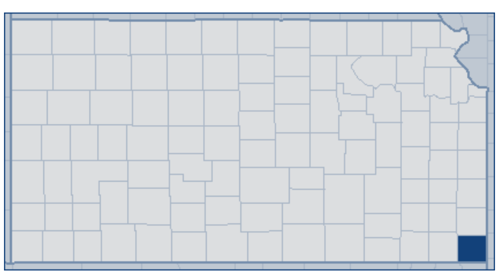
KANSAS RACING AND GAMING COMMISSION

LOTTERY GAMING FACILITY REVIEW BOARD

ECONOMIC IMPACTS OF PROPOSED GAMING FACILITIES

SOUTHEAST ZONE (CHEROKEE COUNTY)

JULY 2008



CIVIC ECONOMICS
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INTRODUCTION

Civic Economics is pleased to present the Kansas Racing and Gaming Commission and the Lottery Gaming Facility Review Board with this economic impact analysis of the competing proposals for the Southeast Gaming Zone. Fiscal impacts, covering benefits and costs to governmental bodies, are being prepared separately by Meridian Business Advisors.

Civic Economics utilizes IMPLAN, a product of the Minnesota Implan Group and an industry-standard tool for evaluating the impact of economic activities. Given the Board's statewide mandate, Civic Economics used Kansas as the operative study area and applied multipliers and other data from IMPLAN's Local Area Data File for the state rather than for smaller jurisdictions such as counties. Therefore, all impacts reported on the pages that follow are impacts on the State of Kansas.

Economic impacts analyses were conducted for two wholly separate phases of each proposal.

- Construction Impacts cover the development of Phase I of each proposal, including planning and design and actual construction of all facilities required by the applicant's contract with the Kansas Lottery Commission. Expenditures were assumed to occur entirely within 2010. Site acquisition is not included in an economic impact because it is assumed this cost would be necessary for any project which occupies that specific piece of land and therefore is considered a transfer payment and not an economic impact.
- Operating Impacts cover the first full year of operation. Because all applicants propose to open complete Phase I facilities in mid- to late- 2010, operating impacts were prepared for the year 2011.
- The report concludes with a discussion of the competitive impacts on existing businesses in the Southeast Zone.

CONSTRUCTION IMPACTS

The construction phase of each proposed facility will generate substantial but temporary economic activity related to designing and building the gaming facilities and associated infrastructure. In each case, Civic Economics assumed that all expenditures would take place in the year 2010 for the simple reason that applicant submissions did not allow a more time specific analysis.

Inputs were derived from the Performance Templates submitted to the KRGC in June 2008. Where specific and verifiable deviations in development proposals were identified, inputs were changed accordingly. In the Southeast Zone, figures were not further adjusted.

The economic impact of any construction project is, as one might assume, driven primarily by the total expenditure on the facility. However, impacts will vary depending on the type of expenditure and the likelihood that such expenditures will be made in Kansas. For this analysis, Civic Economics consistently applied the Local Coefficients provided by IMPLAN, as these provide a credible estimate of local spending for each type of expenditure. It should be noted, though, that conscientious project managers with supportive clients can substantially increase the use of local contractors and suppliers. Therefore, the impacts described below may be received as conservative.

Taking our lead from the analysts accustomed to working with gaming facilities, Furniture Fixtures & Equipment (FFE), Floor & Wall Coverings, and Gaming Equipment were not included in the impact inputs for any applicant. These items are quite specialized in the gaming industry and thus will come primarily from out of state.

Impact Reporting

The economic impacts are comprised of three separate categories. Each category is analyzed separately from one another in IMPLAN.

- **Economic Output** is the total production or sales derived from the project. For this study, the total construction costs and casino revenue are the basis for output.
- **Employment** is the total number of Kansans employed both on a full and part time basis in a given industry.

- **Wages** is the amount of salaries and benefits paid to Kansas employees.

For each of the categories listed above a direct effect, indirect effect, and induced effect has been calculated.

