

The Economic and Tax Revenue Impact of Racino Gaming in Texas

prepared for
Texans for Economic Development
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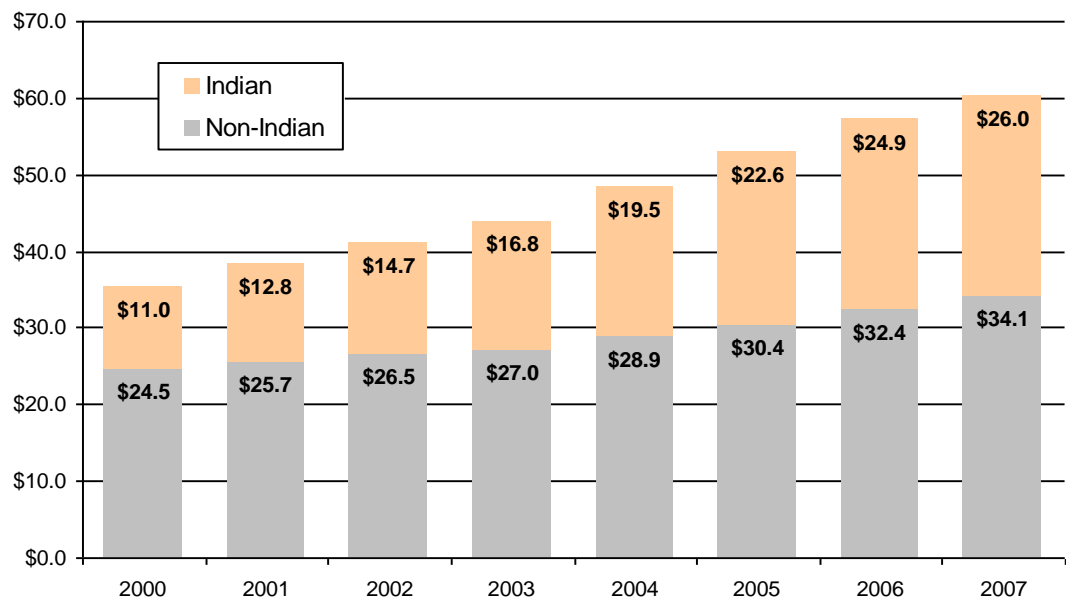


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Introduction

Gambling in one form or another has been part of the fabric of American life for hundreds of years. Early Native American culture had games and language describing gambling and believed their gods determined fate and chance. In addition, European colonists brought a history of gambling to American soil. The British colonization of America was funded partially by lottery proceeds. Later, institutions of higher learning such as Harvard, Yale, and Dartmouth utilized lotteries to help build dormitories and supply equipment, and a lottery even helped pay for a portion of the American Revolution.

FIGURE 1: Total National Gaming Revenue (\$Billions)

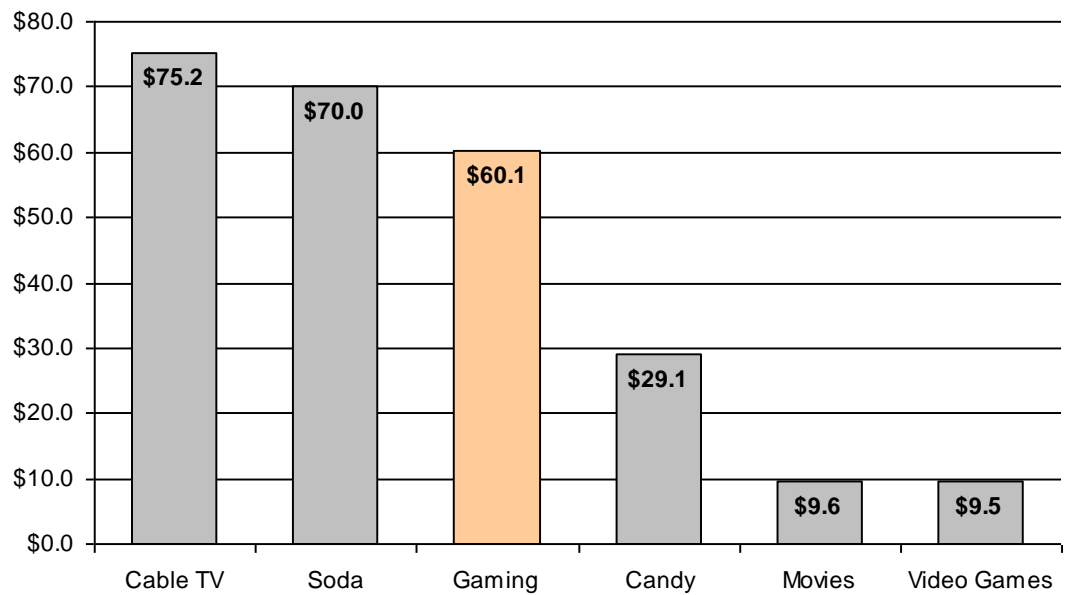


Source: American Gaming Association, Various State Agencies, National Indian Gaming Association, TXP

The first commercial casino opened in Nevada in 1931. For more than forty years, Nevada was the only state where casino gaming was offered. In 1976, New Jersey voters approved legislation to allow gaming in Atlantic City, and the first casino opened there two years later. Since then, gaming has proliferated, as 37 states now have some type of gaming presence. At the end of 2007, there were 467 commercial casinos in 12 states employing approximately 360,000 people, generating total revenue of \$34.1 billion. At the same time, casinos on Native American reservations in 29 states generated an additional \$26.0 billion, putting total casino gaming in the U.S. at \$60.1 billion.¹ Over the past seven years, total casino revenues (commercial and Indian) grew at a compound annual rate of 7.8 percent. While the national recession has caused the entire entertainment industry to slow, the American Gaming Association estimates that Americans today still pay out more for legal gaming activities overall than they do for movie tickets, candy, and video game software combined.

