

APPENDIX N

VADER SITE MARKET VIABILITY & COMPETITION EFFECTS
(HOVEE, 2007B)

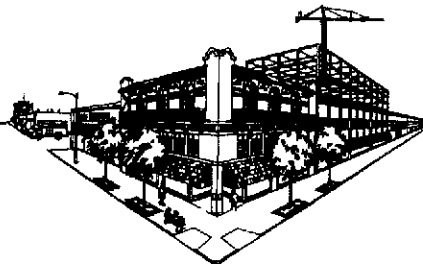
VADER SITE MARKET VIABILITY & MARKET COMPETITION EFFECTS STUDY

**Prepared for:
Analytical Environmental Services**

February 2007

**E. D. Hovee
& Company, LLC**

Economic and Development Services



Vader Site Market Viability & Market Competition Effects Study

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I. INTRODUCTION

This report provides an evaluation of the potential gaming revenues and of market competition effects between the proposed Cowlitz Tribe casino at an alternative Vader, Washington site and other competing tribal facilities. The analysis in this report is intended for use in conjunction with FEIS documentation for the Cowlitz Casino project. For purposes of this analysis, market competition effects are considered as one component of cumulative project effects and gaming revenue is an important aspect of project viability.

BACKGROUND

The Cowlitz Tribe's proposed facility at La Center (Alternative A) calls for 134,150 square feet of gaming floor, 147,500 square feet of convention and meeting room space, a 250-room hotel, with parking for 7,250 vehicles. The gaming area would include 425 video lottery terminals and 32 gaming tables.

State law allows tribes to transfer their VLT allocations from one tribe to another. A tribe can receive up to 2,000 VLTs through transfer, but cannot operate more than 3,000 VLTs under a two casino model. For purposes of this analysis, it is assumed that the proposed Cowlitz Casino would start with 425 VLTs and 32 game tables, but could expand their gaming opportunities to 1,800 VLTs and 77 gaming tables by the second year of operation, if adequate market demand is available.

Comments received on the Draft Environmental Impact Analysis (DEIS) for the proposed Cowlitz Casino raised questions regarding potential cumulative effects associated with market competition from one or more added casinos in Southwest Washington/Northwest Oregon. Questions of interest include the degree to which the gaming market is currently served or saturated, and to what extent new facilities including the proposed Cowlitz Casino would represent *net new* gaming activity versus shifting demand from one facility to another. This report deals specifically with prospective competition effects that may be associated with locating the proposed Cowlitz casino further north along I-5 in Vader, Washington.

PURPOSE & APPROACH

This analysis provides an indication of how much gaming revenues could be captured at the northern Vader site. While there are several existing gaming facilities and three new facilities proposed for development that are dependent, at least in part, on the Portland metro market, a substantial number of questions have been raised regarding locating the proposed Cowlitz casino further north at Vader.

The study evaluates the casino gaming market through a three-step approach:¹

- 1) **Collect Background Information.** E.D. Hovee & Company, LLC (EDH) collected several existing casino studies and reviewed their findings for applicability to this assignment. The purpose was to collect information that could be incorporated into the development of a market competitive *Gaming Model*. Market information on several competitive casinos was also collected and used in calibrating the gaming

model. It should be noted that no new or original research has been conducted as part of this study. Rather, the focus has been on identifying and utilizing readily available facility and economic data.

- 2) **Gaming Market Model.** Development of a market model for examining the competitiveness of existing tribal casinos. The model is based on available data from published industry reports, news articles, research for other elements of the DEIS socioeconomic analysis, and phone interviews with individuals knowledgeable of the existing or proposed casinos. The gaming market model covers data variables such as population base, total household income in the economy, casino gaming revenues, and market draw/penetration.

A gaming model approach is based on an assessment of overall gaming revenues supported by population, incomes, typical win per visit and casino gaming participation both nationally and in the Pacific Northwest independent of a facility's physical configuration.

- 3) **Summary Findings.** The results of the gaming market model together with pertinent findings from other studies are presented in this report.

ORGANIZATION OF REPORT

The remainder of this report is organized to cover the following topics:

General Gaming Market
Gaming Market Model
Summary & Conclusions

II. GENERAL GAMING MARKET

A review of existing casino market studies was conducted to identify the results of other competitive market studies, major market factors that influence a casino's gaming revenues, and identify key information on existing and proposed casinos drawing patronage from the Seattle, Washington and Portland, Oregon regions.

MAJOR MARKET FACTORS

Casinos draw visitors at various levels based on travel time to the casino and attractiveness – a combination of quality, size, entertainment value, marketing programs, and other similar factors. Market demand results from four distinct market segments.² These market segments are:

- **Resident Market** – Gaming demand from residents at up to a 120-minute drive time from the casino site, but with declining frequency of patron attendance as drive time increases;
- **Localized Tourist Market** – Tourists staying overnight within a 15-mile distance from the casino site;
- **Resort Overnight Market** – Guests staying at casino resort accommodations;
- **Highway Intercept Market** – Market penetration of highway traffic. Generally, an estimate of long haul traffic is made to ensure that local resident traffic is not double counted in the highway intercept.

Resident markets typically account for the greatest proportion of gaming revenues captured by casinos. The *highway intercept market* accounts for the lowest proportion, as long haul traffic is generally traveling from point A to point B and casinos orient their operations towards patronage programs, such as player loyalty discounts. In terms of tourism and overnight resort accommodations, casinos with on-site lodging tend to generate higher gaming revenues, as they are able to facilitate and encourage a lengthened duration of stay from casino visitors.

Resident Market. Several studies have developed *gravity models* for gaming market demand that can be utilized to analyze market dynamics of a particular regional area. The term “gravity model” denotes projections of market demand based on distance of the potential patron from the facility – the closer the patron is to the gaming operation, the more likely he/she is to visit.

With the proliferation of casino options, markets have become highly competitive. While the individual properties will be able to distinguish themselves through design, marketing and player loyalty programs, travel times to both the subject property as well as competitive properties is an important factor.

