ 1,325,957	\$ 1,325,957	\$ 1,325,957	\$ -
Property Tax	156,337	5,181,952	5,882,342	-	6,255,050
State Contribution	-	-	-	-	1,080,044
Sales/Use Tax	10,210,504	2,408,138	1,926,510	-	-
Income Tax	8,339,868	-	-	-	-
Developer Contributions	2,000,000	22,000,000	-	-	-
<b>Total</b>	<b>\$ 52,529,677</b>	<b>\$ 30,916,046</b>	<b>\$ 9,134,809</b>	<b>\$ 1,325,957</b>	<b>\$ 7,335,094</b>
<b>COSTS:</b>					
Law Enforcement	\$ -	\$ 2,080,582	\$ 1,008,959	\$ -	\$ -
Public Works	2,000,000	2,849,798	-	-	-
Education	-	-	-	-	7,168,979
Fire Protection/EMS	-	2,502,918	-	-	-
<b>Total</b>	<b>\$ 2,000,000</b>	<b>\$ 7,433,298</b>	<b>\$ 1,008,959</b>	<b>\$ -</b>	<b>\$ 7,168,979</b>
<b>Surplus/(Deficit)</b>	<b>\$ 50,529,677</b>	<b>\$ 23,482,748</b>	<b>\$ 8,125,851</b>	<b>\$ 1,325,957</b>	<b>\$ 166,115</b>

**FISCAL IMPACT--3 YEAR SUMMARY\***  
**KANSAS PENN GAMING, LLC**

\* 2 Years Construction + 1 Year Operating

<b>Proposer's Estimates</b>					
	<u>State</u>	<u>Cities</u>	<u>Cherokee County</u>	<u>Crawford County</u>	<u>K-12 Schools</u>
<b>REVENUE:</b>					
Gaming Rev. Sharing	\$ 22,383,354	\$ 932,640	\$ 1,506,572	\$ 932,640	\$ -
Property Tax	38,025	-	2,399,475	-	-
Sales/Use Tax	457,926	-	97,927	-	-
Income Tax	-	-	-	-	-
Developer Contributions	1,659,060	-	1,659,060	-	-
<b>Total</b>	<b>\$ 24,538,365</b>	<b>\$ 932,640</b>	<b>\$ 5,663,034</b>	<b>\$ 932,640</b>	<b>\$ -</b>
<b>COSTS:</b>					
Law Enforcement	\$ -	\$ -	\$ 686,000	\$ -	\$ -
Public Works	-	-	-	-	-
Education	-	-	-	-	360,000
Fire Protection	-	8,200	-	-	-
EMS	-	40,900	-	-	-
<b>Total</b>	<b>\$ -</b>	<b>\$ 49,100</b>	<b>\$ 686,000</b>	<b>\$ -</b>	<b>\$ 360,000</b>
<b>Surplus/(Deficit)</b>	<b>\$ 24,538,365</b>	<b>\$ 883,540</b>	<b>\$ 4,977,034</b>	<b>\$ 932,640</b>	<b>\$ (360,000)</b>

<b>Consultant's Estimates</b>					
	<u>State</u>	<u>Galena Fire District</u>	<u>Cherokee County</u>	<u>Crawford County</u>	<u>K-12 Schools</u>
<b>REVENUE:</b>					
Gaming Rev. Sharing	\$ 8,168,640	\$ -	\$ 680,720	\$ 340,360	\$ -
Property Tax	32,487	71,905	1,222,360	-	1,028,932
State Contribution	-	-	-	-	1,177,905
Sales/Use Tax	2,100,794	-	594,564	-	-
Income Tax	2,525,034	-	-	-	-
Developer Contributions	1,659,060	-	1,659,060	-	-
<b>Total</b>	<b>\$ 14,486,015</b>	<b>\$ 71,905</b>	<b>\$ 4,156,704</b>	<b>\$ 340,360</b>	<b>\$ 2,206,837</b>
<b>COSTS:</b>					
Law Enforcement	\$ -	\$ -	\$ 404,583	\$ -	\$ -
Public Works	1,659,060	-	1,659,060	-	-
Education	-	-	-	-	4,159,026
Fire Protection	-	-	-	-	-
EMS	-	-	-	-	-
<b>Total</b>	<b>\$ 1,659,060</b>	<b>\$ -</b>	<b>\$ 2,063,643</b>	<b>\$ -</b>	<b>\$ 4,159,026</b>
<b>Surplus/(Deficit)</b>	<b>\$ 12,826,955</b>	<b>\$ 71,905</b>	<b>\$ 2,093,061</b>	<b>\$ 340,360</b>	<b>\$ (1,952,189)</b>