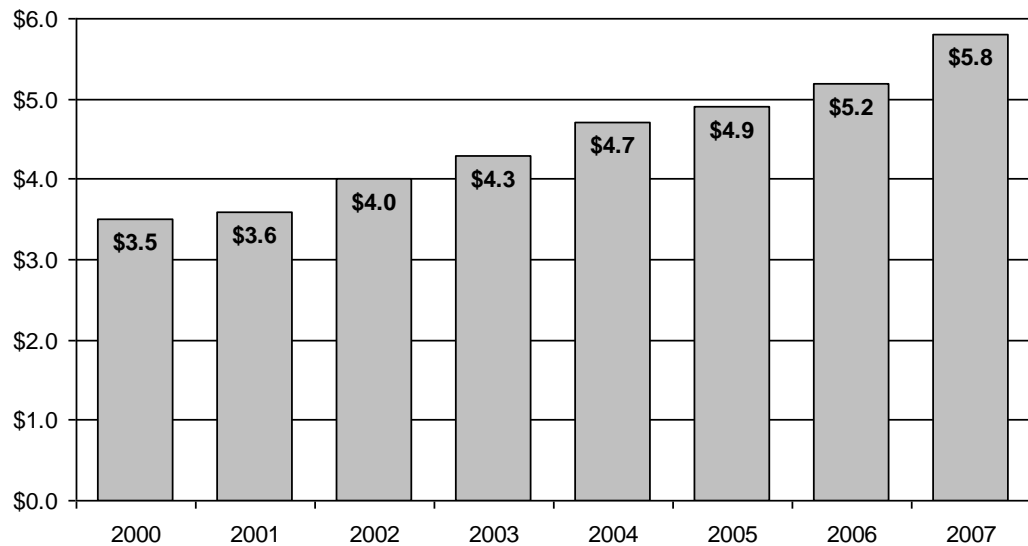
¹ Note: The Terms “Native American” and “Indian” are both used in this report

FIGURE 2: National Gaming Revenue in Context (2007 \$Billions)



Source: American Gaming Association

FIGURE 3: Total State and Local Gaming Tax Revenue (\$Billions)



Source: American Gaming Association

The market for gaming has been growing at a time when state governments are facing substantial financial issues. Similarly, local governments also are under duress, as the combination of recession, sluggish consumer spending, and softness in property values has caused layoffs and spending cuts in a number of communities. As a result, policymakers are faced with difficult budget-related choices.

One option for Texas that has yet to be fully explored, let alone implemented, is the legalization of Video Lottery Terminals (VLTs – also known as “racinos”) at Texas racetracks as well as Native American casinos. The figures above suggest that racinos hold some promise – to the extent that Texas is able to capture its “fair share” of this growing market the attendant public sector revenues ultimately could make a significant contribution to the State’s funding stream. This is especially true given that a lack of local gaming outlets does not keep Texans from gaming, as a substantial volume of the visitors to casinos in Louisiana, Oklahoma, New Mexico, and even Nevada come from Texas.

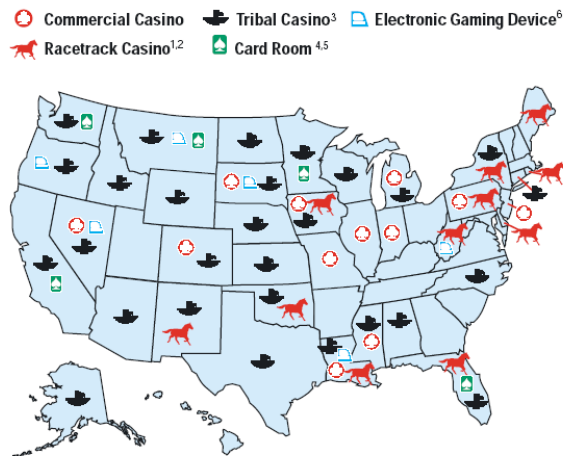
In order to inform the policy discussion, TXP has developed an estimate of the economic and tax revenue impacts associated with recapturing a portion of Texans’ gaming in other states through VLT legalization. This analysis builds on work done for Texans for Economic Development by the Innovation Group on the size of the total Texas gaming market, and assumes that full implementation occurs within two and a half years of authorization. The economic impact calculations are based entirely on the recapture of Texans’ gaming revenue (and associated spending) that currently leaves the state. This is referred to as *Recaptured Leakage* later in the report. The potential gaming spending of Texans who are not currently leaving the state is not included in the economic impact calculations, as it can be argued that this is simply redirecting existing local spending. However, differential tax rates between sales and gaming taxes means that it should be included in the tax revenue calculations. This is referred to as *New Demand* later in the report. The analysis also does not address online gaming – the size of the market is unknown, and it is not expected that the introduction of racinos would have a measurable impact on this segment. Similarly, no effort is made to measure the possible impact of tourists visiting Texas to game – while gaming-related tourism undoubtedly would occur with implementation of racinos, a conservative approach is to not attempt to estimate the magnitude. To put these figures in context, background on the state of casino/racino gaming in the U.S. is provided, with a particular emphasis on recent trends in racetrack gaming in other states. Information on the market assessment also is included in an appendix, along with data and discussion on common objections and concerns with gaming.

National Gaming Profile

As the figure that follows indicates, gaming is wide-spread across the U.S., as only 13 states do not offer gaming of some type.² It should be noted that gaming revenues are reported as gross gambling revenue (GGR), defined as the amount wagered minus the winnings returned to players. The GGR is what a casino earns before taxes, salaries, and other expenses are paid, and is equivalent to “sales,” not “profit.”

² Texas technical inclusion as a gaming state is based on a single Indian casino.

FIGURE 4: Distribution of Gaming Across the Country



¹ In Rhode Island, there are video lottery terminals operating at a closed jai alai fronton, not considered a racetrack casino, but a pari-mutuel facility.
² The states with racetrack casinos operate Class III gaming machines. There are two racinos in Alabama — not indicated on this map — that have Class II machines only, which are legal only in the counties where they operate.
³ Native American casinos noted here include both Class II and Class III facilities. States with Class II gaming only are Alabama, Alaska, Florida, Nebraska and Texas.
⁴ The states with card rooms indicated here do not include states that have commercial casinos with poker facilities.
⁵ The card rooms in Washington operate blackjack and other house- or player-banked card games in addition to poker.
⁶ The electronic gaming devices operating in the states indicated on this map are recognized as legal operations. There are some states with similar facilities, but the machines may not be authorized.