The resident gravity market model contains three major components:

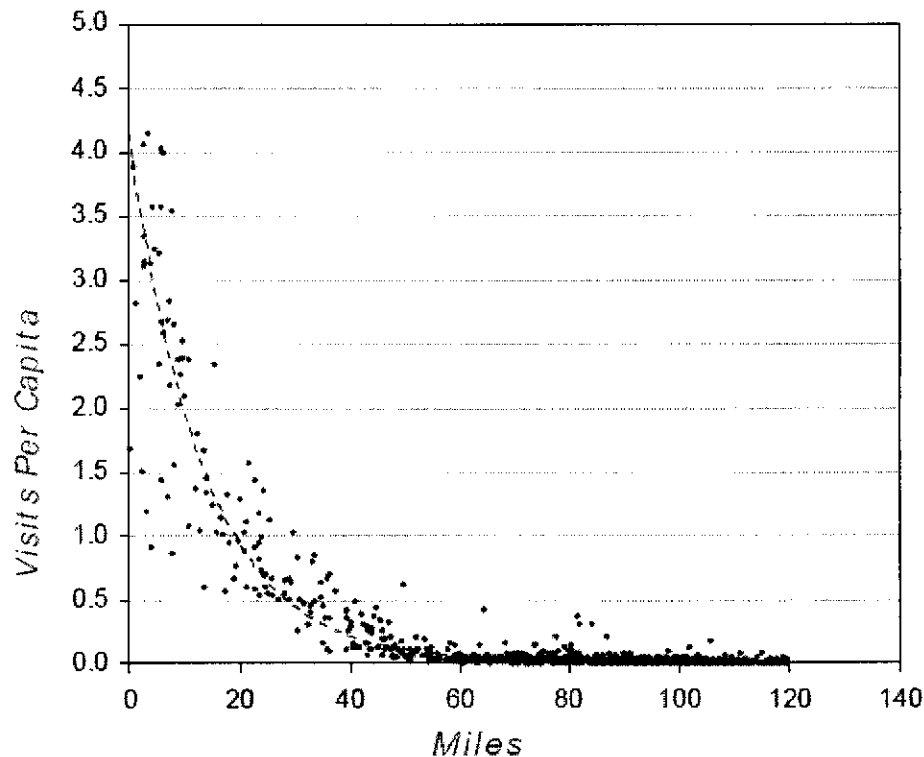
- **Frequency of Attendance** – Average casino visits per capita based on distance from the casino.
- **Win Per Visit** – Average gaming revenue per customer visit based on average income of the population segment. However, the casino program and marketing can also affect the

actual win per customer visit, based on increased length of stays due to destination elements, marketing and tax influences in some states.

- **Competitive Adjustment** – Effects of competitive influences on market demand, based on the relative drawing power and substitutability of casino gaming.

The frequency of attendance to a regional casino is inversely related to the *distance or travel time* to get to the casino. In general, the longer the travel time, the fewer visits per capita are expected from a given population base. The national economic consulting firm Economic Research Associates (ERA) studied the relationship of travel time and frequency of attendance using loyalty program data from various regional and national casinos. Figure 1 illustrates this relationship using loyalty program data from ERA’s comparable database.

Figure 1. Sample Loyalty Program Gravity Data (Annual Data)



Note: Casino program names were withheld for purpose of confidentiality.

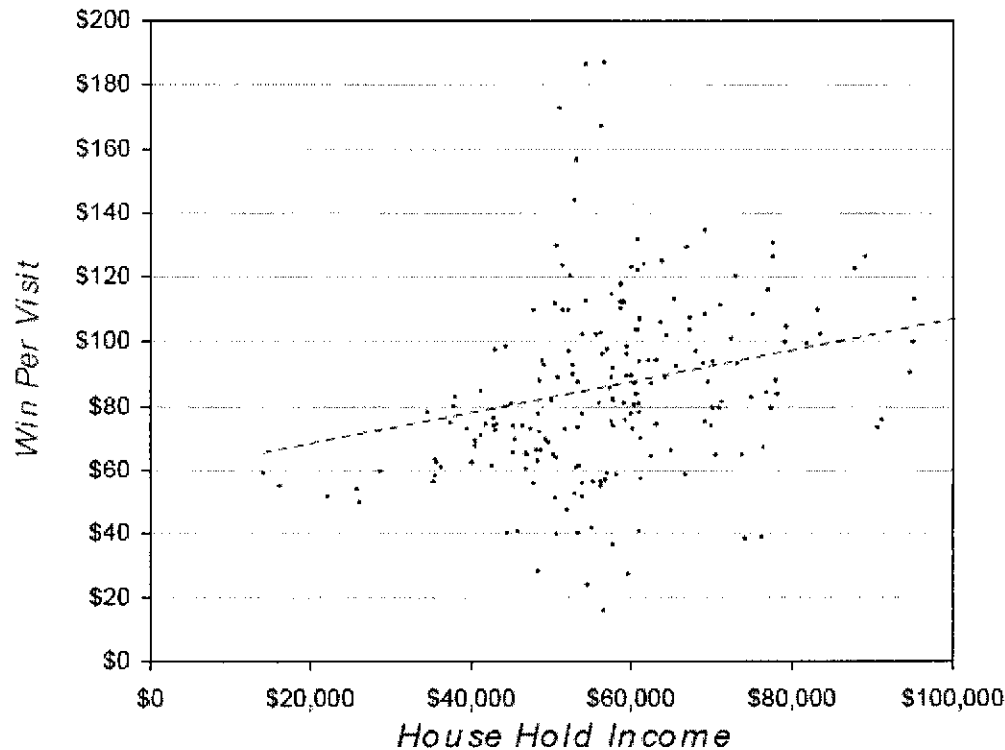
Source: Economic Research Associates (ERA).

While all regional casinos lose significant drawing power as distance increases out to a 60 mile/one-hour drive time, destination casinos will maintain a relatively greater frequency of attendance.³ Although the frequencies decrease, the population at these distances is typically greater because of the larger geographical areas that are encompassed. A property’s composite drawing power represents a holistic combination of many key factors – including absolute size, number of positions, available amenities and lodging, quality and entertainment value of experience, branding and operating capabilities, and players club and other marketing programs.