- **Direct** effects capture the initial impact created. For construction impacts, this is based on the amount spent in each of a variety of categories in site preparation and facilities design and development. In this analysis, these were provided by the applicants.
- **Indirect** effects are additional impacts derived from businesses providing products or services to the selected industries. This can be restaurants purchasing supplies, the casino hiring a security firm, or the hotel purchasing advertising from a local radio station. Those are all examples of indirect effects.
- **Induced** effects are the result of increased household spending due to the direct and indirect effects. Employees of firms directly or indirectly affected by the project are buying new cars, homes, and groceries locally and this is detailed in the indirect effects.

Chart 1: Applicant Submissions and Model Inputs

APPLICANT SUBMISSION AND MODEL INPUT CORRESPONDENCE
CONSTRUCTION ECONOMIC IMPACT ANALYSIS

Applicant Submission Category		IMPLAN Category Applied	Notes
Buildings	➡	Construction of commercial and institutional buildings	
Land	➡	None	Land purchases are not factored into economic impacts
Land improvements, excluding landscaping	➡	Other new construction	
Landscaping	➡	Other new construction	
Soft Costs, i.e. engineering, architectural, development fees	➡	Architectural and engineering services	
Financing costs	➡	None	Financing costs were not factored into the economic impacts
Public sector infrastructure	➡	Split evenly with Highway, street, bridge, tunnel construction and Water, sewer, and pipeline	
Rolling stock	➡	Motor vehicle and parts dealers	
Furniture, fixtures and equipment	➡	None	Assumed purchases would be made out of state
Floor and wall treatments	➡	None	Assumed purchases would be made out of state
Gaming equipment	➡	None	Assumed purchases would be made out of state

Chart 2: Penn Cherokee Construction Economic Output

PENN CHEROKEE
CONSTRUCTION IMPACTS

		ECONOMIC OUTPUT (In 2007 Dollars)			
Code	**Sector**	**Direct**	**Indirect**	**Induced**	**Total**
1	11 Ag, Forestry, Fish & Hunting (AGG)	0	18,507	165,917	184,423
19	21 Mining (AGG)	0	477,611	229,831	707,441
30	22 Utilities (AGG)	0	190,070	523,375	713,445
33	23 Construction (AGG)	40,556,063	119,098	114,443	40,789,602
46	31-33 Manufacturing (AGG)	0	3,554,296	2,054,039	5,608,335
390	42 Wholesale Trade (AGG)	0	930,248	1,137,955	2,068,202
391	48-49 Transportation & Warehousing (AGG)	0	692,663	495,695	1,188,359
401	44-45 Retail trade (AGG)	240,366	1,430,838	2,549,034	4,220,238
413	51 Information (AGG)	0	412,446	563,008	975,455
425	52 Finance & insurance (AGG)	0	925,986	1,776,154	2,702,140
431	53 Real estate & rental (AGG)	0	846,977	995,822	1,842,799
437	54 Professional- scientific & tech svcs (AGG)	5,431,355	3,680,116	628,513	9,739,984
451	55 Management of companies (AGG)	0	156,845	150,140	306,986
452	56 Administrative & waste services (AGG)	0	868,703	353,139	1,221,843
461	61 Educational svcs (AGG)	0	12,091	255,535	267,626
464	62 Health & social services (AGG)	0	388.773	3,282,985	3,283,374
475	71 Arts- entertainment & recreation (AGG)	0	32,111	189,775	221,886
479	72 Accomodation & food services (AGG)	0	211,788	1,101,793	1,313,581
482	81 Other services (AGG)	0	283,366	780,078	1,063,444
495	92 Government & non NAICs (AGG)	0	136,271	3,098,256	3,234,528
		$ 46,227,784	***$ 14,980,420***	***$ 20,445,488***	***$ 81,653,692***

