

The Economic and Tax Revenue Impact of Slot Machines at Racetracks in Texas

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Win for Texas
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Reed Palmer Photography

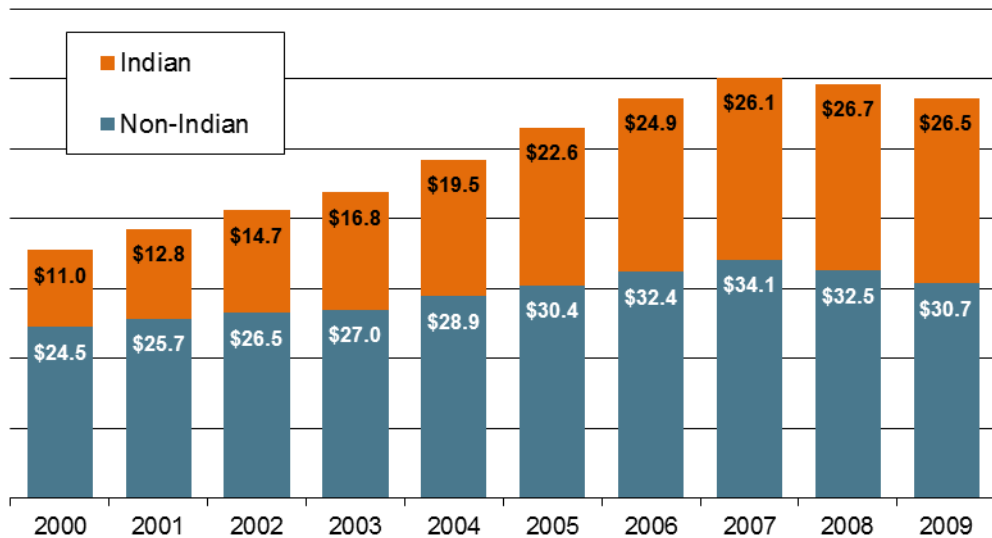


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Introduction

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. A lottery even helped pay for a portion of the American Revolution.

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

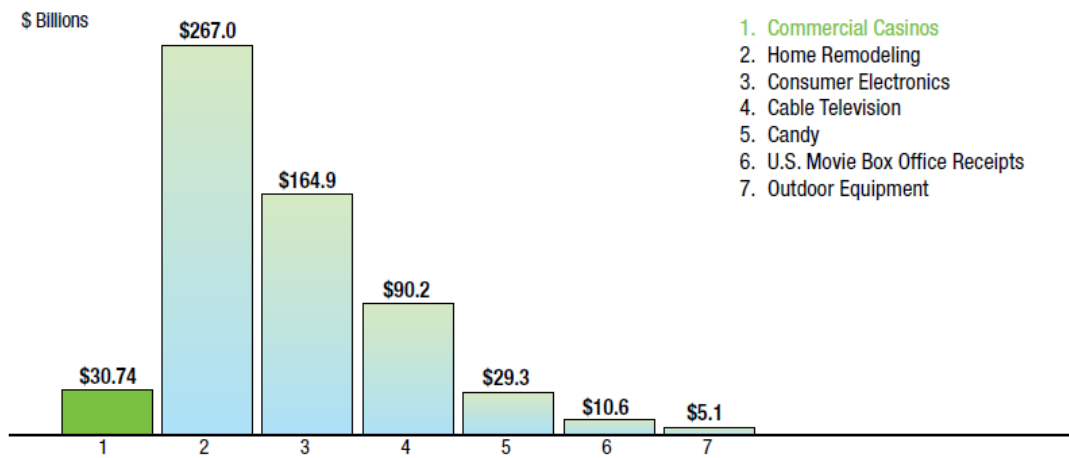


Source: American Gaming Association, Various State Agencies, National Indian Gaming Association, TXP

The first commercial casino opened in Nevada in 1931. For more than 40 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 casino gaming presence. At the end of 2009, there were 443 commercial casinos in 13 states employing approximately 328,000 people, generating total revenue of \$30.7 billion. At the same time, casinos on Native American reservations in 29 states generated an additional \$26.5 billion, putting total casino gaming in the U.S. at \$57.2 billion.¹ Since 1999, total casino revenues (commercial and Indian) grew at a compound annual rate of 6.0 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 (2009 \$Billions)