The frequency of attendance for a given population is also affected by certain demographic factors. According to various surveys conducted by industry entities such as Harrah's and the American Gaming Association, participation rates vary with age and income. However, the magnitude of difference is less than is often perceived. Gaming tends to be a mass-market activity that is only moderately correlated with any one demographic factor. In larger geographic catchment areas, such as those with a 2-hour drive time, demographic market factors distinctive to a particular submarket tend toward overall averages.⁴

The second component of the resident market model is the average *win per visit* – defined as revenue to the gaming operator divided by number of visits. Based on statistical averages, the casino's win per visit is a function of the patron's length of stay, gaming pattern, and wager size. While individual wins and losses will vary greatly, the typical win per visit for a regional casino in the U.S. is between \$50 and \$80 dollars.⁵ These are based on gross revenues and, as such, have different components inherently incorporated in the averages (e.g. hotel guest revenue, tourist revenue). Because many of these casinos focus on regional guests, the averages represent an accurate assessment of the resident gaming revenue per visit.

Figure 2. Sample Win per Visit by Income Data (Regional Casino)



Note: Income estimate based on average for zip code of player.

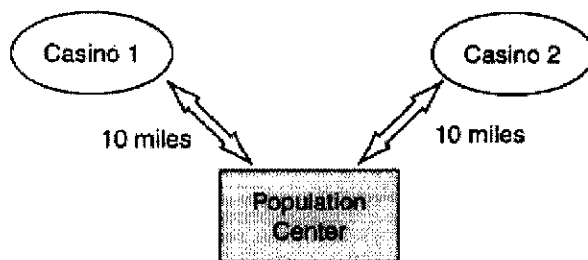
Source: Economic Research Associates.

In a market with a high number of casino options, the influences of the location and marketing programs of competitive properties will have a large influence on market penetration. Modeling

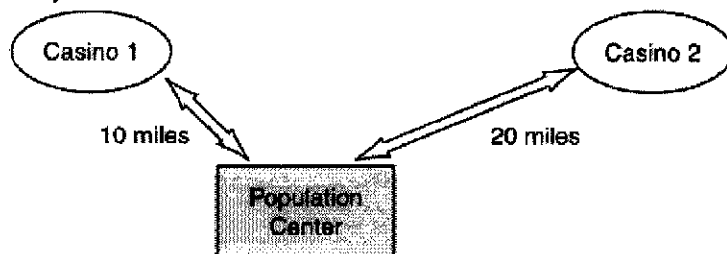
for a competitive market environment faces these inherent challenges. The first challenge is creating a fair share market split based on the geographic distribution of population and competitive sites. Thereafter, competitive differences can be incorporated that affect the basic drawing power of the casino, such as size, quality, visibility, access, advertising, and branding. There are three “fair share” market scenarios as described by ERA that can be considered.

Figure 3. Illustrative “Fair Share” Market Scenarios

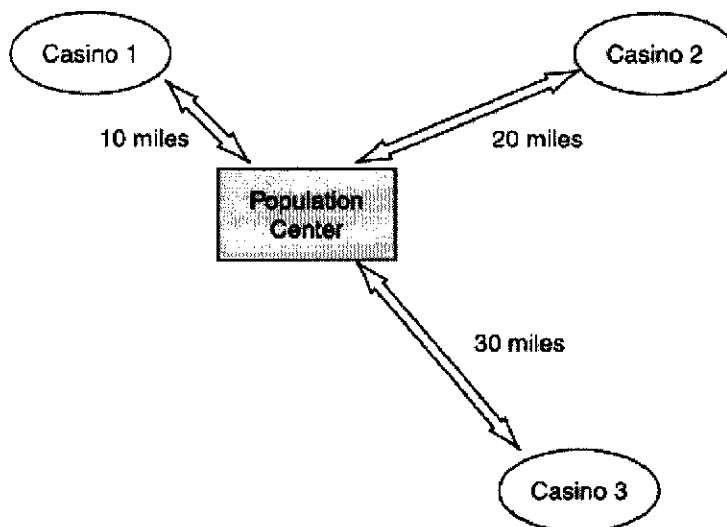
Simple Fair Share Scenario



Moderately Complex Fair Share Scenario



Complex Fair Share Scenario



Source: Economic Research Associates.

The first graphic illustrates the simplest “fair share” scenario. However, even this scenario illustrates an underlying market complexity. This complexity can be put in the form of a simple question.

Does the total market demand of a population equal:

- a) the maximum market demand of a single casino (i.e. market potential at full saturation)?;
- b) the sum of market demand from all the existing casinos in the market?; or
- c) some level in between?

Localized Tourist Market. Visitors to a community provide another distinct market for entertainment products such as a casino. These visitors stay in an area within reasonable proximity to a casino, but *not on the same site* as the casino.

In its research, ERA analyzed a significant number of markets and entertainment products and evaluated the typical market potential provided by a transient population in a region.⁶ In general, the greatest potential comes from hotels located within a 15-minute drive time of the property. The typical hotel guest market is a combination of business and leisure, with the leisure visitor providing the best market potential.

Resort Overnight Market. Guests that stay *at a casino resort* are typically the highest revenue customers of the facility. This is due to three primary factors:

- Self-selection of high intensity gaming customers
- Focused comp and loyalty programs typically available for the best customers
- Longer length of stay in the casino

Based on analysis of overnight guest behavior and empirical evidence from overnight destinations, the range of average gaming revenue per occupied room is \$150 to \$1,000 for different properties.⁷ When compared to a day-trip visitor, an overnight guest at a casino resort has easier access and greater opportunity to go to the casino floor.

According to casino loyalty program data, the average length of stay for a regional casino is typically between 1 and 2 hours. It is estimated that an overnight resort guest plays an average of 5 hours per stay. In general, data suggests that a player staying overnight will have a theoretical gambling pattern that is twice their normal gambling. Simply stated, a day-trip guest generating a typical theoretical win of \$250 would have a theoretical win of \$500 when staying overnight.