***Issue #14: The questions raised regarding Harrah's liquidity and projected cash flow position (submitted by Mills)***

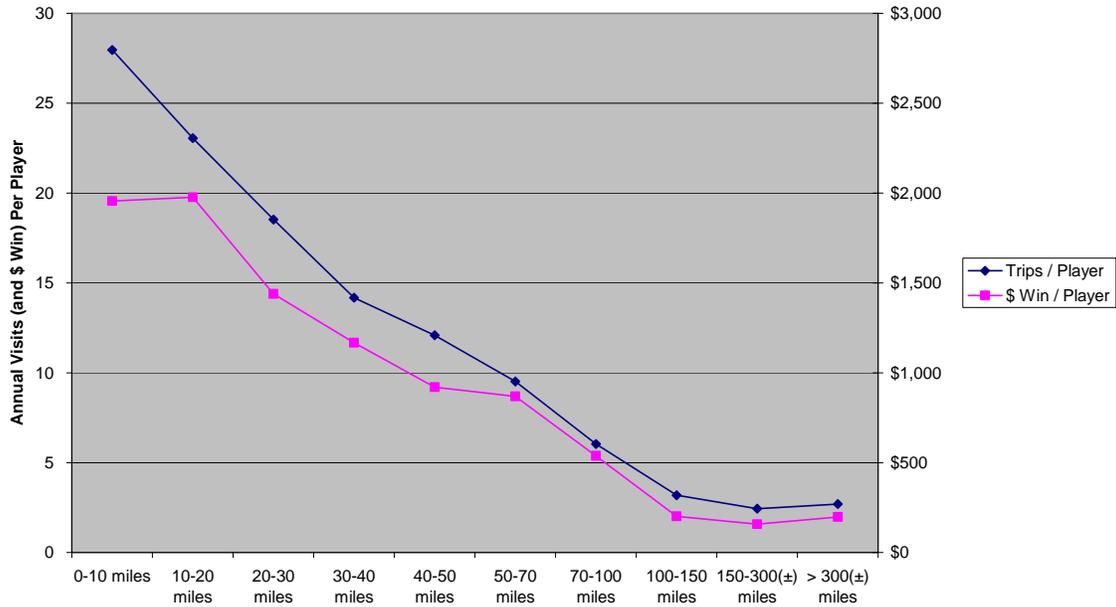
No additional information submitted.

***Issue # 15: A Note Regarding the Impact of Brand and Branding (Submitted by Probe)***

No additional information submitted.