Sources: American Gaming Association, National Indian Gaming Commission, State Gaming Regulatory Agencies

STATE					
Alabama			3*		
Alaska			3*		
Arizona			25		
California			61	91	
Colorado	45°		2		
Connecticut			2		
Delaware			3*		
Florida			3	8*	18
Idaho			6		
Illinois	9				
Indiana	11				
Iowa	17	3	1		
Kansas			6		
Louisiana	18	4	3		2,351
Maine		1			
Michigan	3		19		
Minnesota			34	1	
Mississippi	29		2		
Missouri	12		1		
Montana			23	494	1,686
Nebraska			6*		
Nevada	270 ²		3		2,216 ³
New Jersey	11				
New Mexico		5	21		
New York		8*	8		
North Carolina			2		
North Dakota			6		
Oklahoma		3	95		
Oregon			10		2,263
Pennsylvania	6	5			
Rhode Island		2*			
South Dakota	36°		10		1,477*
Texas			1*		
Washington			33	103	
West Virginia		4*			1,663*
Wisconsin			28		
Wyoming			2		
Total	467	41	424	707	11,656
Number of States	12	11	29	5	6

*Class II games only
 °Limited-stakes gaming
 °Video lottery terminals

¹Refers to number of non-casino locations in state where electronic gaming devices are present
²Includes only locations with gross gaming revenue of at least \$1 million
³Locations have 15 or fewer machines

Sources: American Gaming Association, National Indian Gaming Commission, State Gaming Regulatory Agencies

In 2007, U.S. commercial casinos:

- Employed 360,818 people
- Paid wages of \$13.8 billion
- Contributed \$5.79 billion in direct gaming taxes
- Earned \$34.13 billion in gross gaming revenue

Source: American Gaming Association

Focus on Racetrack Casinos

In 2007, racetrack casinos continued to be the primary mode of expansion in the commercial casino industry. The number of racetrack casinos increased from 36 to 41 in 2007, leading to unprecedented levels of revenue growth in the sector. Racetrack casinos generated \$5.28 billion in gross gaming revenue in 2007, a 45.6 percent increase over 2006 figures. They also contributed significantly to the states and local jurisdictions where they operate through

direct gaming taxes totaling \$2.22 billion, a 54.6 percent increase from 2006. The expansion necessarily caused employment figures at racetrack casinos to increase, with 27,258 individuals employed in the sector during 2007, a 22.2 percent increase over 2006.

Most of the increases in revenue, employment and tax payments in this segment of the industry were driven by expansion in Pennsylvania, Florida and New York. Three new racetrack casinos opened in Pennsylvania during 2007, and one new property opened in Florida. 2007 also was the first full year of operations for three racetrack casinos that opened in New York during 2006.

FIGURE 5: State-by-State Consumer Spending in Racetrack Casinos: 2006 v. 2007

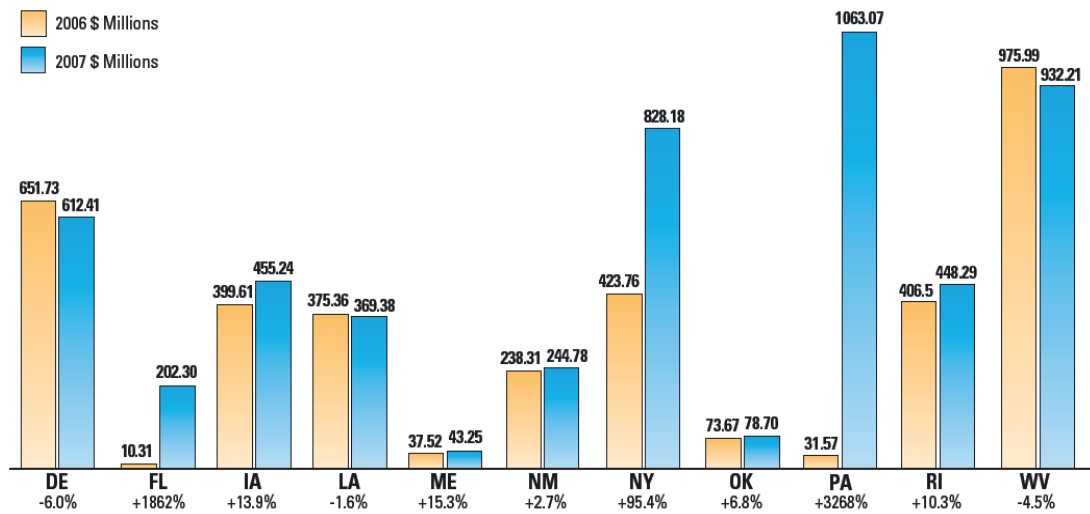
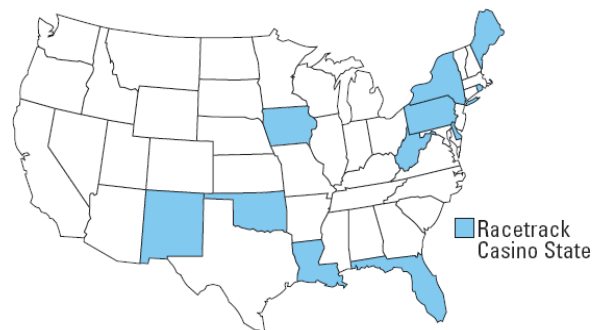


FIGURE 6: Racetrack Casino Jobs by State: 2006 v. 2007

State	2006	2007	Change
Delaware	2,924	2,891	-1.1%
Florida	1,528	2,270	+48.6%
Iowa	2,831	2,802	-1.0%
Louisiana	2,245	2,377	+5.9%
Maine	180	167	-7.2%
New Mexico	1,915	1,660	-13.3%
New York	3,382	3,741	10.6%
Oklahoma	814	822	+1.0%
Pennsylvania	1,200	3,753	+212.8%
Rhode Island	1,100	1,500 ¹	+36.4%
West Virginia	4,189	5,275	+25.9%
Total	22,308	27,258	+22.2%



Source: American Gaming Association

The Impact of Recapturing Texas' Lost Gaming Revenue

Estimates of Direct Texan Gaming-Related Activity

Texans are already gaming at a high level. Based on data from a variety of sources, including state gaming commissions, convention and visitors bureaus (CVBs), and other academic studies, TXP has estimated the current gaming revenue in a seven-state region that is attributable to Texans at approximately \$2.3 billion during 2007, the equivalent of about 3.8 percent of the national total.³ This is the assumed universe of current Texan gaming; while there undoubtedly are individual instances of Texans gaming elsewhere in the country, it does not appear to be significant.