A casino resort will typically have a loyalty program to reward its best customers and use complementary stays and gifts to entice these customers to return to the casino. In casino resorts with accommodations, the percentage of complementary rooms often ranges from 40 percent to 55 percent of the total room inventory. Complimentary rooms are typically given to the tracked customers with the highest theoretical win profiles. These tracked players typically play longer and wager more than the average customer.

In the National Gambling Impact Study, tracked players had average gaming revenue approximately 3 times greater than non-tracked players. Assuming an average gaming revenue per visit of \$50, a complementary tracked player would minimally generate \$150 in average gaming revenue per overnight stay.

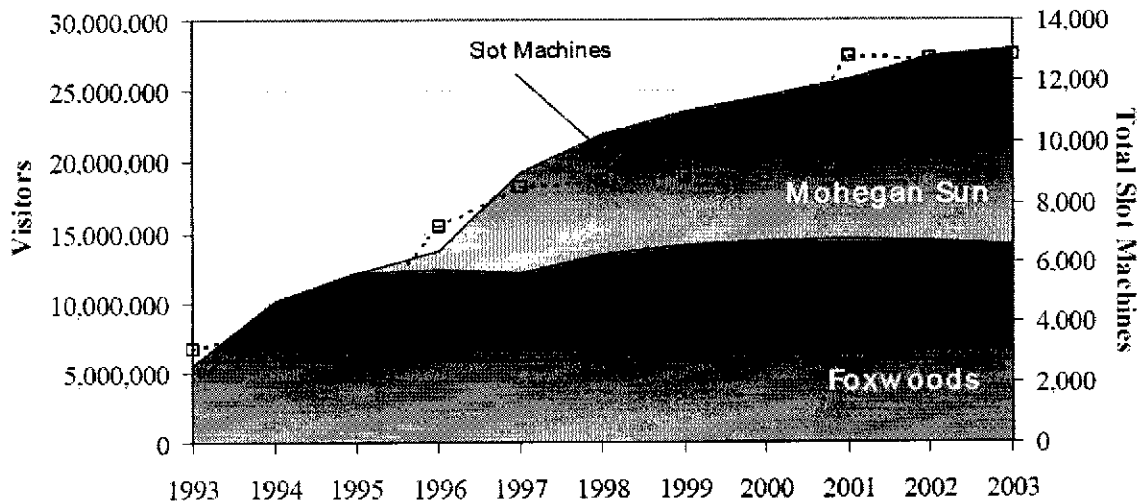
Highway Intercept Market. Another distinct market opportunity for a casino located on a major highway or freeway corridor consists of impulse visits from long haul traffic. Because local traffic is already included in the resident and tourist market, the gross traffic count must be filtered to ascertain the number and composition of guests from out of the area. Data from studies on casino intercept rates for highway traffic have generally averaged in the range of 1 to 3 percent.⁸ This is generally in line with interception rates for other highway-oriented entertainment attractions.

CASINO COMPETITION STUDIES

Several studies have been conducted that analyze the market capacity to support the introduction of a new casino serving the Southwest Washington / Northwest Oregon market area. In most cases, these studies have found that casino revenues at existing facilities increased and new casinos added to the overall level of gaming. A summary of these studies is provided.

The Connecticut Experience. Upon opening in 1993, Foxwoods had been on a major growth path. When the Mohegan Sun opened in 1996/1997, the market grew over and above its trendline, and Foxwoods and Mohegan split the new larger market accordingly.

Figure 4. Connecticut Casino Market Characteristics



Note: Attendance based on estimated average slot win per visitor.
 Source: State of Connecticut and ERA.

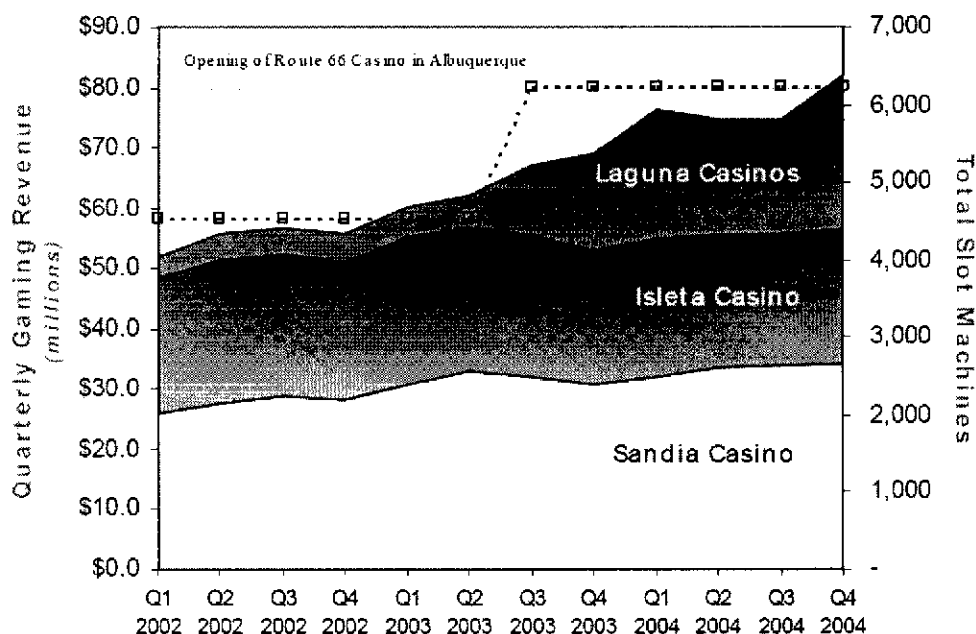
As indicated by the graph, Foxwoods experienced flattened visitation shortly after the opening of Mohegan Sun, followed by added visitor growth again about two years after Mohegan Sun

opened. The long-term result appears to be adequate market to accommodate both gaming operations without loss of visitation for the initial (Foxwoods) facility.