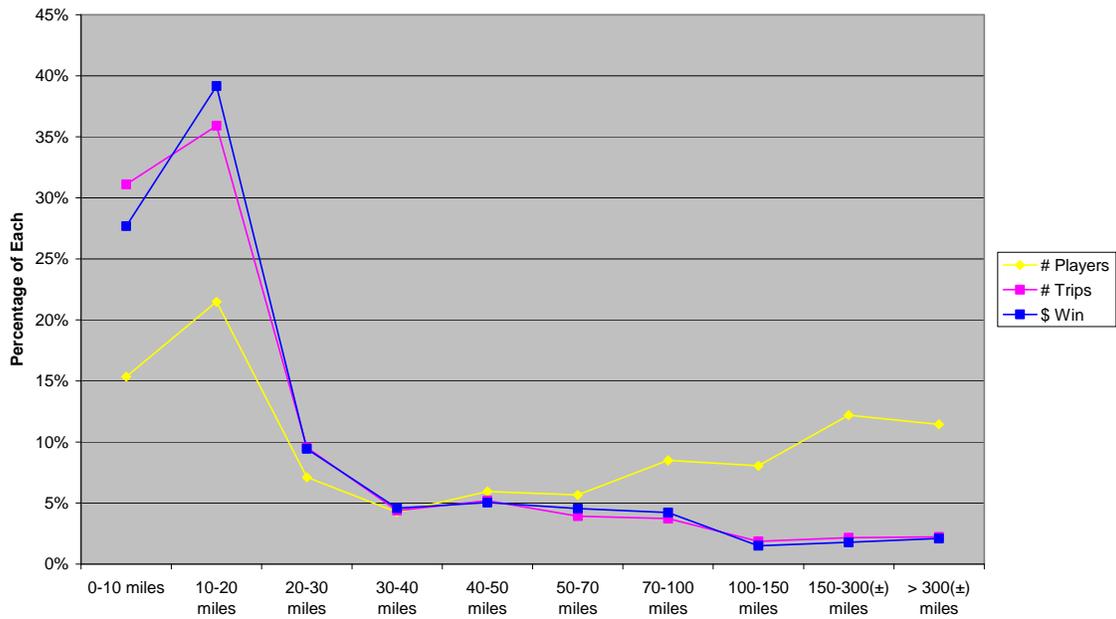
# CUMMINGS EXHIBITS

**Exhibit 1: Rates of Visitation (and Win) Decline With Distance from Casino Z<sup>1</sup>**



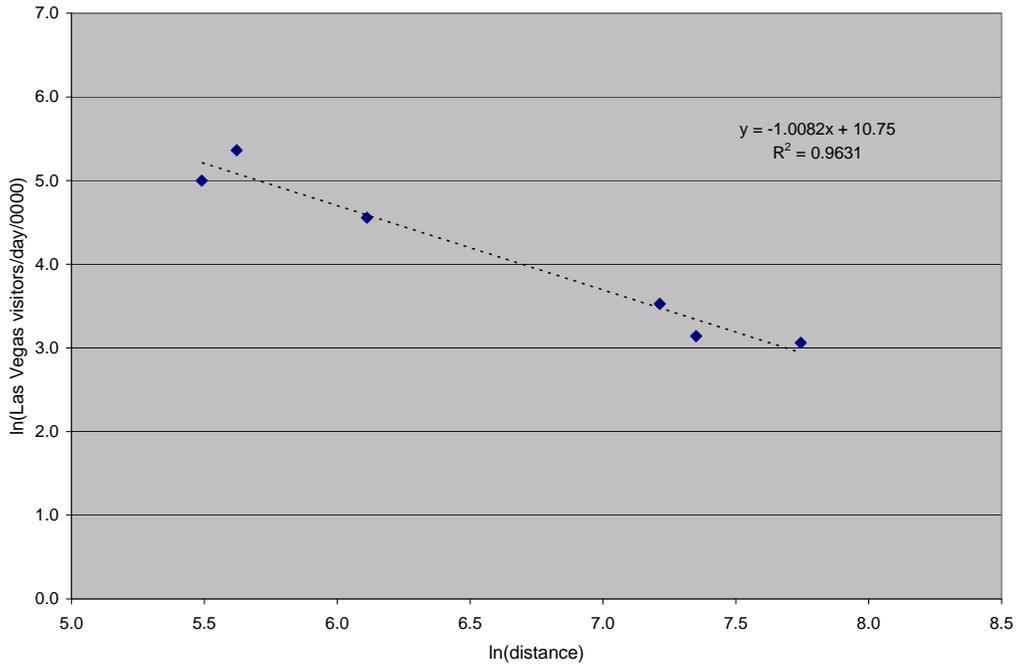
<sup>1</sup> Source: Players-club data for FY2007.