Source: Applicant Submissions, IMPLAN, Civic Economics

Chart 3: Penn Cherokee Construction Employment

PENN CHEROKEE CONSTRUCTION IMPACTS					
		TOTAL EMPLOYMENT			
Code	Sector	Direct	Indirect	Induced	Total
1	11 Ag, Forestry, Fish & Hunting (AGG)	0.0	0.1	1.2	1.3
19	21 Mining (AGG)	0.0	1.4	0.7	2.1
30	22 Utilities (AGG)	0.0	0.4	1.0	1.4
33	23 Construction (AGG)	422.8	1.0	1.1	424.9
46	31-33 Manufacturing (AGG)	0.0	8.6	4.2	12.8
390	42 Wholesale Trade (AGG)	0.0	5.6	6.9	12.5
391	48-49 Transportation & Warehousing (AGG)	0.0	6.2	4.8	11.0
401	44-45 Retail trade (AGG)	2.5	24.5	43.7	70.7
413	51 Information (AGG)	0.0	1.2	1.8	3.0
425	52 Finance & insurance (AGG)	0.0	5.5	10.3	15.8
431	53 Real estate & rental (AGG)	0.0	5.7	8.1	13.7
437	54 Professional- scientific & tech svcs (AGG)	42.5	28.7	6.0	77.3
451	55 Management of companies (AGG)	0.0	0.9	0.8	1.7
452	56 Administrative & waste services (AGG)	0.0	17.5	6.4	23.9
461	61 Educational svcs (AGG)	0.0	0.2	5.2	5.5
464	62 Health & social services (AGG)	0.0	0.0	41.8	41.8
475	71 Arts- entertainment & recreation (AGG)	0.0	1.2	5.5	6.7
479	72 Accomodation & food services (AGG)	0.0	3.8	21.8	25.7
482	81 Other services (AGG)	0.0	3.9	17.2	21.1
495	92 Government & non NAICs (AGG)	0.0	0.7	1.9	2.6
30001	Instutitions (AGG)	0.0	0.0	0.0	0.0
		467.8	***117.3***	***190.4***	***775.4***

Source: Applicant Submissions, IMPLAN, Civic Economics

Chart 4: Penn Cherokee Construction Wages

PENN CHEROKEE CONSTRUCTION IMPACTS					
			Total Wages in 2007 Dollars		
Code	**Sector**	**Direct**	**Indirect**	**Induced**	**Total**
1	11 Ag, Forestry, Fish & Hunting (AGG)	0	3,691	19,075	22,766
19	21 Mining (AGG)	0	116,152	55,721	171,873
30	22 Utilities (AGG)	0	37,206	101,051	138,257
33	23 Construction (AGG)	18,201,360	44,777	45,582	18,291,718
46	31-33 Manufacturing (AGG)	0	555,093	274,049	829,143
390	42 Wholesale Trade (AGG)	0	352,177	430,812	782,989
391	48-49 Transportation & Warehousing (AGG)	0	286,000	204,259	490,259
401	44-45 Retail trade (AGG)	109,625	575,926	1,027,933	1,713,485
413	51 Information (AGG)	0	96,758	114,173	210,931
425	52 Finance & insurance (AGG)	0	281,020	495,842	776,862
431	53 Real estate & rental (AGG)	0	145,953	169,979	315,933
437	54 Professional- scientific & tech svcs (AGG)	2,938,267	1,840,289	272,847	5,051,403
451	55 Management of companies (AGG)	0	68,057	65,148	133,205
452	56 Administrative & waste services (AGG)	0	473,578	173,030	646,608
461	61 Educational svcs (AGG)	0	5,326	116,389	121,715
464	62 Health & social services (AGG)	0	136.7905	1,687,821	1,687,958
475	71 Arts- entertainment & recreation (AGG)	0	9,810	63,653	73,462
479	72 Accomodation & food services (AGG)	0	71,224	355,846	427,069
482	81 Other services (AGG)	0	115,140	352,918	468,058
495	92 Government & non NAICs (AGG)	0	31,129	90,844	121,973
30001	Instutitions (AGG)	0	0	0	0
		$ 21,249,252	***$ 5,109,440***	***$ 6,116,972***	***$ 32,475,663***

Source: Applicant Submissions, IMPLAN, Civic Economics

OPERATING IMPACTS

This section of this report analyzes the economic impacts to be generated by each proposal in the first full year of operation, which is 2011 for all proposals. As with construction, economic impacts were calculated for the entire state of Kansas using the IMPLAN model.