Albuquerque, New Mexico Market. The regional market had been served by two large casinos – the Sandia Casino in north Albuquerque and the Isleta Casino in the south. The Laguna Pueblo had been operating a small travel center casino approximately 50 miles to the west of Albuquerque. In the third quarter of 2003, they opened the new Route 66 Casino approximately 15 miles west of Albuquerque, introducing a third competitive large casino to the market.

Overall revenues to Isleta and Sandia flattened, but did not drop. Overall gaming revenues within the market area increased by approximately 30 percent after the third casino property opened.

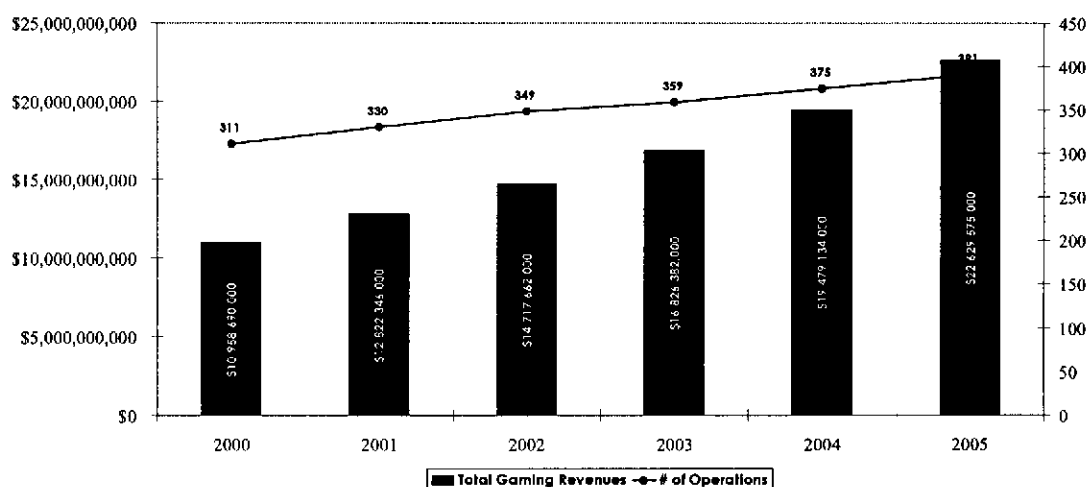
Figure 5. Albuquerque Casino Market Characteristics



Source: State of New Mexico and ERA.

Nationwide Tribal Gaming Revenues. Since 2000, 80 new tribal gaming operations have been added to the U.S. gaming market. Tribal gaming revenues increased by \$11.7 billion (or at a rate averaging 16% per year). Average gaming revenue per facility has increased at a rate averaging 10% per year, from \$35.2 million to \$57.9 million. New operations are averaging at least \$150.0 million per year.

Figure 6. National Tribal Gaming Operations & Revenues (2000-2005)



Source: National Indian Gaming Commission.

GENERAL MARKET COMPETITION

Assessing the existing market competition and gaming characteristics of casino patrons can be completed through a review of published market data as well as past studies.

Oregon Casinos. In 1995, the six tribal casinos then in business pulled in an estimated \$79 million in revenue. Two years and one more casino later, the number had jumped to \$224 million, representing an annual average increase of 23%.⁹ In 2004, after Three Rivers Casino opened in Florence, Oregon's nine casinos had \$419 million in revenue. According to a more recent study, gaming revenues at Oregon's nine tribal casinos reached an estimated \$495 million in 2005.¹⁰ Approximately 8.6 million visitors went to one of the nine tribal casinos in Oregon.¹¹, with 82% representing Oregon residents.¹²

A 2003 study examined the demographic characteristics of Oregon gamers. Results from this study were similar to national studies. The Oregon study found that 31% of Oregon adults visit casinos and that participation tends to increase with age.¹³ The following table provides a brief summary of survey results.

Figure 7. Age Characteristics of Oregon Residents that Went to a Casino (2003)

Age Group	Total Adults	% Went To Casino	Total Adults Went to a Casino
18-34	826,931	28%	231,541
35-44	546,011	29%	158,343
45-54	525,484	33%	173,410
55-64	315,145	33%	103,998
65-74	226,459	40%	90,584
75+	225,680	30%	67,704
All Adults	2,665,710	31%	825,580

Source: Riley Research Associates.

As noted earlier, Oregon tribal casinos attracted 8.6 million visitors during the year 2004. These visitors spent \$419.6 million on gaming or almost \$49 per visit, which is at the lower end of the U.S. average for a regional casino (\$50-\$80).

By comparison, in a study conducted for the city of La Center, Washington, it was noted that the typical average for an urban area in the Northwest is \$65 per visit.¹⁴ This would place spending more in the middle of the national range for a regional casino.

As noted earlier, the nine Oregon tribal casinos generated \$495 million in gaming revenues during 2005.¹⁵ A significant portion of casino revenues are attributable to devices known as video lottery terminals (VLTs) or electronic slots. These VLT devices account for 80% of revenues at tribal casinos in Oregon.¹⁶ This equates to \$66,400 per tribal VLT, which is slightly higher than the Oregon State Lottery Commission's VLTs at \$53,500 per device.

Figure 8. VLT Revenue in Oregon (2004/2005)

Category	2004 Lottery Commission	2005 Tribal Casinos
Total Gaming Revenues	\$675,802,740	\$495,000,000
% of Revenues due to VLTs	81%	80%
VLT Revenues	\$550,300,525	\$396,000,000
Total VLT Devices	10,290	5,964
Revenues per VLT	\$53,479	\$66,398
Daily Revenues per VLT	\$146.52	\$181.91

Note: Data is compiled from other studies; therefore, the accuracy of information can not be guaranteed.

Source: E.D. Hovee & Company, LLC.

It should be noted that Warm Spring's officials have indicated that their Indian Head facility only produces an estimated \$3.0 million a year. Officials believe that the underperformance of the facility is a result of its remote location and lack of significant population base within 50 miles of the facility. Adjusting the tribal gaming revenues (\$495 million - \$3 million = \$492 million) and number of tribal VLTs (5,964 - 317 = 5,647) to remove the Indian Head facility from the statewide estimates suggests that the VLTs at the other eight tribal casinos are producing \$69,700 per device ($\$492 \text{ million} \times 80\% \div 5,647 = \$69,701$).