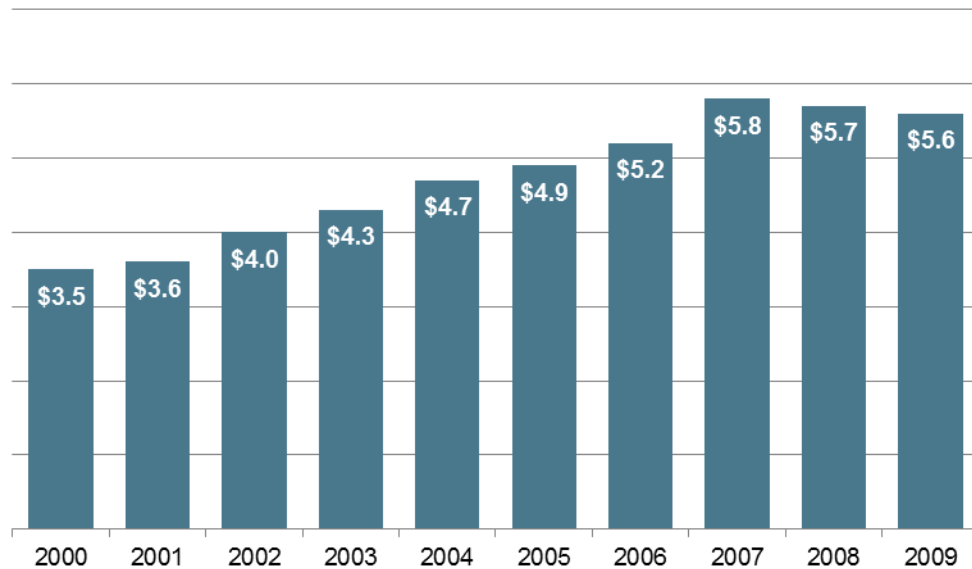


Sources: 1-American Gaming Association; 2-Home Improvement Research Institute; 3-Consumer Electronics Association; 4-National Cable and Telecommunications Association; 5-National Confectioners Association; 6-Boxofficemojo.com; 7-Outdoor Industry Association

Consumers spent more on commercial casino gambling than they did on candy, movie tickets or outdoor equipment during 2009, but considerably less than they did on home remodeling, cable television or consumer electronics.

Source: American Gaming Association

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



Source: American Gaming Association

The market for gaming remains relatively strong 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 slot machines at Texas racetracks as well as at the recognized Native American tribal lands. The figures above suggest that this holds 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 developed an estimate last year of the economic and tax revenue impacts associated with recapturing a portion of Texans’ gaming in other states by legalizing slot machines at racetracks. This analysis updates that work in three significant ways. First, base data on existing gaming activity is updated through 2009, and therefore reflects the recession that began late in 2008. Second, estimates prepared for Sam Houston Race Park by the Innovation Group (IG) on the size of the total Texas gaming market projected for 2013, the date of assumed implementation, have also been updated. Third, primary research was completed to better estimate the level of Texan gaming in adjacent states, with the result that the estimate of the “leakage” has been increased due to better information.

The economic impact calculations are based almost 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. There is a very modest amount of spending by non-Texans that would be induced if slot machines at racetracks were introduced that has been included in the calculations. This is referred to as *New Transient/Tourist Demand*. However, the vast majority of the impact is the recaptured share of Texan spending that currently leaves the state. 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 Local Demand*.

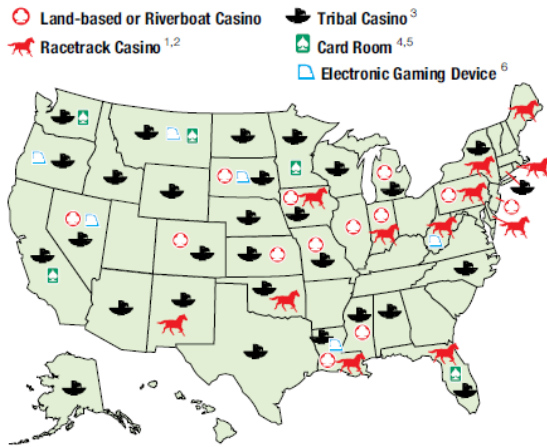
The analysis also does not address online gaming – the size of the market is unknown, and it is not expected that the introduction of slot machines at racetracks would have a measurable impact on this segment. To put these figures in context, background on the state of gaming in the U.S. is provided, 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 AGA reports only 13 states did not offer gaming of some type at the end of 2009.² 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.”