Notes:

***Gaming Revenue and Operational Scale*:** As requested by the Board, all applicants provided a detailed spreadsheet looking forward into several years of operations. In all cases, these sheets proceeded from an estimate of the gaming revenue to be earned at each facility, as estimated by the applicants. For this exercise, though, Civic Economics was asked to evaluate impacts based on the gaming revenue forecast by the Board's own consultants, Wells Gaming and Cummings & Associates. In the Southeast Zone, these estimates were substantially lower than the applicant had put forward, as illustrated in Chart 8 on the following page. Consequently, the economic impact of gaming activities relied on these lower revenue figures as an input into the model.

This analysis also assumes that, in general, non-gaming activities in proposed facilities would change in proportion with the gaming revenues, which was in this case a reduction. Chart 5 also illustrates those adjustments to non-gaming revenue.

Chart 5: Revenue Forecast Adjustments

REVENUE FORECASTS, 2011
SOUTHEAST GAMING ZONE (IN 2007 Dollars)

GAMING REVENUE PROJECTIONS

	Penn Cherokee
Estimated gaming revenue: Applicant	$ 57,393,218
Estimated gaming revenue: Wells	$ 28,372,204
Estimated gaming revenue: Cummings	$ 32,040,000
Average of Wells & Cummings	$ 30,206,102
Ratio of Wells/Cummings to Applicant	0.5263

ADJUSTED NON-GAMING REVENUE PROJECTIONS

	Penn Cherokee
Hotel Revenue	$ -
Food Revenue	$ 1,449,959
Retail Revenue	$ 302,061
Other Revenue	n/a

SOURCE: Applicant Submissions, Wells Gaming and Cummings & Assoc., Probe Strategic Solutions, Civic Economics

***Total Impacts and Net Impacts*:** The layman might expect an economic impact analysis to quantify the output, employment, and wages of the totality of a proposed facility, which in this case would be built from total projected gaming revenues. However, such an analysis would substantially overstate the true economic impact the facility will have on the State of Kansas as it would, by design, incorporate the impact of money simply redirected from one local activity to another. The true economic impact of a facility is based on a more meaningful number, the net impact.

In this case, net economic impact identifies only that economic activity that is truly new to the jurisdiction. This new activity is made up of two components:

a. **Export Revenue:** This refers to the portion of gaming revenues derived from non-Kansas visitors that would not, absent the proposed casino, have occurred in Kansas. This revenue is truly new to Kansas as out-of-state visitors spend money in the state they would not have otherwise spent.
b. **Import Substitution Revenue:** This refers to the portion of gaming revenues derived from Kansas residents that would, absent the proposed casino, have occurred outside of Kansas. Again, this revenue is truly new to Kansas as Kansas residents repatriate out-of-state casino spending with in-state casino spending.
c. **Redirected Local Activity:** The remainder of gaming revenue not accounted for above is not included in the net economic impact analysis, because it reflects casino spending by Kansans that would not otherwise have occurred in any casino. This revenue is not new to Kansas because it represents a diversion of other Kansas household income that previously went to innumerable alternative discretionary activities. However, there is a definite fiscal advantage to this activity in the form of additional taxes generated. These fiscal impacts are detailed in the report provided by Meridian Business Advisors.

These values were calculated from the reports of Wells and Cummings. Chart 6 on the following page summarizes the calculation of net new gaming revenues used to calculate net economic impact. It should be noted, and is reflected in this chart, that Wells and Cummings prepared and reported these calculations by different approaches; this chart reflects the detail available from each.