The type of games offered by each tribal casino in Oregon varies by facility. Spirit Mountain is clearly the largest tribal casino in Oregon, followed by Chinook Winds and Seven Feathers. The Warm Spring's Indian Head Casino at Kah-Nee-Ta is the smallest of the nine operating tribal casinos statewide.

Figure 9. Gaming Activities by Oregon Tribal Casino (2005)

Casino	VLTs	Table		Poker	Bingo	Keno
		Games	Tables	Tables	Seats	
Chinook Winds	1,250	27	5	1,200	1	
Indian Head	317	6	2	0	0	
Kla-Mo-Ya	323	6	0	0	0	
Old Camp	100	3	3	60	0	
Seven Feathers	1,011	22	7	400	1	
Spirit Mountain	1,500	41	15	800	1	
The Mill	540	8	0	150	0	
Three Rivers	274	6	0	0	0	
Wildhorse	649	12	4	500	1	
Total	5,964	131	36	3,110	4	

Source: Tribal Reports, Oregon Department of Justice, Oregon Lottery, 2002 Economic Census, and ECONorthwest, May 2006.

Estimates for each tribal casino in Oregon are made using information previously presented in this study. In particular, it is reported that 80% of tribal casino revenues are attributed to VLTs and that each VLT averages \$69,700 of revenue, excluding the Indian Head facility at Kah-Nee-Ta. For example, in the case of Spirit Mountain, this means that the 1,500 VLTs produce in the range of \$104.6 million (1,500 VLTs x \$69,701 per VLT) of revenue. Adjusting for the remaining 20% of gaming revenues produces a total gaming revenue estimate of \$130.7 million (\$104.6 million ÷ 80%) for Spirit Mountain. Similar calculations to estimate total gaming revenues are provided for each of the other Oregon tribal casinos.

Figure 10. Gaming Revenues by Oregon Tribal Casino (2005)

Casino	Gaming Revenue		Total
	VLT	Other	
Chinook Winds	\$87,126,250	\$21,781,563	\$108,907,813
Indian Head ¹	\$2,400,000	\$600,000	\$3,000,000
Kla-Mo-Ya	\$22,513,423	\$5,628,356	\$28,141,779
Old Camp	\$6,970,100	\$1,742,525	\$8,712,625
Seven Feathers	\$70,467,711	\$17,616,928	\$88,084,639
Spirit Mountain	\$104,551,500	\$26,137,875	\$130,689,375
The Mill	\$37,638,540	\$9,409,635	\$47,048,175
Three Rivers	\$19,098,074	\$4,774,519	\$23,872,593
Wildhorse	\$45,235,949	\$11,308,987	\$56,544,936
Total	\$396,001,547	\$99,000,388	\$495,001,935

Note: Estimates are derived based upon statewide data which may or may not be indicative of each specific facility. 1) Based upon information from casino officials.

Source: E.D Hovee & Company, LLC.

Washington State. The Evergreen State ended 2006 with 24 tribal casinos and 116 active card rooms. According to the Washington State Gaming Commission, gaming revenues from tribal casinos and card rooms account for 80% of the \$1.8 billion of net gaming receipts statewide. Gaming revenues increased 8.2% in 2006, with tribal casino receipts increasing by an estimated 16.5%.

Washington is the sixth top state in the U.S. for Indian gaming revenues and No. 3 in the West. In 2004, only 21 new tribal casinos opened nationwide. According to the Meister report, a new casino in Fife (just north of Tacoma) was the second largest of these openings.¹⁷

The Washington State Gaming Commission estimates tribal casinos generate \$1.2 billion in net receipts statewide. According to a recently completed report by The Innovation Group, 82% of gaming revenues are expected from VLTs, with the remaining 18% coming from other gaming activities. There are an estimated 18,933 VLTs in operation at tribal casinos, which means each VLT is producing only \$51,800 in annual net receipts. This is well below the experience of tribal casinos in Oregon. With most of the VLTs located in the Puget Sound area, where incomes tend to be higher, it is believed that the State's figures may underestimate the actual gaming activity at tribal casinos.¹⁸ Therefore, this report assumes VLT revenue estimates in Washington are more similar to Oregon estimates of \$69,700.

The Seattle-Tacoma metro casino market is highly competitive with most tribal casino's aggressively marketing their facilities through various *player club* programs. Most offer comp/credits for discounted or free lodging and meals, coupons for free play, or cash back. There are fourteen tribal casinos that are competing for gaming consumers within the broader metro area. Seven of the Casinos are located in the South Sound area (i.e. Olympia to Seattle) and another seven located in the North Sound area (i.e. Marysville to Bellingham).

Figure 11. Estimated Seattle/Puget Sound Gaming Revenues

Facility	Location	Gaming		Estimated Gaming Revenues		
		Devices	Tables	VLTs	Other	Total
South Sound:						
Muckleshoot Casino	Tacoma/Seattle	2,531	70	\$176,410,700	\$38,067,300	\$214,478,000
Emerald Queen	Tacoma	2,000	56	\$139,400,000	\$30,080,800	\$169,480,800
EQC Hotel & Casino	Fife	949	NA	\$66,145,300	\$14,273,400	\$80,418,700
Little Creek Casino	Kamilche	730	28	\$50,881,000	\$10,979,500	\$61,860,500
Red Wind Casino	Nisqually	728	20	\$50,741,600	\$10,949,400	\$61,691,000
Clearwater Casino	Kitsap Peninsula	1,145	33	\$79,806,500	\$17,221,300	\$97,027,800
Lucky Eagle	Rochester	585	20	\$40,774,500	\$10,186,400	\$50,960,900
Subtotal		8,668	227	\$604,159,600	\$131,758,100	\$735,917,700
North Sound:						
Tualip Casino	Marysville	2,007	49	\$139,887,900	\$30,186,100	\$170,074,000
Quil Ceda Creek Casino	Marysville	815	12	\$56,805,500	\$12,257,900	\$69,063,400
Point no Point Casino	Kingston	493	10	\$34,362,100	\$7,414,900	\$41,777,000
Skagit Valley Casino	Mount Vernon	663	24	\$46,211,100	\$9,971,800	\$56,182,900
Nooksack Casino	Deming	619	10	\$43,144,300	\$9,310,000	\$52,454,300
Swinomish Casino	Anacortes	409	15	\$28,507,300	\$6,151,500	\$34,658,800
Silver Reef Casino	Ferndale	670	16	\$46,699,000	\$10,077,100	\$56,776,100
Subtotal		5,676	136	\$395,617,200	\$85,369,300	\$480,986,500

Note: Revenue estimates are derived based upon readily published statewide data which may or may not be indicative of revenues actually experienced by each specific facility.