FIGURE 4: Distribution of Gaming Across the Country (from AGA)

Casino Locations by Category



- 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, 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

In 2009, U.S. commercial casinos:

- Employed 328,377 people
- Paid wages of \$13.1 billion
- Contributed \$5.59 billion in direct gaming taxes
- Earned \$30.74 billion in gross gaming revenue

Source: American Gaming Association

Casinos per State

STATE					
Alabama			3*		
Alaska			3*		
Arizona			25		
California			68	90	
Colorado	40°		2		
Connecticut			2		
Delaware		3■			
Florida	4		8	26	
Idaho			7		
Illinois			9		
Indiana	11	2			
Iowa	14	3	1		
Kansas	1		6		
Louisiana	14	4	3		2,272
Maine		1			
Michigan	3		20		
Minnesota			38	2	
Mississippi	30		2		
Missouri	12		2		
Montana			16	354 ²	1,438 ²
Nebraska			6*		
Nevada	260		3		2,063 ³
New Jersey	11				
New Mexico		5	22		
New York		8■	8		
North Carolina			2		
North Dakota			12		
Oklahoma		2	106		
Oregon			9		2,382■
Pennsylvania	3	6			
Rhode Island		2■			
South Dakota	35°		11		1,452 ²
Texas			1*		
Washington			33	116 ²	
West Virginia		4■			1,608■
Wisconsin			33		
Wyoming			4		
Total	443	44	456	588	11,215
Number of States	13	12	29	5	6

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

- ¹ Refers to number of non-casino locations in states where electronic gaming devices are present
- ² Number during FY 2009
- ³ Locations have 15 or fewer machines

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

² Arkansas authorized gaming in 2000, Maryland in 2008, and Ohio in 2009.

Focus on Racetrack Casinos

The racetrack casino sector continued to grow during 2009. While gaming and tax revenue increases were not as dramatic as they have been in the past, the sector’s modest growth during the last 12 months is significant because it came during a deep recession. Consumer spending at racetrack casinos rose in 2009 to \$6.4 billion, a 5.0 percent increase over 2008 figures. Gaming tax contributions from racetrack casinos also increased during 2009, with \$2.63 billion in gaming taxes being returned to state and local governments — a 1.2 percent increase that was vital during a time when most state and local governments struggled to balance their budgets.

FIGURE 5: Consumer Spending on Racetrack Casinos: 2002-2009

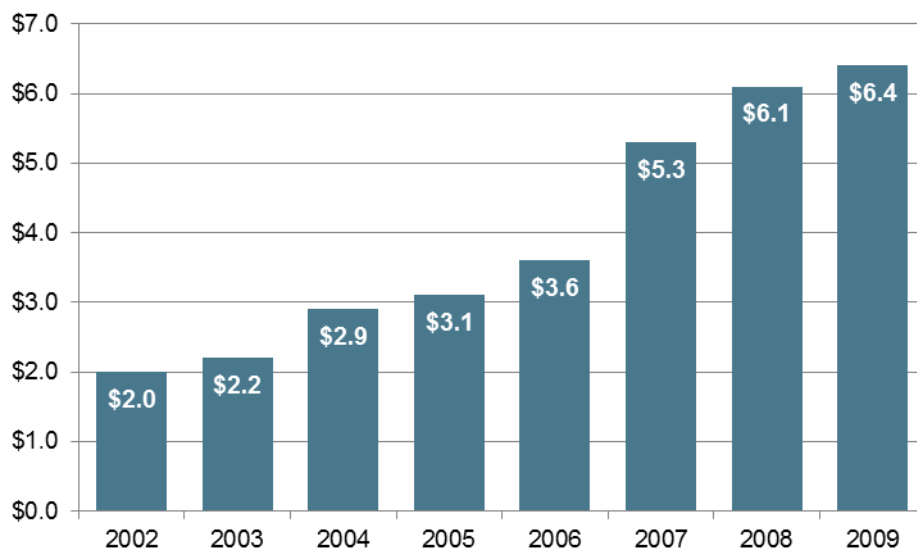
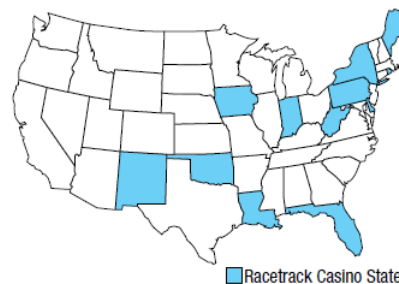