TABLE 1: 2007 Regional Gaming Revenue by Source (\$Millions)

	Commercial	Racetrack	Indian
Nevada	\$12,849.0	NA	NA
Mississippi	\$2,891.0	NA	NA
Louisiana	\$2,196.6	\$369.4	NA
New Mexico	NA	\$244.8	\$679.1
Oklahoma	NA	\$78.7	\$2,400.0
Colorado	\$816.1	NA	NA
Arizona	NA	NA	\$2,280.0

Source: American Gaming Association, various state agencies, National Indian Gaming Association, TXP

TABLE 2: 2007 Regional Gaming Revenue from Texans (\$Millions)

	Total Gaming	TX Share	TX Values
Nevada	\$12,849.0	3.1%	\$397.0
Mississippi	\$2,891.0	3.0%	\$86.7
Louisiana	\$2,566.0	39.6%	\$1,016.1
New Mexico	\$923.9	22.1%	\$204.2
Oklahoma	\$2,478.7	19.3%	\$478.4
Colorado	\$816.1	9.0%	\$73.5
Arizona	\$2,280.0	6.3%	\$143.6
TOTALS	\$24,804.8	9.7%	\$2,399.6

Source: various state agencies, CVBs, other academic studies, TXP

The Innovation Group was engaged by Texans for Economic Development to estimate the size of Texas' gaming market. A summary of their results follows. As the table indicates, the total Texas market approaches \$4.2 billion in gaming revenue at full implementation. However, there is still leakage out of state, as some Texans will continue to game elsewhere.

³ Texas was 7.9% of the nation's population during 2007.

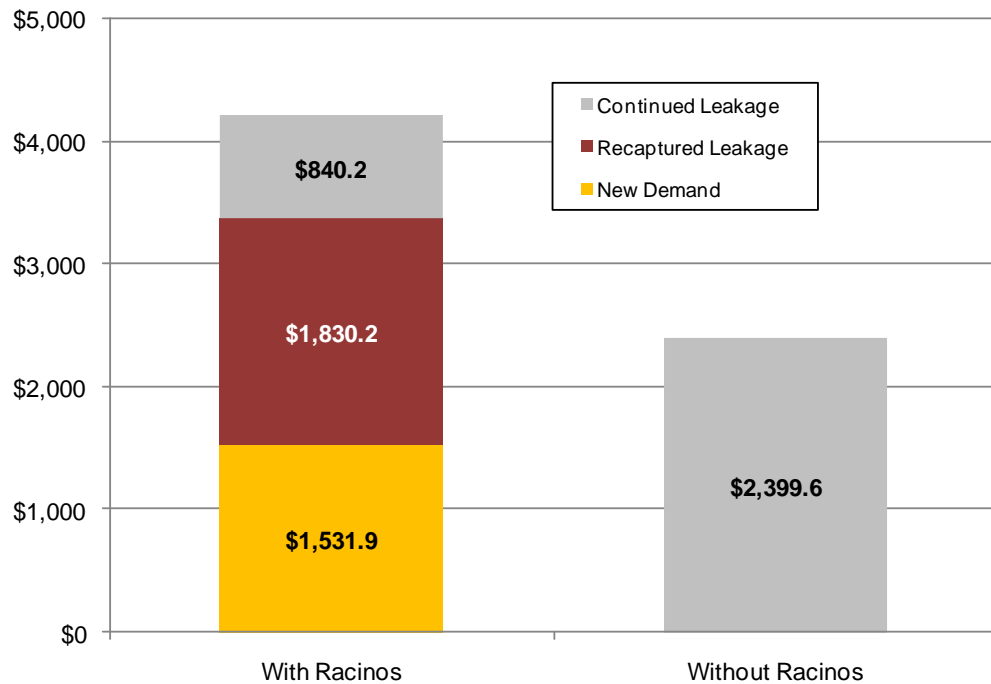
A significant share of the revenue that would occur in Texas with the implementation of racinos would be recaptured from other states where Texans currently game. Measurement of the volume of this spending is done through subtracting the leakage out-of-state (\$840.2 million) from the \$2.4 billion figure, yielding recaptured spending of approximately \$1.8 billion. Table 3 and Figure 7 provide further illustration.

TABLE 3: Potential Texas Racino Revenue: Recaptured vs. New Demand (\$Millions)

	Baseline
Served In-State	\$3,362.1
Recaptured Leakage	\$1,830.2
New Demand	\$1,531.9
Continued Leakage Out-of-State	\$840.2
Total Texas Market	\$4,202.2

Source: The Innovation Group, TXP

FIGURE 7: Texas Gaming With and Without Racinos: (\$Millions)



Source: The Innovation Group, TXP

There is additional spending associated with the direct casino expenditures at casinos by Texans. Since virtually all casino activity by Texans occurs out of state, travelers will incur typical tourist expenditures for food, lodging, etc. while visiting casinos. Based on data from a variety of industry and tourism sources, TXP estimates that for every dollar spent in an out-of-state casino by Texas patrons, an additional 52 cents is spent in the local economy on tourism-related goods and services. As a result, the estimate is that about \$2.8 billion leaked

out of the Texas economy as a result of Texans gaming out-of-state in 2007. The breakdown follows.