Chart 6: Net Revenues in Kansas

EXPORT AND IMPORT SUBSTITUTION IN KANSAS CASINOS, 2011 SOUTHEAST ZONE		
		Penn Cherokee
Wells		
Estimated Gaming Revenue	$	28,372,204
Estimated Gaming Export		*Wells methodology did not allow a breakdown of these values*
Estimated Gaming Import Substitution		
Net or New Revenue	$	24,487,411
Cummings		
Estimated Gaming Revenue	$	32,040,000
Estimated Gaming Export	$	24,600,000
Estimated Gaming Import Substitution	$	4,200,000
Net or New Revenue	$	28,800,000
Average Net Revenue	**$**	**26,643,706**
Net as a % of Gaming Revenue		**93.9%**

SOURCE: Wells, Cummings, Civic Economics

Final Input Modifications: In order to provide fair and equitable treatment of all applicants, Civic Economics determined to run the same model, with the same modifications, for each application. While necessary to the task at hand, this required some modest modifications and adaptations from the data provided by the applicants.

Among these adjustments, those for employment and labor were the most challenging. IMPLAN is designed to estimate wages and employment based on industry averages in the study jurisdiction. However, given the limited and nontraditional form of casino gaming in Kansas currently, it was not surprising that the Local Area Data Set estimated both total employment and wages substantially lower than what was indicated by the applicants. Upon careful analysis of the applicant submissions for both the Southeast and South Central Zones, it became apparent that we could not confidently apply the applicants' own values directly into the model; the ranges were simply too extreme and belied a somewhat haphazard completion of the submission templates by some applicants.

In order to correct for the inherently low productivity and wage numbers in the model, Civic Economics instead applied the average of all applicants for each in worker productivity and wages, as shown at right:

APPLICANT SUBMISSION MODIFICATIONS
OPERATION ECONOMIC IMPACT ANALYSIS

Category	Harmonized Value	Notes
Revenue per employee	$ 146,960	Using an average of all casino applications
Wages per employee	$ 33,540	Using an average of all casino applications

Chart 7: Applicant Submission and Model Input

APPLICANT SUBMISSION AND MODEL INPUT CORRESPONDENCE OPERATION ECONOMIC IMPACT ANALYSIS			
Performance Template Category		**IMPLAN Category**	**Notes**
Estimated gaming revenue	➡	Other amusement, gambling, and recreation industries	Modified first in terms of total revenue produced as estimated by Wells' and Cummings' reports. Also adjusted to only account for import substitution and export effects.
Hotel revenue	➡	Hotels and motels, inlcuding casino hotels	Modified by Probe Strategic Solutions to represent the average revenues and occupancy rates for the region
Food revenue	➡	Food services and drinking places	Modified to represent the same proportion of gaming revenue the casinos presented before the gaming revenue was modified by Wells and Cummings
Retail revenue	➡	Miscellaneous store retailers	Modified to represent the same proportion of gaming revenue the casinos presented before the gaming revenue was modified by Wells and Cummings
Other revenue	➡	Miscellaneous store retailers	Modified to represent the same proportion of gaming revenue the casinos presented before the gaming revenue was modified by Wells and Cummings

Impact Reporting

The economic impacts are comprised of three separate categories. Each category is analyzed separately from one another in IMPLAN.

- **Economic Output** is the total production or sales derived from the project. For this study, inputs are based upon projected gaming and non-gaming revenues.
- **Employment** is the total number of Kansans employed both full and part time in a given industry.
- **Wages** is the amount of salaries and benefits paid to Kansas employees.

For each of the categories listed above a direct effect, indirect effect, and induced effect has been calculated.

- **Direct** effects capture the initial impact created in Kansas.
- **Indirect** effects are additional impacts derived from businesses providing products or services to the selected industries. This can be restaurants purchasing supplies, the casino hiring a security firm, or the hotel purchasing advertising from a local radio station. Those are all examples of indirect effects.
- **Induced** effects are the result of increased household spending due to the direct and indirect effects. Employees of firms directly or indirectly affected by the project are buying new cars, homes, and groceries locally and this is detailed in the indirect effects.