**Exhibit 2: # Players vs # Visits vs \$ Win at Casino Z in FY2007**

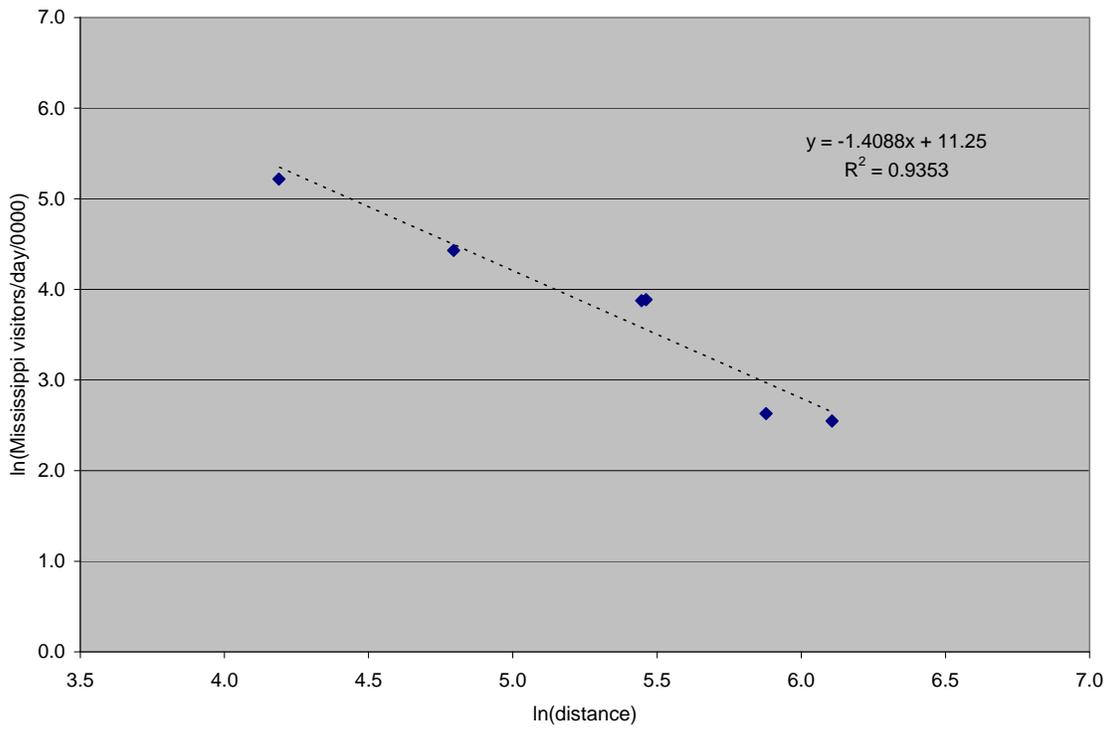


NB: 32% of players live beyond 100 miles but they contribute only 5% of \$ Win

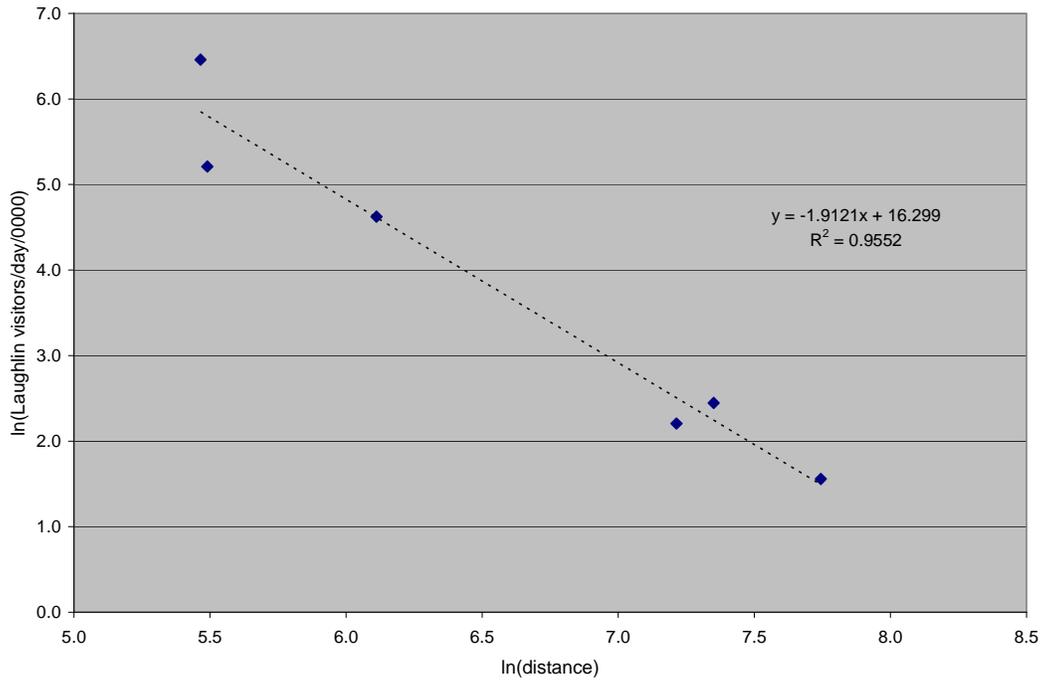
**Exhibit 3: Visitation to Las Vegas vs. Distance**