TABLE 4: Total Direct Spending Associated With Recaptured Texas Gaming

\$Millions	Millions
Gaming Revenue	\$1,830.2
Food/Beverage	\$585.7
Retail/Miscellaneous	\$362.3
TOTALS	\$2,778.2

Source: TXP

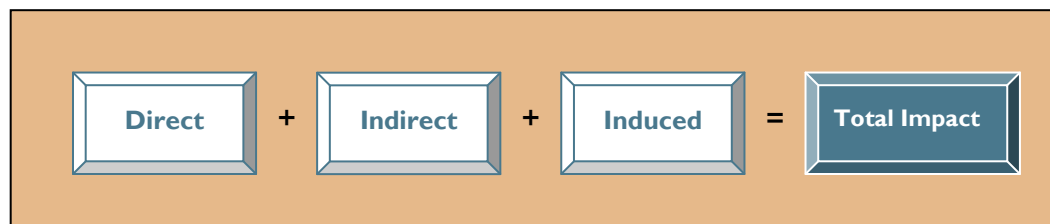
The Economic Impact of Recapturing Texan Gaming Spending

The economic impacts extend beyond the direct activity outlined above. In an input-output analysis of new economic activity, it is useful to distinguish three types of expenditure effects: direct, indirect, and induced. Direct effects are production changes associated with the immediate effects or final demand changes. The payment made by an out-of-town visitor to a hotel operator is an example of a direct effect, as would be the taxi fare that visitor paid to be transported into town from the airport.

Indirect effects are production changes in backward-linked industries caused by the changing input needs of directly affected industries – typically, additional purchases to produce additional output. Satisfying the demand for an overnight stay will require the hotel operator to purchase additional cleaning supplies and services, for example, and the taxi driver will have to replace the gasoline consumed during the trip from the airport. These downstream purchases affect the economic status of other local merchants and workers.

Induced effects are the changes in regional household spending patterns caused by changes in household income generated from the direct and indirect effects. Both the hotel operator and taxi driver experience increased income from the visitor’s stay, for example, as do the cleaning supplies outlet and the gas station proprietor. Induced effects capture the way in which this increased income is in turn spent in the local economy.

FIGURE 8: The Flow of Economic Impacts



Once the ripple effects have been calculated, the results can be expressed in a number of ways. Four of the most common are “Output,” equivalent to sales; “Value-Added,” which describes the difference between a firm’s top-line revenue and its cost of goods sold (exclusive of labor-related costs); “Earnings,” which represents the compensation to employees and proprietors; and “Employment,” which refers to permanent, full-time jobs that have been created in the local economy. The interdependence between different sectors of the economy is reflected in the concept of a “multiplier.” An output multiplier, for example, divides the total (direct, indirect and induced) effects of an initial spending injection by the value of that injection – i.e., the direct effect. The higher the multiplier, the greater the interdependence among different sectors of the economy. An output multiplier of 1.4, for example, means that for every \$1,000 injected into the economy, another \$400 in output is produced in all sectors.

Findings

The total impact of approximately \$2.8 billion in recaptured spending translates into a total economic impact of \$6.8 billion worth of economic activity, \$4.0 billion in value-added, \$2.1 billion in earnings, and approximately 53,000 jobs. The breakdown follows.

TABLE 5: Detailed Economic Impact of Recaptured Texas Gaming (\$Millions)

Baseline	Output	Value-Added	Earnings	Employment
Agriculture/Forestry/Fishing, etc.	\$91.3	\$27.1	\$11.3	616
Mining	\$34.0	\$14.1	\$6.0	28
Utilities	\$136.4	\$81.1	\$23.9	134
Construction	\$42.0	\$18.8	\$15.0	202
Manufacturing	\$631.6	\$195.4	\$91.7	1,189
Wholesale Trade	\$220.3	\$141.3	\$66.6	660
Retail Trade	\$463.5	\$274.0	\$148.3	4,376
Transportation/Warehousing	\$177.9	\$94.9	\$56.4	802
Information	\$207.0	\$111.9	\$52.3	500
Finance and Insurance	\$369.5	\$217.8	\$88.2	928
Real Estate/Rental/Leasing	\$594.8	\$447.4	\$39.4	696
Prof./Scientific/Technical services	\$235.1	\$164.1	\$101.5	1,088
Management of Companies	\$52.9	\$37.2	\$24.4	216
Admin./Waste Mgmt. Services	\$146.3	\$104.7	\$58.4	1,360
Educational Services	\$47.9	\$26.9	\$20.6	459
Health Care/Social Assistance	\$302.4	\$187.9	\$139.0	2,077
Arts/Entertainment/Recreation	\$2,075.6	\$1,356.5	\$784.9	18,855
Accommodation/Food Services	\$794.6	\$401.6	\$295.0	17,833
Other Services	\$166.1	\$93.8	\$49.9	1,120
TOTALS	\$6,789.2	\$3,996.7	\$2,072.6	53,139

Source: TXP

The Fiscal Impact of Racino Gaming in Texas

Racinos contributed approximately \$2.2 billion to state and local governments across the nation during 2007, an almost 55 percent increase from 2006. The tables that follow show public sector revenue, the amount retained by operators, and other distributions as a percentage of gross gaming revenue.⁴ As indicated, the effective tax rate is wide-ranging, from 12.9 percent in Oklahoma to 63.3 percent in Rhode Island. Overall, the effective tax rate nationwide is 42.2 percent.