Chart 8: Penn Cherokee Operation Economic Output

PENN CHEROKEE NET OPERATION IMPACTS IN THE STATE OF KANSAS, 2011					
		ECONOMIC OUTPUT (In 2007 Dollars)			
Code	**Sector**	**Direct**	**Indirect**	**Induced**	**Total**
1	11 Ag, Forestry, Fish & Hunting (AGG)	0	77,077	54,762	131,840
19	21 Mining (AGG)	0	174,182	78,948	253,130
30	22 Utilities (AGG)	0	536,148	180,074	716,221
33	23 Construction (AGG)	0	575,032	40,027	615,059
46	31-33 Manufacturing (AGG)	0	1,430,020	705,402	2,135,422
390	42 Wholesale Trade (AGG)	0	499,209	390,217	889,426
391	48-49 Transportation & Warehousing (AGG)	0	516,715	170,489	687,204
401	44-45 Retail trade (AGG)	264,342	217,946	873,772	1,356,060
413	51 Information (AGG)	0	818,287	194,055	1,012,342
425	52 Finance & insurance (AGG)	0	944,497	609,643	1,554,140
431	53 Real estate & rental (AGG)	0	1,671,729	341,563	2,013,292
437	54 Professional- scientific & tech svcs (AGG)	0	1,576,155	217,349	1,793,505
451	55 Management of companies (AGG)	0	337,176	51,712	388,888
452	56 Administrative & waste services (AGG)	0	871,491	122,107	993,598
461	61 Educational svcs (AGG)	0	10,893	87,586	98,479
464	62 Health & social services (AGG)	0	1,897	1,125,190	1,127,088
475	71 Arts- entertainment & recreation (AGG)	21,826,524	301,858	90,070	22,218,452
479	72 Accomodation & food services (AGG)	1,208,686	181,931	377,785	1,768,402
482	81 Other services (AGG)	0	349,963	267,562	617,525
495	92 Government & non NAICs (AGG)	0	421,065	1,062,139	1,483,204
	Total	**$ 23,299,552**	**$ 11,513,271**	**$ 7,040,452**	**$ 41,853,277**

Source: Applicant Submissions, IMPLAN, Civic Economics

Chart 9: Penn Cherokee Operation Employment

PENN CHEROKEE NET OPERATION IMPACTS IN THE STATE OF KANSAS, 2011						
		TOTAL EMPLOYMENT				
Code	**Sector**	**Direct**	**Indirect**	**Induced**	**Total**
1	11 Ag, Forestry, Fish & Hunting (AGG)	0.0	0.7	0.4	1.1
19	21 Mining (AGG)	0.0	0.5	0.2	0.8
30	22 Utilities (AGG)	0.0	1.2	0.4	1.5
33	23 Construction (AGG)	0.0	5.0	0.4	5.4
46	31-33 Manufacturing (AGG)	0.0	3.9	1.5	5.4
390	42 Wholesale Trade (AGG)	0.0	3.1	2.4	5.5
391	48-49 Transportation & Warehousing (AGG)	0.0	6.0	1.7	7.7
401	44-45 Retail trade (AGG)	9.7	3.8	15.4	29.0
413	51 Information (AGG)	0.0	3.7	0.6	4.3
425	52 Finance & insurance (AGG)	0.0	6.1	3.6	9.7
431	53 Real estate & rental (AGG)	0.0	13.3	2.8	16.1
437	54 Professional- scientific & tech svcs (AGG)	0.0	13.6	2.1	15.7
451	55 Management of companies (AGG)	0.0	1.9	0.3	2.2
452	56 Administrative & waste services (AGG)	0.0	16.5	2.3	18.8
461	61 Educational svcs (AGG)	0.0	0.2	1.8	2.1
464	62 Health & social services (AGG)	0.0	0.0	14.7	14.7
475	71 Arts- entertainment & recreation (AGG)	148.5	12.5	1.8	162.8
479	72 Accomodation & food services (AGG)	25.3	3.5	7.7	36.6
482	81 Other services (AGG)	0.0	4.6	6.1	10.7
495	92 Government & non NAICs (AGG)	0.0	1.9	0.7	2.5
	Total	**183.6**	**101.9**	**67.0**	**352.5**