FIGURE 6: Racetrack Casino Jobs by State: 2008 v. 2009

STATE	2008	2009	CHANGE
Delaware	2,582	2,363 ¹	-8.5%
Florida	2,201	2,156	-2.0%
Indiana	1,412	1,847	+30.8%
Iowa	2,668	2,586	-3.1%
Louisiana	2,268	2,260	-0.4%
Maine	324	303	-6.5%
New Mexico	1,605	1,446	-9.9%
New York	3,413	3,180	-6.8%
Oklahoma	1,050	1,097 ²	+4.5%
Pennsylvania	4,948	5,799	+17.2%
Rhode Island	1,310	1,300 ³	-0.8%
West Virginia	5,270	4,688	-11.0%
Total	29,051	29,025	-0.1%



In all, employment at racetrack casinos during 2009 remained relatively flat, as the 29,025 people employed at racetrack casinos was only a 0.1 percent decrease from 2008 figures. Indiana and Pennsylvania experienced the largest employment increases (+30.8 percent and +17.2 percent, respectively). Those new jobs, which were due to property expansions, helped to balance drops in employment in nine other states.

¹ Employment data from 2008 was used for one property in Delaware that declined to participate in the data collection.

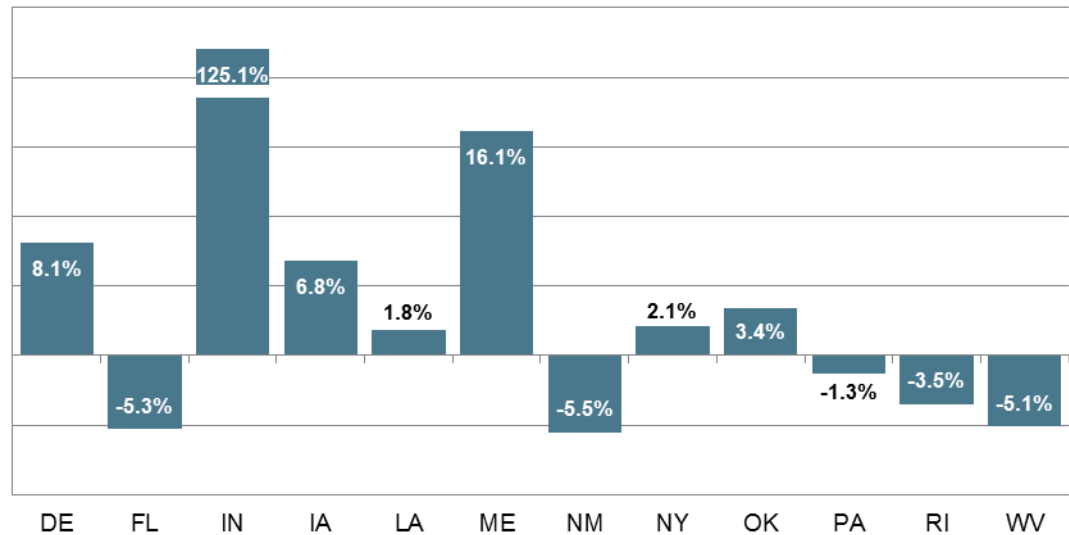
² Employment numbers for Oklahoma racinos are based on the three properties that were open during 11 months of 2009. At the end of 2009, only two properties remained open.

³ Employment data from 2008 was used for one property in Rhode Island that declined to participate in the data collection.

Sources: State Gaming Regulatory Agencies, Individual properties

Source: American Gaming Association

FIGURE 7: Racetrack Casino Distributions to State/Local Govt.: '08-'09 Change



Source: American Gaming Association, TXP

The Impact of Slot Machines at Racetracks to Texas

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, primary field research, 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 \$2.7 billion during 2009, the equivalent of about 4.7 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: 2009 Regional Gaming Revenue from Texans (\$Millions)

	Total Gaming	Texas Share	Texas Values
Oklahoma	\$3,224.6	36.8%	\$1,186.7
Louisiana	\$2,534.1	43.6%	\$1,104.4
Nevada	\$10,392.7	2.7%	\$280.6
Mississippi	\$2,464.7	2.5%	\$61.6
Arizona	\$2,053.7	2.0%	\$41.1
New Mexico	\$349.6	7.8%	\$27.3
Colorado	\$734.6	2.1%	\$15.8
Total 2009	\$21,754.0	12.5%	\$2,717.4

Source: various state agencies, CVBs, primary field research, other academic studies, TXP

³ Texas was 8.1% of the nation's population during 2009.