While the share retained by owners is generally lower in the Northeast, retention rates in states proximate to Texas are at the higher end of the spectrum. Given the highly competitive nature of the industry and need for substantial capital investment, Texas should keep owner retention rates in-line with peer states. As a result, a base effective tax rate of 30% is applied to the estimate of recaptured leakage. This same rate is reduced by 2.30 percent when applied to the new demand to reflect the proportion of total in-state Texas retail sales that are subject to state sales tax (36.7 percent * 6.25 percent tax rate = 2.30 percent).⁵

TABLE 6: 2007 Racino Tax Revenues and Rates (\$Millions)

	Total Gross Gaming Revenue	Share Retained by Operator	Amount Available for Distribution
Delaware	\$612.4	48.0%	\$318.4
Florida	\$202.3	50.0%	\$101.2
Iowa	\$455.2	76.0%	\$109.2
Louisiana	\$369.4	63.6%	\$134.5
Maine	\$43.3	52.2%	\$20.7
New Mexico	\$244.8	54.8%	\$110.6
New York	\$828.2	29.7%	\$582.2
Oklahoma	\$78.7	59.0%	\$32.3
Pennsylvania	\$1,063.0	45.0%	\$584.7
Rhode Island	\$448.3	27.4%	\$325.5
West Virginia	\$932.2	42.2%	\$538.8
TOTAL	\$5,277.7		\$2,858.1

Source: American Gaming Association, TXP

⁴ This data is based on AGA's 2008 *State of the States*; there have been some subsequent changes, including a racino opening in Arkansas.

⁵ The Comptroller's Office reports 2007 total in-state gross retail sales of \$352.7 billion, while the amount subject to sales tax was reported at \$129.8 billion for the same period.

TABLE 7: 2007 Racino Tax Revenues and Rates (\$Millions)

	Amount Available for Distribution	State & Local Tax Revenue	Other Distributions	Effective Tax Rate
Delaware	\$318.4	\$216.6	\$101.8	35.4%
Florida	\$101.2	\$101.2	\$0.0	50.0%
Iowa	\$109.2	\$109.2	\$0.0	24.1%
Louisiana	\$134.5	\$68.2	\$66.3	18.4%
Maine	\$20.7	\$20.6	\$0.1	47.6%
New Mexico	\$110.6	\$63.6	\$47.0	26.0%
New York	\$582.2	\$449.9	\$132.3	54.3%
Oklahoma	\$32.3	\$10.2	\$22.1	12.9%
Pennsylvania	\$584.7	\$461.1	\$123.6	43.4%
Rhode Island	\$325.5	\$283.6	\$41.9	63.3%
West Virginia	\$538.8	\$439.9	\$98.9	47.2%
TOTAL	\$2,858.1	\$2,224.1	\$634.0	42.2%

Source: American Gaming Association, TXP

The Comptroller’s Office also has estimated the loss of Lottery proceeds if gaming is implemented. This data is adjusted upward to reflect a greater level of gaming activity that was used in their initial analysis. Finally, the Comptroller’s Office uses a “rule of thumb” that Texas realizes the equivalent of 5 percent of every dollar in personal income in state revenue. Using this ratio, the income associated with recapturing lost gaming revenue would add approximately \$105 million to the State coffers annually. Taken together, the implementation of racinos should contribute just under \$1 billion annually to the State.

TABLE 8: Potential Texas Racino Tax Revenue: (\$Millions)

	Millions
Total Texas Market	\$4,202.2
Served In-State	\$3,362.1
Recaptured Leakage	\$1,830.2
New Demand	\$1,531.9
Total State Tax Revenue	\$980.9
<i>Recaptured Leakage</i>	<i>\$549.1</i>
<i>New Demand</i>	<i>\$459.6</i>
<i>Lost Sales Tax</i>	<i>(\$35.2)</i>
<i>Lost Lottery Proceeds</i>	<i>(\$96.2)</i>
<i>Indirect Revenue</i>	<i>\$103.6</i>

Source: The Innovation Group, TXP

Conclusion

As an industry with over \$60 billion in annual revenue, gaming (both commercial and Indian) is clearly one of the largest entertainment industries in the United States. In addition to its size, gaming also casts a wide net, as participants from every state made a total of 376 million trips to a commercial (non-Indian) casino during 2007. Texans are part of this process, spending just under \$2.8 billion directly at gaming facilities in a number of states, as well as at hotels, restaurants, etc. while traveling out-of-state. Since these trips are by definition out of state, this money “leaks” outside of Texas, along with spending on hotels, restaurants, etc. that goes along with it. If racinos were locally available, a large amount of this leakage would be eliminated, as TXP estimates that approximately \$1.8 billion in gaming revenue (and \$2.8 billion total) would return to the state. This in turn would create a \$6.8 billion in total economic activity, \$4.0 billion in value-added, \$2.1 billion in earnings, and about 53,000 permanent jobs.

At the same time, proximity tends to increase participation. Upon full implementation of racino gaming, the estimate is that the Texas market would have been as large as \$4.2 billion, of which local facilities would have served as much as \$3.4 billion. This would have had a significant fiscal impact on Texas; given a tax rate of 30 percent, the State would receive about \$1 billion in annual revenue from all sources, including the secondary effects associated with the economic impact outlined above.⁶ This amount is roughly equivalent to the amount raised by the Lottery during 2007.

In conclusion, racinos could have a significant impact on the Texas economy and State tax revenues. This is especially true in light of the current fiscal environment, where states throughout the nation are looking for ways to enhance revenue, including the possible introduction of casino gaming. Seen in this light, the magnitude and the timing of the opportunity would seem to warrant careful consideration.

⁶ Local governments would also realize significant benefit, although the measurement of this potential impact is outside the scope of this analysis.

Appendix 1: Texas Statewide Gaming Market Assessment

Texans for Economic Development (“Client”) engaged The Innovation Group to conduct a statewide Gaming Market Assessment (“Assessment”) for the State of Texas. The Assessment evaluates the impact of legalizing Video Lottery Terminals (“VLTs”) at Texas racetracks as well as various Native American casino developments. The Assessment estimates the potential gamer visits and top-line gaming revenue considering implementation of the following location scenario, as directed by the Client.

Location Scenario:

Sam Houston Race Park – Houston
Lone Star Park – Grand Prairie
Retama Park – San Antonio
Manor Downs – Austin
Saddlebrook Park – Amarillo
Austin Jockey Club – Austin
Valle de los Tesoros – McAllen
Laredo Race Partners – Laredo
LRP Group, Inc. – Laredo
Gillespie County Fair – Fredericksburg
Gulf Greyhound – LaMarque
Corpus Christi Greyhound – Corpus Christi
Valley Race Park - Harlingen

This scenario also assumes that the three proposed Native American casinos, including the Kickapoo (Eagle Pass), Alabama-Coushatta (Livingston) and the Tiguas (El Paso), would be in operation. In addition, the forecast assumes that each gaming facility would be allowed to offer the quantity of gaming devices that maximizes the potential of the facility.