Source: E.D Hovee & Company, LLC.

The seven South Sound casinos offer 8,670 VLT gaming devices and almost 230 table games; the North Sound tribal casinos have 5,680 VLT gaming devices and 140 table games. Altogether, Puget Sound based tribal casinos generate over \$1.2 billion in gaming revenues. South Sound casinos, which would compete directly with a casino located in Vader, capture an estimated \$735.9 million in gaming revenues.

As mentioned earlier, there are 116 card rooms in operation statewide. Fifty-nine of the card rooms are located within the nine I-5 corridor counties, with 50 of them located directly in the Seattle-Tacoma metro area. Statewide, card rooms produce \$315.2 million in gross receipts. The four La Center card rooms near the site of the proposed Cowlitz Casino rank within the top ten highest revenue producing operations.

III. GAMING MARKET MODEL

Adding a casino will not always proportionately increase gaming revenues within a market. At some point, a market can *theoretically* reach saturation. The primary purpose of this study is to estimate the potential gaming revenues of a proposed Cowlitz casino if it were located at the Vader site. Consequently, a gaming model has been developed to estimate the revenue potentials of the site location.

MODEL ASSUMPTIONS & METHODOLOGY

Several gravity models have been developed for other facilities in the U.S. to ascertain the amount of market each casino should capture due to its proximity to the market, gaming activities offered, market competition, and marketing efforts. This study draws from the results of these models to develop a simple estimation procedure that is understandable to the gaming industry, policy makers, and average layperson.

Each existing tribal gaming facility is assumed to pull *resident* gamers from three distinct geographic areas. As national research has shown, casino patronage (or market penetration) decreases as the distance/travel time to the casino increases. The greatest market capture occurs within the first 25 miles, with rapid declines through the next 25-75 miles. The three geographic areas utilized in this study are 0-25 miles (primary market), 25-50 miles (secondary market), and 50-100 miles (tertiary market).

This study assumes 31% of all adults age 21 and older within each study area patronize casinos, similar to study results in Oregon. No casino is allowed to capture more than two (2) casino trips from adult gamers living in their primary market area (0.25 miles); and no market area can produce more than 6.1 trips per adult gamer.

Estimated length of stay is a function of each casino's ability to attract overnight stays or weekend trips. Casinos are assumed to capture 82% of their gaming revenues from residents living in their market area, and the remaining 18% is assumed to be generated from tourists, resort/overnight guests, and/or highway intercept.

In the *baseline* model, existing tribal facilities are assumed to maintain their current market capture, even if a new casino is introduced into the market place. The average win per visit is increased at each casino based upon the projected average annual increase in median income within each geographic area.

Current casinos are not allowed to exceed their theoretical gaming revenues, which are based upon the number of VLTs allowed in the casino's gaming area. VLTs are assumed to comprise 80%-82% of a casino's revenues, with each VLT producing average revenue of \$69,700 and increasing annually according to projected growth in median income.

BASELINE MODEL

Locating a new tribal casino in Vader, Washington would place this facility in competition both with South Puget Sound casinos as well as Northern Oregon Casinos. The gaming model developed reflects the proximity of existing casinos to the Vader site.

Proposed Vader Site. Approximately 4.0 million adults will live within 100 miles of the proposed Vader site by 2011. Just over 1.2 million of these adults will participate in casino gaming. The Vader site is assumed to capture the same ratio of per capita trips as Lucky Eagle, located 37 miles to the north. However, with the larger planned gaming and lodging facilities, the Vader site is anticipated to generate longer length of stays, which in turn creates a higher level of gaming activity.

Based upon the baseline model assumptions, the Vader site is projected to attract 1.1 million resident based visits. With a projected average win per visit of \$59 (under baseline conditions), the Vader site is estimated to capture \$63.2 million in resident based gaming revenues. Assuming the casino would capture another 18% of gaming revenues from non-resident players, the Vader casino would generate total gaming revenues of \$77.1 million – 52% higher than Lucky Eagle’s current gaming revenue estimates. However, this revenue is less than half (49%) that of developing the Cowlitz Casino at the La Center site as currently proposed with the DEIS.¹⁹

Figure 12. Baseline Gaming Revenues at the Proposed Vader Site (2011)

Market Factors	Market Areas			Total
	0-25 Miles	25-50 Miles	50-100 Miles	
2011 Adult Population	117,491	372,922	4,019,981	4,510,394
% Patron Casinos	31%	31%	31%	31%
Casino Patron Adults	36,422	115,606	1,246,194	1,398,222
Per Capita Trips Captured	2.00	1.45	0.30	0.44
Casino Visitors	72,844	167,629	373,858	614,331
Average Length of Stay	1.00	1.50	2.00	1.74
Annual Resident Casino Visits	72,844	251,444	747,716	1,072,004
Average Win per Visit	\$59.00	\$59.00	\$59.00	\$59.00
Annual Resident Gaming Revenues	\$4,297,796	\$14,835,196	\$44,115,244	\$63,248,236
Non-Resident Adjustment				82%
Total Annual Gaming Revenues				\$77,131,995

Note: Figures in the above table represent estimates based upon the known market information that may or may not be representative in any given year. 0-25 denotes the number of adults living within 0-25 miles of the gaming facility, 25-50 represents 25-50 miles from gaming facility, and 50-100 miles represents 50-100 miles.