As previously mentioned, IG was engaged by Sam Houston Race Park to update its estimate of the size of Texas' gaming market. A summary of their results follows. According to IG, the total Texas market gaming market approaches \$3.9 billion at full implementation in 2013. However, as the table indicates, there is still leakage out of state, as some Texans will continue to game elsewhere.

TABLE 2: Total Gaming Revenue by Racetrack (2013) – Slots Only

Property	Local Market	Tourist	Traffic Intercept	Total Gaming Revenue
Lone Star Park	\$888,757,605	\$9,803,263	\$7,042,699	\$905,603,567
Sam Houston	\$620,210,077	\$15,653,300	\$8,584,807	\$644,448,184
Gulf Greyhound	\$219,025,763	\$6,434,119	\$1,502,645	\$226,962,527
Manor Downs	\$156,979,164	\$7,629,049	\$1,702,997	\$166,311,210
Retama Park	\$359,538,549	\$3,834,860	\$12,236,689	\$375,610,097
Gillespie Fair	\$21,436,435	\$1,271,991	\$390,991	\$23,099,418
Gulf Coast Racing	\$67,467,522	\$4,535,774	\$3,824,914	\$75,828,211
Valley Race Park	\$67,361,034	\$1,235,717	\$2,889,935	\$71,486,687
Laredo Downs	\$21,936,003	\$3,055,169	\$1,809,712	\$26,800,884
Laredo Race Park	\$20,857,251	\$3,055,169	\$2,895,539	\$26,807,959
Longhorn Downs	\$327,048,037	\$15,894,245	\$1,320,506	\$344,262,788
Saddlebrook Park	\$64,765,229	\$3,415,437	\$6,101,648	\$74,282,314
Tesoros Race Park	\$103,788,362	\$4,975,778	\$2,231,200	\$110,995,340
Total	\$2,939,171,031	\$80,793,871	\$52,534,281	\$3,072,499,184

Source: The Innovation Group

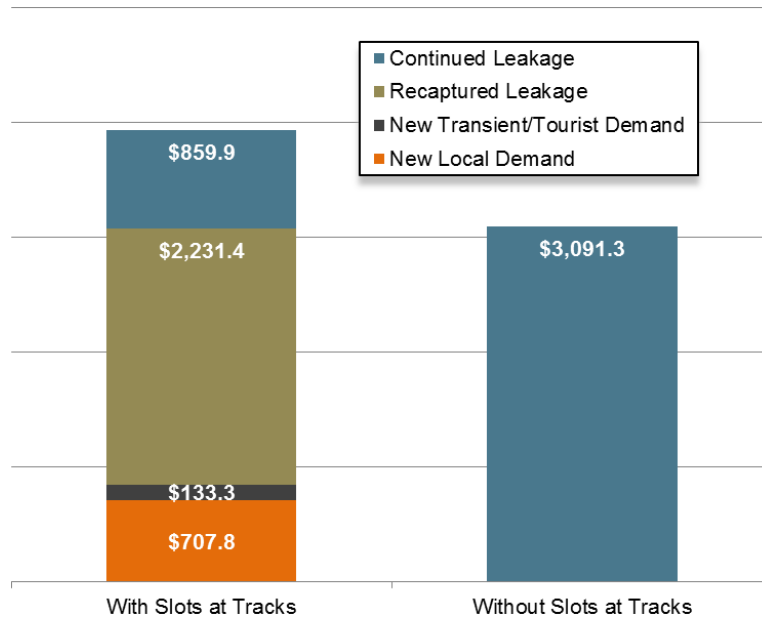
A significant share of the revenue that would occur in Texas with the implementation of slots at racetracks would be recaptured from other states where Texans currently game. Measurement of the volume of this spending is done through subtracting the leakage out-of-state (\$859.9 million) from the \$2.7 billion figure, yielding recaptured and new non-local spending of approximately \$3 billion. Table 3 and Figure 7 provide further illustration.