Forecast Methodology

A complex gravity model was developed for the purpose of forecasting gamer visits and gaming revenue for the proposed markets in Texas. Gravity models are commonly used in location studies for commercial developments, public facilities and residential developments. First formulated in 1929 and later refined in the 1940s, the gravity model is an analytical tool that defines the behavior of a population based on travel distance and the availability of goods or services at various locations. The general form of the equation is that attraction is directly related to a measure of availability such as square feet (or for casinos, gaming positions) and inversely related to the square of the travel distance. Thus the gravity model quantifies the effect of distance on the behavior of a potential patron, and considers the impact of competing venues.

A constrained gravity model was used in projecting gaming activity for Texas using 27 discrete market areas. Each of these market areas was assigned a unique set of propensity

and frequency factors. These factors are generally derived based upon primary research in these and other gaming markets as well as proprietary information obtained by The Innovation Group from a number of sources. Gamer visits are estimated by zip code within each of the market areas based on these factors. The gamer visits are then distributed among the competitors based upon the size of each facility, considering its attractiveness and the relative distance from each zip code. This model utilizes the coordinates of each competitor, both existing and proposed. The gravity model then calculates the probabilistic distribution of gamer visits from each market area to each of the gaming locations in the market. Other competitors outside the market area are treated as external competitors siphoning off a portion of gaming trips from zip codes within the region.

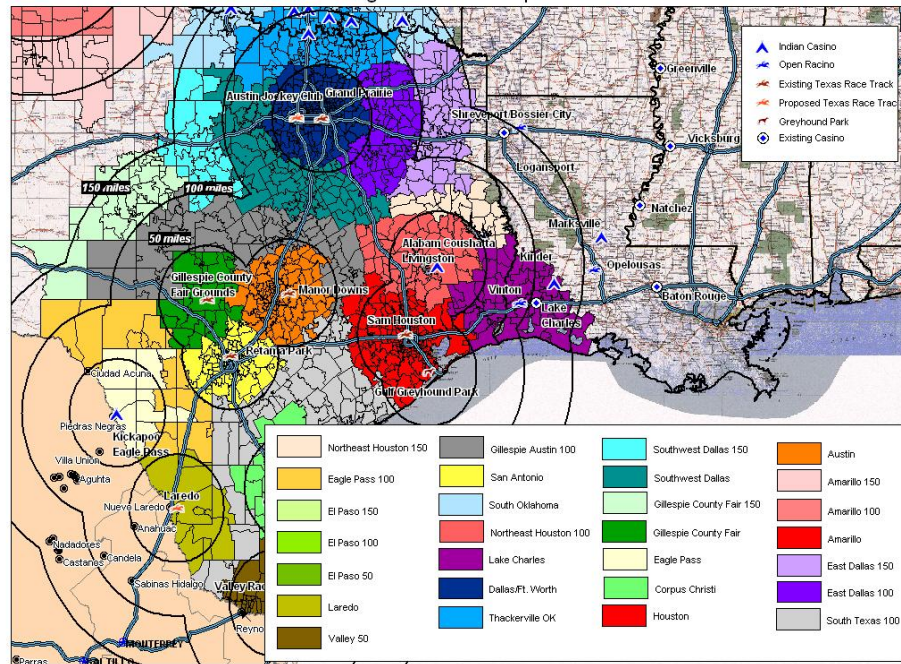
Each travel distance/time is evaluated to determine the likely alternative gaming choices for residents of the region. The model is constructed to include only those alternative venues that are considered to be within a reasonable travel time. These include competing casinos that have the potential to attract patrons, or capture visits from the market. Travel distances and time have been developed through use of The Innovation Group's GIS system and adjusted from there based upon the nature of the roadways, travel patterns, and convenience.

Market Carve-out

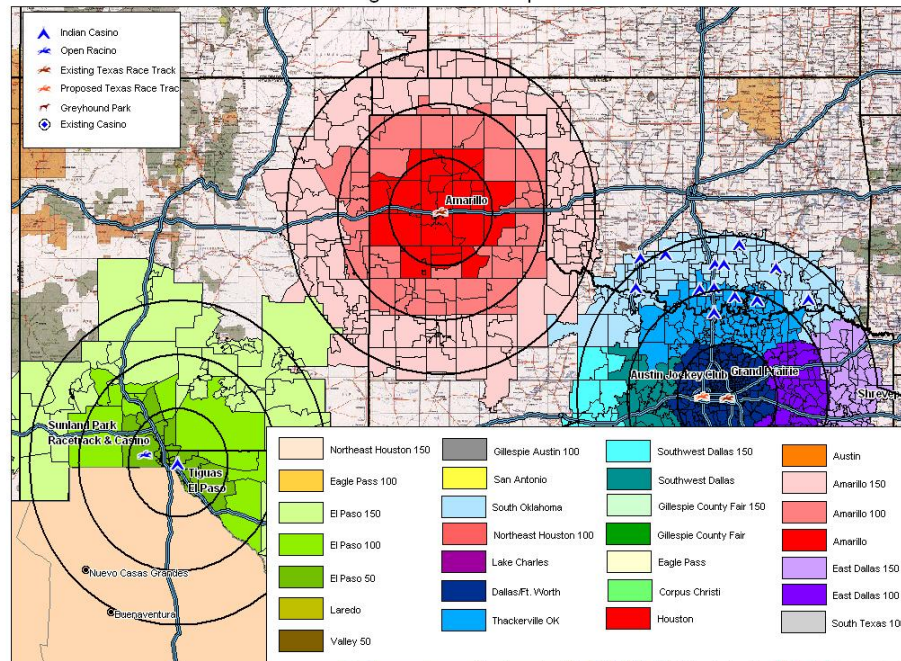
As mentioned above, the Texas market was carved into 27 distinct market areas. These market segments were defined to account for variations in highway access, population centers, gaming competition and demographics. For each market area, the gamer population and average household income statistics were obtained and analyzed. To these population segments, gaming factors were applied to arrive at market-wide estimated gamer visits and gaming revenue. Most notably, market areas have been carved taking into consideration the various new potential gaming sites. The following map is presented to demonstrate the boundaries of each of the defined markets.