Source: ESRIBIS and E.D. Hovee & Company, LLC.

ALTERNATIVE VADER SITE STUDIES

Two other studies have been completed that examine the revenue potentials of locating a tribal casino in Vader, Washington. A summary of those study results are provided below:

The Innovation Group Study. The Confederated Tribes of Grand Ronde commissioned The Innovation Group (TIG) to evaluate the potential revenue of locating a casino in Vader, Washington. The study examined a number of market factors including number of adults, casino gaming participation, market capture, and average casino win per visit.

TIG identified a similar number of adults living in the Vader market area and estimated participation rates to average 39% in the South Sound area and 32% in the Portland area. However, TIG estimates the number of annual resident casino visits to be 2.1 million, approximately 1.0 million more than the baseline model in this report.

Capturing this increased level of activity would mean that the Vader site would either have to increase its tertiary market capture upwards of 2.3 times the baseline model and/or effectively capture existing patronage of the Lucky Eagle facility. As with the baseline model in this report, TIG assumes very little market penetration to the north due to the highly competitive South Sound casino market, but heavy reliance on patrons extending south toward Vancouver and the Portland area.

TIG utilizes an average win per visit of \$59, the same figure utilized for the baseline model in this report. By contrast, TIG assumes only 13% of gaming revenues will be derived from non-residents. TIG estimates the Vader site to generate gaming revenues of \$139.4 million in 2011.

It should be noted that TIG also includes the potential Cascade Locks casino in their modeling starting 2012, which results in an initial decline of 15% in resident casino visits. Furthermore, TIG provides “ideal” facility sizing estimates; however, in determining the suggested number of VLTs, TIG assumes each VLT will produce an average annual revenue of \$91,700, well above tribal casinos in Oregon (\$69,700) and Washington State Gaming Commission estimates (\$51,800).

ECONorthwest Study. The City of La Center, Washington contracted ECONorthwest to evaluate the potential gaming revenues for a tribal casino in Vader, Washington. The study also examined a number of market factors including number of adults, casino gaming participation, market capture, and average casino win per visit.

The main difference between the baseline model in this report and ECONorthwest’s model is the definition of the market area. ECONorthwest uses a 150-minute travel time versus the baseline model of a 100-mile radius. However, ECONorthwest estimates potential gaming revenue of \$102.0 million by 2011. This is \$24.9 million more than the baseline model in this report but \$37.4 million less than is projected with The Innovation Group analysis.

IV. SUMMARY & CONCLUSIONS

This report provides an evaluation of the potential gaming revenues associated with the currently proposed La Center site versus an alternative Vader, WA location for the Cowlitz Tribal Casino project. Among other results, the analysis provides an indication of how underserved or saturated the casino gaming market is in the Portland-Vancouver region. A property at the Vader site could be expected to compete, at least in part, with up to five existing gaming facilities dependent on the Portland-Vancouver metro market and at least seven that draw from the southern Puget Sound area.

In summary, key conclusions from this analysis include the following.

- Location of a new casino in Vader can be expected to produce substantially lower gaming revenues of less than one-half the revenue potential associated with a facility located as currently proposed in La Center.
- Gaming revenue potentials are heavily dependent on market capture from the Portland market, as the South Sound market is highly competitive with large casinos in closer proximity to major population areas.
- The existing casino property most directly affected by a facility at Vader is expected to be the Lucky Eagle casino at Rochester. While beyond the direct scope of this study, the range of outcomes experienced by the Lucky Eagle facility could vary widely, from curtailment of operations to relocation of facilities toward a comparable I-5 site to other reconfiguration for improved competitive presence.

E. D. Hovee & Company, LLC appreciates the opportunity to provide this analysis behalf of Analytical Environmental Services. Questions and suggestions regarding any aspect of this draft report are appreciated.

END NOTES

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- ¹ Information for this assessment has been obtained from sources generally deemed to be reliable. However, E. D. Hovee & Company, LLC does not guarantee the accuracy of information obtained from third-party sources. The findings and conclusions contained in this report are those of the authors and should not be construed as representing the opinion of any other party prior to their express approval of the contents of this report, whether in whole or part.
- ² ERA, *Northern Illinois / Southern Wisconsin Gaming Market Model*. 2005. Appendix A.
- ³ Ibid.
- ⁴ Ibid.
- ⁵ Ibid.
- ⁶ Ibid.
- ⁷ Ibid.
- ⁸ Ibid.
- ⁹ The Eugene Register-Guard, "Gaming and gaining." July 16, 2006.
- ¹⁰ Meetings West. "Indian Gaming: Native-owned casinos continue their surge." October 2006.
- ¹¹ ECONorthwest, *The Contributions of Indian Gaming to Oregon's Economy in 2004, A Market and Economic Impact Analysis*. August 8, 2006.
- ¹² Ibid.
- ¹³ ECONorthwest, *The Contributions of Indian Gaming to Oregon's Economy, An Economic Impact and Benefit Analysis*. February 15, 2005.
- ¹⁴ ECONorthwest, *Impact Study for the City of La Center, Washington, Analysis of Impacts from the Proposed Cowlitz Indian Tribe's Casino Complex*. June 2006.
- ¹⁵ Meetings West, "Indian Gaming: Native-owned casinos continue their surge." October 2006.
- ¹⁶ Ibid.
- ¹⁷ Ibid.
- ¹⁸ By comparison, The Innovation Group projects average VLT revenue of as much as \$90,700 per VLT in its analysis of the Vader alternative.
- ¹⁹ The DEIS estimates gaming revenue potential based on comparable revenue per square foot of building area pursuant to three alternative scenarios, while this report takes a market based approach predicated on market population, potential patronage and expected win per visit. A gravity model assessment of revenue for the La Center site yields annual revenues of approximately \$157.8 million.
- Estimated range of gaming revenue with the DEIS is described in detail with the *Cowlitz Casino Project: Socioeconomic Assessment*, Final Draft, January 2006 as prepared by E. D. Hovee & Company, LLC for Analytical Environmental Services, page 90.