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

	Gaming Market
Recaptured Leakage	\$2,231.4
New Local Demand	\$707.8
New Transient/Tourist Demand	\$133.3
Continued Leakage	\$859.9
Total Texas Market 2013	\$3,932.4

Source: The Innovation Group, TXP

FIGURE 7: Texas Gaming With and Without Slots at Racetracks: (\$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 60 cents is spent in the local economy on tourism-related goods and services. As a result, the estimate is that about \$3.8 billion in direct spending could be injected into the Texas economy from the combination of recapture and new tourist/transient activity. It should be noted that this impact does not include the construction associated with building/expanding new facilities, but focuses solely on spending once operations commence. The breakdown follows.

TABLE 4: Total Direct Spending Due to Slots at Racetracks in Texas (\$Millions)

	Annual Spending
Recaptured Texan Gaming	\$2,231.4
New Transient/Tourist Gaming	\$133.3
Recaptured/New Food/Beverage	\$975.1
Recaptured/New Retail/Lodging	\$455.6
Total Annual Injection	\$3,795.4

Source: TXP

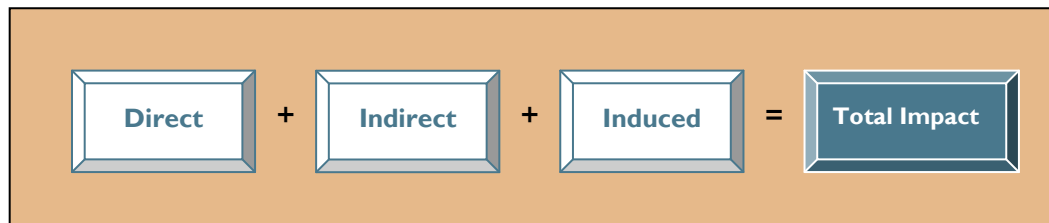
Calculation of the Economic Impact

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 \$3.8 billion in direct spending translates into a total economic impact of \$9.6 billion worth of economic activity, \$5.6 billion in value-added, \$2.9 billion in earnings, and approximately 77,500 jobs. This is well above the original estimates, and is a function of a higher level of leakage and subsequent recapture – since more money is being returned to Texas, the overall economic impact is greater. The breakdown follows.

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

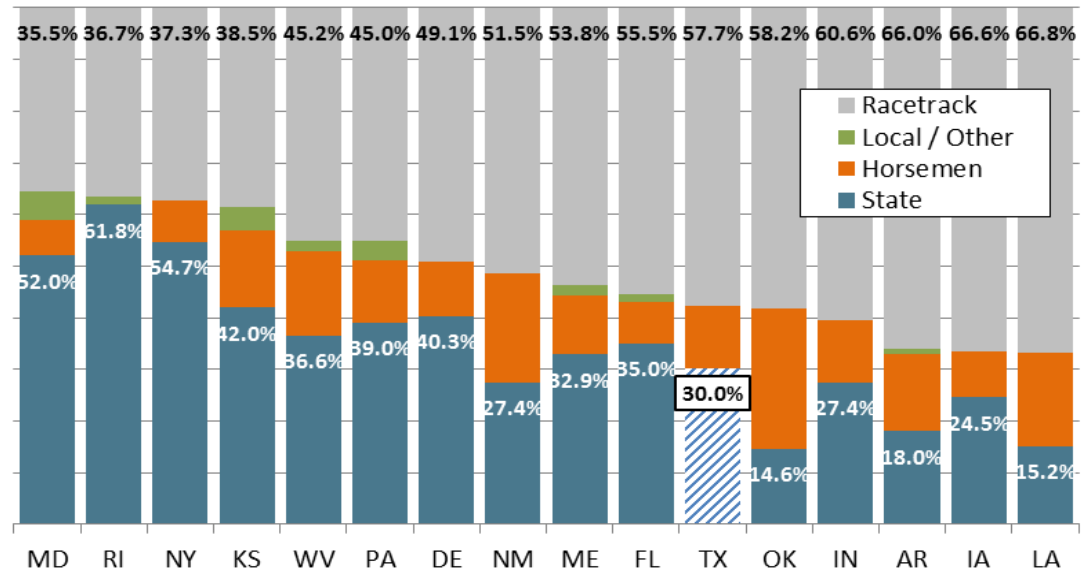
	Output	Value-Added	Earnings	Jobs
Agriculture, etc.	\$120.7	\$35.5	\$14.8	946
Mining	\$42.6	\$17.7	\$7.5	41
Utilities	\$170.6	\$101.4	\$29.9	195
Construction	\$52.0	\$23.3	\$18.5	292
Manufacturing	\$808.5	\$249.0	\$116.7	1,779
Wholesale Trade	\$280.1	\$179.7	\$84.7	982
Retail Trade	\$557.1	\$329.4	\$178.3	5,919
Transport & Warehousing	\$222.8	\$118.6	\$70.4	1,165
Information	\$257.0	\$138.9	\$64.9	722
Finance & Insurance	\$460.0	\$271.1	\$109.8	1,346
Real estate	\$741.3	\$557.9	\$49.2	1,008
Professional Services	\$289.9	\$202.4	\$125.2	1,560
Management of Firms	\$64.7	\$45.5	\$29.8	304
Administrative Services	\$180.2	\$128.8	\$71.9	1,941
Educational Services	\$59.7	\$33.4	\$25.6	666
Health care	\$376.4	\$233.9	\$173.1	3,012
Arts/Entertain/Recreation	\$2,413.0	\$1,576.8	\$912.5	24,444
Lodging & Food Services	\$1,174.1	\$596.0	\$435.8	29,596
Other Services	\$206.3	\$116.5	\$62.0	1,623
Total Annual	\$8,477.1	\$4,955.9	\$2,580.7	77,540