Texas Market Carve-out Map

Texas Market Regions and Competitive Venues



Texas Market Regions and Competitive Venues



Market Segment Demographic Summary

In total, The Innovation Group estimated that about 16.1 million gamer adults (21+) were living in the Texas markets in 2006. The count is expected to reach approximately 17.7 million by 2011, reflecting a relatively low average growth rate of 1.9% per year. The growth rate is well above the national average of about 1%.

Gamer Population Summary			
Market Segment	2006	2011	AAG (2006-2011)
Dallas/Ft. Worth	3,930,741	4,404,322	2.30%
Thackerville	254,260	272,347	1.38%
East Dallas 100	336,041	363,176	1.57%
S. West Dallas	327,817	348,690	1.24%
S. Oklahoma	320,756	323,927	0.20%
East Dallas 150	382,149	399,528	0.89%
S. West Dallas 150	80,857	83,890	0.74%
Houston	3,666,453	4,081,148	2.17%
Lake Charles	509,067	521,890	0.50%
N. East Houston 100	117,457	125,032	1.26%
N. East Houston 150	78,226	80,402	0.55%
S. Texas	331,044	357,588	1.55%
Corpus Christi	365,280	377,212	0.64%
Valley	652,926	758,588	3.05%
Eagle Pass	167,613	185,614	2.06%
Laredo	120,256	143,815	3.64%
El Paso 50	593,109	644,468	1.67%
El Paso 100	26,346	28,347	1.47%
El Paso 150	189,077	194,463	0.56%
San Antonio	1,254,156	1,375,159	1.86%
Austin	1,097,136	1,249,785	2.64%
Gillespie County Fair	104,053	115,107	2.04%
Austin/Gillespie 100	418,699	450,796	1.49%
Gillespie County Fair 150	94,581	95,516	0.20%
Amarillo	234,746	246,483	0.98%
Amarillo 100	120,252	121,251	0.17%
Amarillo 150	348,148	358,679	0.60%
Total	16,121,246	17,707,223	1.89%

Source: MapInfo-Claritas; The Innovation Group

The Texas markets displayed a wide range of AAHI levels, from a high of \$73,400 for Dallas/Ft. Worth to a low of \$39,900 for the N. East Houston 150 market segment. The major cities generally showed a higher AAHI than the outer markets. The 5-year growth rates associated with the income levels were almost all over 2%, with S. West Dallas 150 displaying the highest expected growth rate of 2.65%. The following chart details the AAHI statistics for the market area.

AHHI Summary

Market Segment	2006	2011	AAG (2006-2011)
Dallas/Ft. Worth	\$73,438	\$80,679	1.90%
Thackerville	\$51,926	\$58,242	2.32%
East Dallas 100	\$51,906	\$57,576	2.10%
S. West Dallas	\$51,433	\$57,377	2.21%
S. Oklahoma	\$45,705	\$51,503	2.42%
East Dallas 150	\$49,121	\$54,751	2.19%
S. West Dallas 150	\$48,690	\$55,505	2.65%
Houston	\$67,773	\$74,371	1.88%
Lake Charles	\$49,921	\$56,009	2.33%
N. East Houston 100	\$46,210	\$52,142	2.44%
N. East Houston 150	\$39,917	\$44,614	2.25%
S. Texas	\$48,123	\$52,871	1.90%
Corpus Christi	\$49,044	\$55,034	2.33%
Valley	\$41,192	\$46,030	2.25%
Eagle Pass	\$43,620	\$49,535	2.58%
Laredo	\$43,014	\$48,570	2.46%
El Paso 50	\$46,441	\$51,421	2.06%
El Paso 100	\$38,144	\$42,141	2.01%
El Paso 150	\$44,399	\$49,187	2.07%
San Antonio	\$63,849	\$70,351	1.96%
Austin	\$71,703	\$78,885	1.93%
Gillespie County Fair	\$65,038	\$73,196	2.39%
Austin/Gillespie 100	\$52,471	\$57,957	2.01%
Gillespie County Fair 150	\$49,760	\$55,966	2.38%
Amarillo	\$50,629	\$56,055	2.06%
Amarillo 100	\$46,666	\$52,434	2.36%
Amarillo 150	\$47,689	\$53,483	2.32%

Source: MapInfo-Claritas; The Innovation Group

About The Innovation Group

The Innovation Group is the premier provider of consulting and management services for the gaming, hospitality, leisure and entertainment industries. Our inventive, forward-looking staff of professionals is known throughout the industry for the accuracy of our market forecasts and timely response to client needs. We provide feasibility studies, market assessments, strategic and financial planning, operations and marketing advisory services, and economic impact studies of the highest quality.

Public agencies throughout the U.S. and the world have turned to The Innovation Group for feasibility studies, strategic planning, and advice for structuring new gaming jurisdictions or privatizing state-run operations.

We provide our services for a flat fee, ensuring the objectivity of our recommendations. In addition, senior professionals have undergone suitability background investigations in securing key-person gaming licenses in Nevada, Colorado, Mississippi and New Jersey.

Financial institutions from Wall Street to Minneapolis to Los Angeles know and trust our work. To date our reports have been responsible for more than \$30 billion in investment decisions. Hotels, convention centers, casinos, stadiums, racetracks, entertainment halls, golf courses, spas, RV parks, restaurants, retail facilities—our list of successful leisure developments (along with our list of repeat clients) grows longer and more diverse every year.

In every state where racinos exist, The Innovation Group has been involved. Wherever racino legislation has been considered, state governments and track operators have consistently and successfully relied on our analyses in order to support gaming expansion efforts. We have worked for state agencies, tracks and breeders, and casino developers, and we understand the issues from every perspective. In addition, our legislative support has included the formulation of tax schedules and providing expert witness testimony regarding our findings.



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