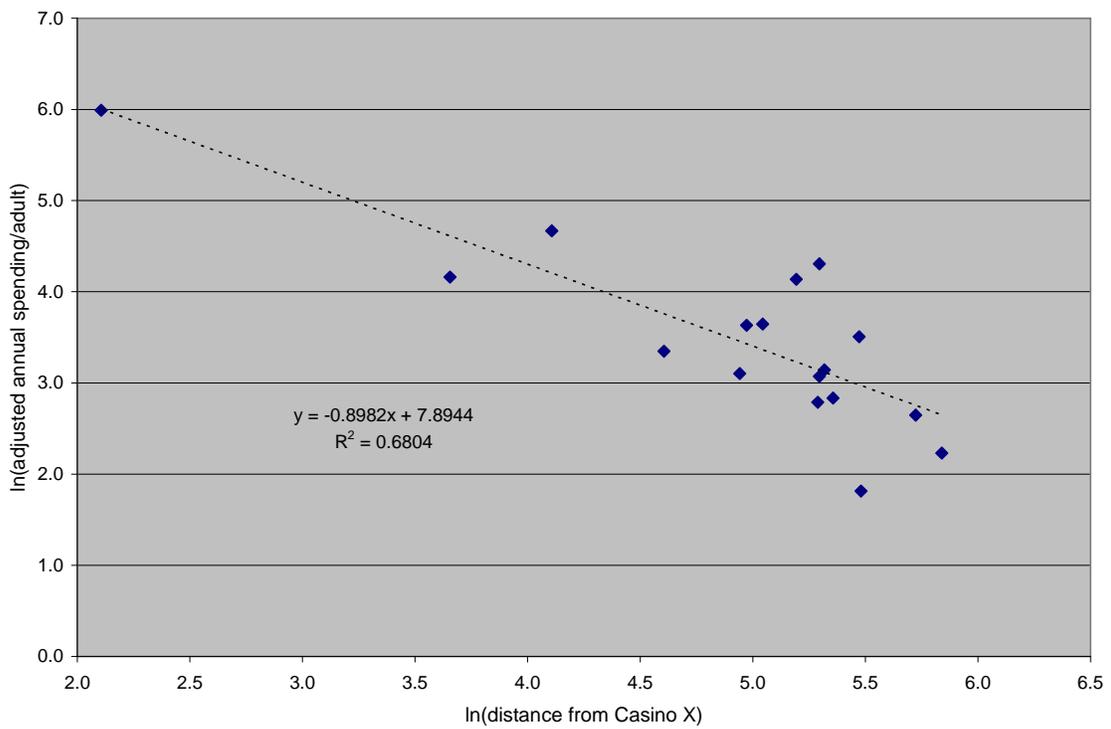
**Exhibit 4: Visitation to Mississippi Casinos vs. Distance**