Source: Applicant Submissions, IMPLAN, Civic Economics

Chart 10: Penn Cherokee Operation Wages

PENN CHEROKEE NET OPERATION IMPACTS IN THE STATE OF KANSAS, 2011					
		TOTAL WAGES (2007 Dollars)			
Code	**Sector**	**Direct**	**Indirect**	**Induced**	**Total**
1	11 Ag, Forestry, Fish & Hunting (AGG)	0	9,793	6,290	16,083
19	21 Mining (AGG)	0	42,283	19,140	61,424
30	22 Utilities (AGG)	0	110,396	34,776	145,172
33	23 Construction (AGG)	0	210,529	15,913	226,443
46	31-33 Manufacturing (AGG)	0	230,414	94,175	324,589
390	42 Wholesale Trade (AGG)	0	188,992	147,730	336,723
391	48-49 Transportation & Warehousing (AGG)	0	256,483	70,316	326,799
401	44-45 Retail trade (AGG)	142,886	87,726	352,363	582,976
413	51 Information (AGG)	0	205,167	39,411	244,578
425	52 Finance & insurance (AGG)	0	309,920	170,214	480,134
431	53 Real estate & rental (AGG)	0	282,300	58,310	340,611
437	54 Professional- scientific & tech svcs (AGG)	0	678,632	94,349	772,981
451	55 Management of companies (AGG)	0	146,305	22,438	168,743
452	56 Administrative & waste services (AGG)	0	443,462	59,873	503,335
461	61 Educational svcs (AGG)	0	4,779	39,893	44,671
464	62 Health & social services (AGG)	0	666	578,471	579,137
475	71 Arts- entertainment & recreation (AGG)	5,037,203	71,474	25,648	5,134,324
479	72 Accomodation & food services (AGG)	387,871	60,176	122,014	570,060
482	81 Other services (AGG)	0	117,732	121,040	238,772
495	92 Government & non NAICs (AGG)	0	91,970	31,197	123,167
	Total	**$ 5,567,960**	**$ 3,549,200**	**$ 2,103,561**	**$ 11,220,720**

Source: Applicant Submissions, IMPLAN, Civic Economics

NON-GAMING COMPETITIVE IMPACTS

Civic Economics was asked to address the issue of cannibalization of existing business with regard to the non-gaming amenities at the proposed gaming facilities.

Gaming Impact on Budgeting

Before delving into the specific amenities offered by each applicant, a note about gaming revenues is appropriate. In the discussion of Net Economic Impact above, the significant values of Import Substitution and Export Revenues were described and calculated. In addition, it was suggested that the remaining gaming revenues would represent new gaming spending in lieu of other household spending choices. The additional gaming spending beyond Import Substitution and Export Revenue in the Southeast Zone is as follows:

NEW GAMING SPENDING BY KANSANS SOUTHEAST REGION (2007 Dollars)		
Penn Cherokee	$	3,562,397

Source: Wells, Cummings, Civic Economics

It is beyond the scope of this study to evaluate the choices Kansas residents will make in determining how to make room in the household budget for additional gaming spending. However, the general principal is that in a typical household increased gaming spending will be diverted from other leisure and entertainment pursuits.

Non-Gaming Competition for Non-Gaming Dollars

For this analysis, Civic Economics was asked to focus on the competition between existing businesses in the area of a proposed gaming facility and the non-gaming amenities proposed for development along with the gaming facility.