Source: TXP

The Tax Revenue Impact of Slot Machines at Racetracks in Texas

Slot machines at racetracks contributed approximately \$2.6 billion to state and local governments across the nation during 2009, a slight increase from 2008. The table that follows shows public sector revenue, the amount retained by operators, and other distributions as a percentage of gross gaming revenue. As indicated, the effective tax rate is wide-ranging, from 14.6 percent in Oklahoma to 61.8 percent in Rhode Island. Overall, the average effective tax rate nationwide is 37.0 percent.

FIGURE 9: Distribution of the Slot Machines at Racetracks Dollar



Source: Sam Houston Race Park, TXP

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).⁴

The Comptroller’s Office also has estimated the loss of Lottery proceeds if gaming is implemented. This data is adjusted to reflect a greater level of gaming activity that was used in their initial analysis and current Lottery trends. 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 \$131 million to the State coffers annually. Taken together, the implementation of slots at racetracks should contribute just under \$1 billion annually to the State.

⁴ 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 6: Potential Texas Annual Slot Machines at Racetracks Related Tax Revenue: (\$Millions)

	Revenue Source
Recaptured Leakage	\$669.4
New Local Demand	\$212.3
New Transient/Tourist Demand	\$40.0
Lost Sales Tax	(\$16.3)
Lost Lottery Proceeds	(\$68.7)
New Indirect Revenue	\$130.9
Total Annual Net Revenue	\$967.7

Source: TXP

Conclusion

As an industry with over \$57 billion in annual revenue, gaming (both commercial and Indian) is clearly one of the largest entertainment industries in the United States. Texans are part of this process, spending about \$2.7 billion directly at gaming facilities in a number of states in 2009. Since these trips are by definition out of state, this money “leaks” outside of Texas, along with the extra spending at hotels, restaurants, etc. that goes along with it. If slot machines at racetracks were locally available, a large amount of this leakage would be eliminated, as TXP estimates that approximately \$2.4 billion in gaming revenue (and \$3.8 billion total) would appear in-state by the end of 2013. This in turn would create \$8.5 billion in total economic activity, \$2.6 billion in earnings, and about 77,500 permanent jobs.

At the same time, proximity tends to increase participation. Upon full implementation of slots at racetracks, the estimate is that the Texas market would be as large as \$3.9 billion, of which local facilities would serve as much as \$3.0 billion. This would have 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 above⁵. This amount is slightly larger than the amount the Lottery raised during 2009. In conclusion, slot machines at racetracks 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.

⁵ 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

Sam Houston Race Park (“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 slot machines 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.