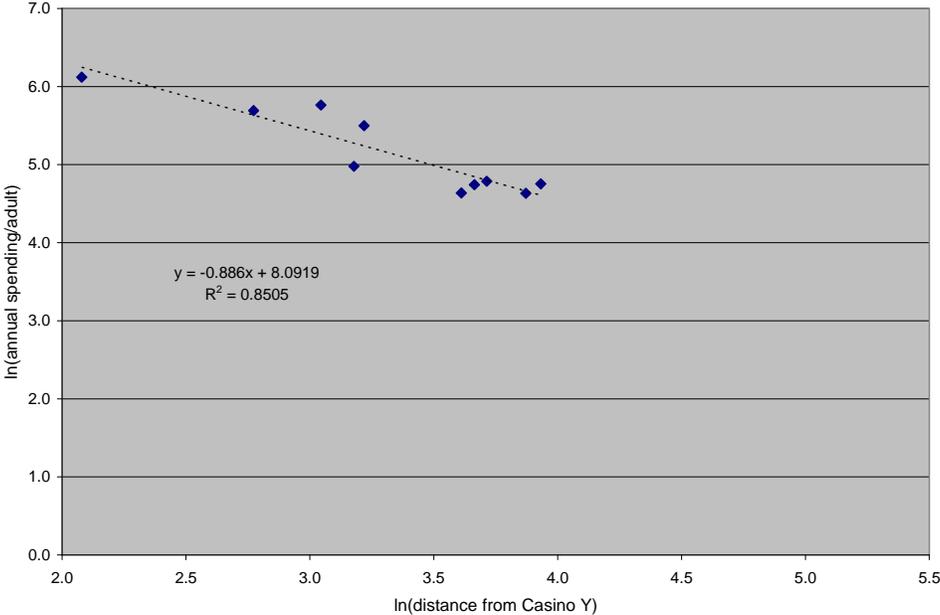
**Exhibit 5: Visitation to Laughlin vs. Distance**



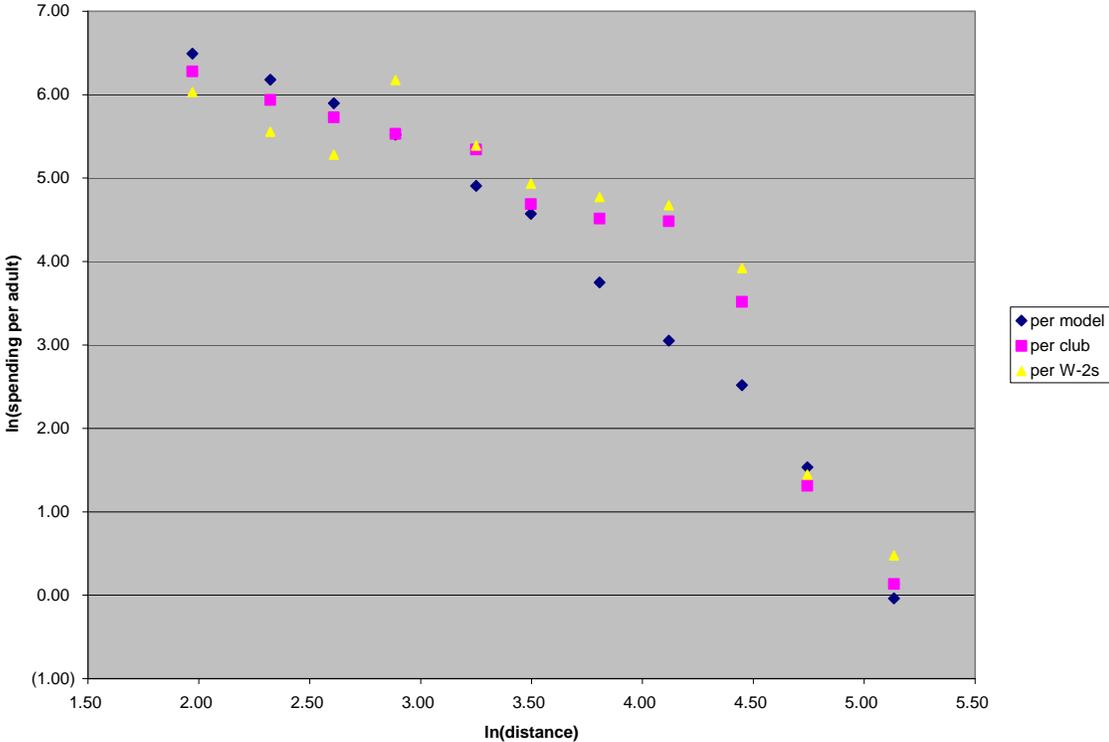
**Exhibit 6: Spending vs. Distance at Casino X (remote location)**