Cherokee County and the three adjacent Kansas counties of Crawford, Labette, and Neosho contain a 2007 population of 79,704, projected to drop slightly by the time a casino opens in 2011. Of course, with the opening of Downstream casino on the county line in Oklahoma, it is possible that employment growth may produce more positive population trends. Nonetheless, the four-county region around the proposed casino site is measurably poorer than the state as a whole (Chart 11).

Chart 11: Southeast Zone Demographics

SOUTHEAST ZONE, FOUR-COUNTY DEMOGRAPHICS 2007 DATA				
	SE Zone		State of Kansas	
Population	78,541		2,811,082	
2012 Projection	79,704		2,768,030	
2007 Estimate	(1,163)		43,052	
2007 Households by Household Income	32,197		1,075,666	
Income Less than $15,000	6,152	19.1%	132,759	12.3%
Income $15,000 - $24,999	5,166	16.0%	124,454	11.6%
Income $25,000 - $34,999	4,772	14.8%	132,106	12.3%
Income $35,000 - $49,999	5,608	17.4%	184,004	17.1%
Income $50,000 - $74,999	5,762	17.9%	222,421	20.7%
Income $75,000 - $99,999	2,483	7.7%	125,535	11.7%
Income $100,000 - $149,999	1,582	4.9%	103,031	9.6%
Income $150,000 - $249,999	484	1.5%	36,223	3.4%
Income $250,000 - $499,999	159	0.5%	10,873	1.0%
Income $500,000 and over	29	0.1%	4,260	0.4%
2007 Est. Average Household Income	$ 45,280		61,115	
2007 Est. Median Household Income	$ 35,024		47,107	
2007 Est. Per Capita Income	$ 18,781		24,102	

Source: Claritas

In the Southeast Zone, this discussion of competition is simplified because the proposed gaming facility contains limited non-gaming amenities. Penn Cherokee proposes to build a relatively modest facility containing the following amenities:

- 225 Seat Buffet Dining
- 30 Seat Coffee Shop
- 75 Seat Sports Bar and Entertainment Lounge
- 500 Square Foot Gift Shop and Museum

Competition in these segments is summarized in Chart 12 below. In this chart, retail demand (estimated purchases by area residents), retail supply (estimated actual sales within the area), and the gap between them illustrate the retail and dining market into which the proposed facilities will enter. As is clear from the chart, all these retail and dining segments offer substantial unmet demand on the Kansas side of the local area, indicating that the local market can absorb the offerings of the Penn Cherokee Phase I proposal with little competitive pressure.

Civic Economics is confident that the operation of the limited non-gaming amenities proposed by Penn Cherokee will have little adverse impact on existing businesses in the area. This is particularly so as the recently completed Downstream casino facility on the state line dwarfs the nongaming amenities proposed for Phase I of this development.

Chart 12: Southeast Retail Supply and Demand

RETAIL SUPPLY AND DEMAND SOUTHEAST REGION, FOUR-COUNTIES (2007)			
SE TIGHT	**Demand**	**Supply**	**Gap**
Foodservice and Drinking Places-722	$ 109,338,195	$ 78,860,003	$ 30,478,192
Full-Service Restaurants-7221	$ 49,704,403	$ 37,290,000	$ 12,414,403
Limited-Service Eating Places-7222	$ 45,859,968	$ 38,549,000	$ 7,310,968
Special Foodservices-7223	$ 8,866,153	$ 1,010,002	$ 7,856,151
Drinking Places -Alcoholic Beverages-7224	$ 4,907,671	$ 2,011,001	$ 2,896,670
Clothing and Clothing Accessories Stores-448	$ 46,913,003	$ 19,920,017	$ 26,992,986
Jewelry, Luggage, Leather Goods Stores-4483	$ 5,784,197	$ 2,171,999	$ 3,612,198
Book Stores and News Dealers-45121	$ 4,705,216	$ 1,348,003	$ 3,357,213
Florists-4531	$ 2,194,762	$ 1,671,005	$ 523,757
Gift, Novelty and Souvenir Stores-45322	$ 5,435,805	$ 3,822,996	$ 1,612,809

Source: Claritas