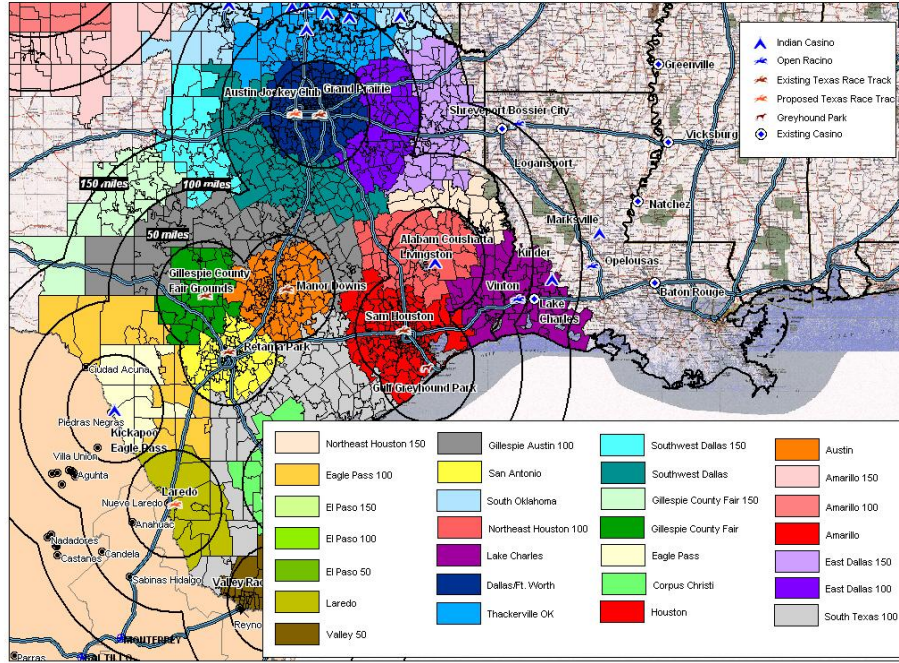
Each travel distance/time is evaluated to determine the likely alternative gaming choices for residents of the region. The model is constructed to include only those alternative venues that are considered to be within a reasonable travel time. These include competing casinos that have the potential to 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

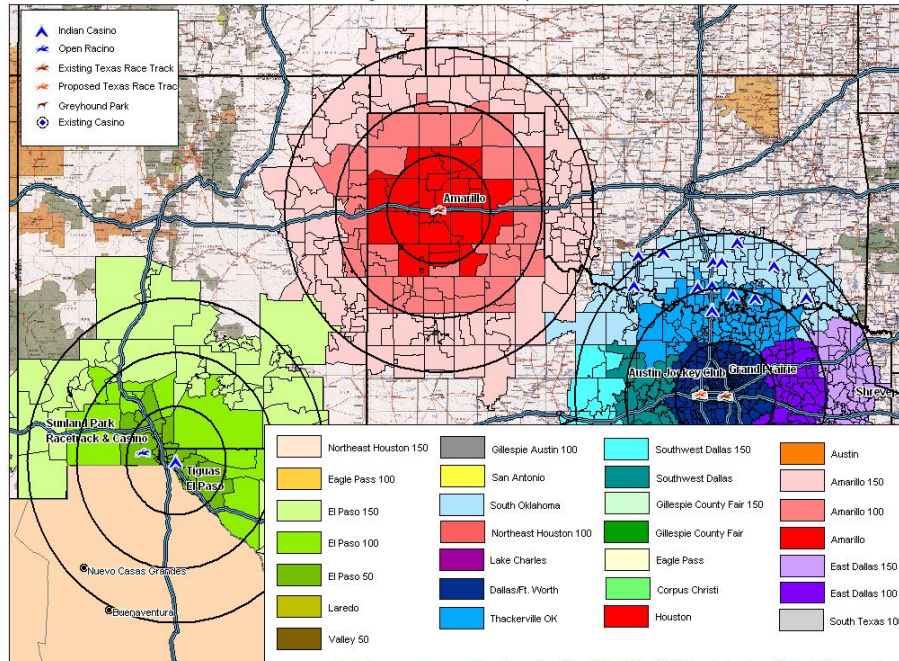
As mentioned above, the Texas market was carved into 27 distinct market areas. These market segments were defined to account for variations in highway access, population centers, gaming competition and demographics. For each market area, the gamer population and average household income statistics were 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



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 racetrack casinos exist, The Innovation Group has been involved. Wherever racetrack casinos 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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