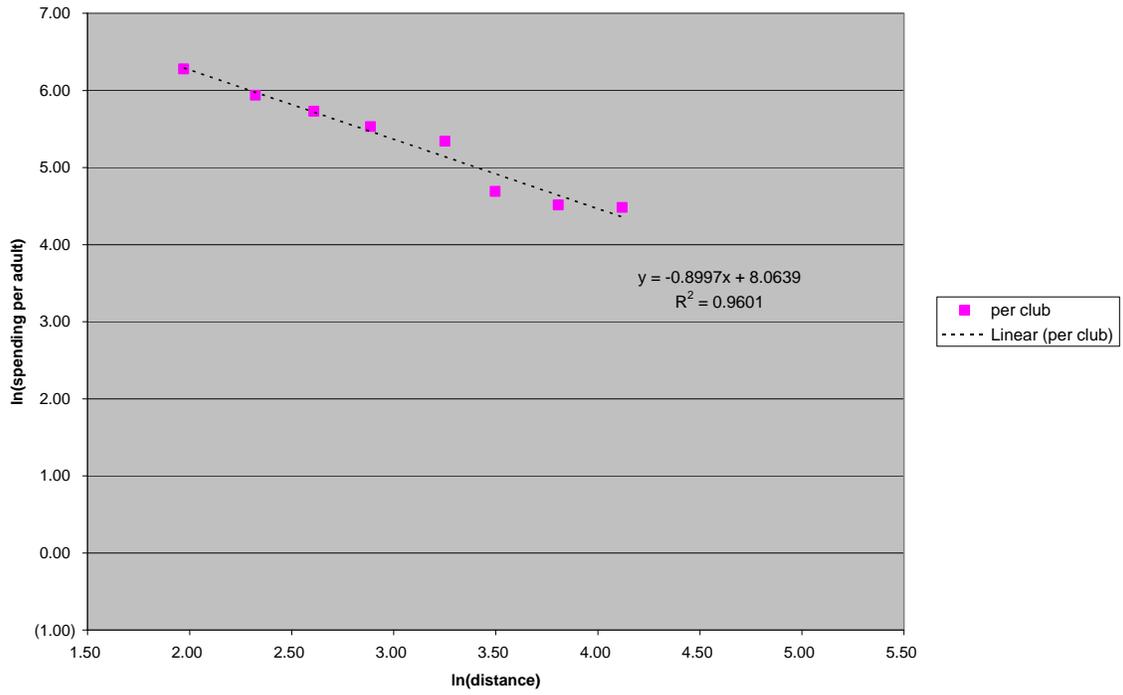
**Exhibit 7: Spending vs. Distance at Casino Y (less competitive close)**



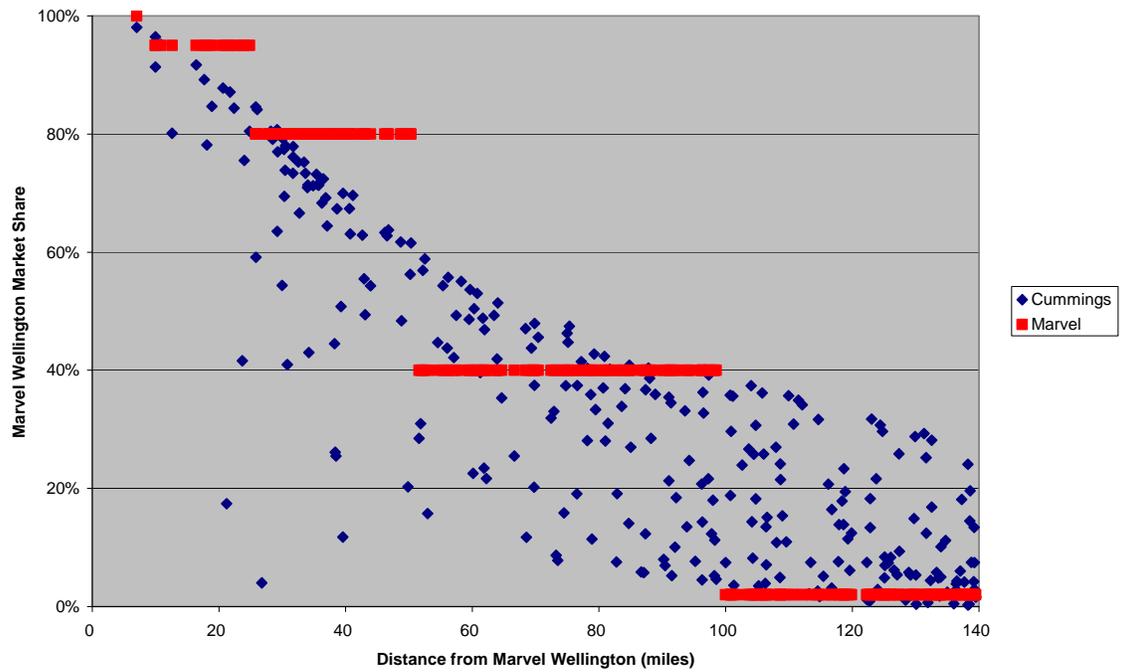
**Exhibit 8: Spending vs. Distance at Casino Z (with competition afar)**



**Exhibit 9: Spending vs. Distance at Casino Z (little competition close)**



**Exhibit 10: Modest Difference in Projections for Market Share -- in Kansas**



**Exhibit 11:  
Table-Game Revenues In Iowa, Missouri and Illinois**

(\$ million, in FY 2008 in IA and MO,  
Calendar 2007 in IL)

Casino	State	Table Revenues	Total Revenues	Table Percentage
Elgin Grand Victoria	IL	\$69.4	\$436.8	15.9%
E. St. Louis Casino Queen	IL	\$27.6	\$188.6	14.6%
<b>Marvel Wellington (projected)</b>	<b>KS</b>	<b>\$18.7</b>	<b>\$130.2</b>	<b>14.4%</b>
Harrah's North Kansas City	MO	\$28.4	\$202.6	14.0%
Lumiere + President / St. Louis	MO	\$17.8	\$131.1	13.6%
Riverside Casino & Golf Resort	IA	\$11.4	\$86.1	13.2%
Metropolis - Harrah's	IL	\$21.2	\$170.1	12.5%
Isle of Capri - Caruthersville	MO	\$4.0	\$31.8	12.4%
Aurora - Hollywood	IL	\$32.8	\$272.5	12.0%
Horseshoe / Bluffs Run	IA	\$23.7	\$198.4	12.0%
Harrah's Maryland Heights	MO	\$34.2	\$303.0	11.3%
Argosy - Sioux City	IA	\$6.5	\$57.5	11.2%
Ameristar Kansas City	MO	\$27.6	\$252.0	10.9%
Wild Rose - Emmetsburg	IA	\$3.0	\$27.5	10.9%
E. Peoria Par-A-Dice	IL	\$13.1	\$132.8	9.9%
Joliet - Harrah's	IL	\$37.0	\$381.1	9.7%
Catfish Bend	IA	\$3.8	\$39.3	9.7%
Prairie Meadows	IA	\$18.7	\$192.9	9.7%
Joliet - Empress	IL	\$23.0	\$240.2	9.6%
Ameristar II - Council Bluffs	IA	\$16.9	\$178.9	9.4%
Argosy Riverside	MO	\$17.6	\$188.5	9.3%
The Isle at Waterloo	IA	\$7.0	\$76.6	9.1%
Ameristar St. Charles	MO	\$26.3	\$294.9	8.9%
Isle of Capri - Boonville	MO	\$7.3	\$82.3	8.8%
Terrible's Lakeside	IA	\$4.8	\$55.4	8.6%
Diamond Jo Worth	IA	\$6.6	\$78.3	8.5%
Clinton - Mississippi Belle II	IA	\$2.3	\$27.8	8.4%
Isle of Capri - Bettendorf	IA	\$7.7	\$96.6	8.0%
Harrah's Council Bluffs	IA	\$7.7	\$97.0	8.0%
Terrible's St Jo	MO	\$2.9	\$37.0	7.9%
Terrible's Mark Twain	MO	\$2.5	\$32.0	7.8%
Isle of Capri - Kansas City	MO	\$6.2	\$81.0	7.6%
Dubuque Diamond Jo	IA	\$2.7	\$40.4	6.7%
Casino Rock Island	IL	\$2.3	\$35.8	6.4%
Dubuque Gh Park & Casino	IA	\$4.5	\$71.6	6.3%
Alton Belle	IL	\$7.6	\$125.7	6.0%
Isle of Capri - Marquette	IA	\$1.8	\$34.3	5.3%
Rhythm City - Davenport	IA	\$1.9	\$56.7	3.3%

