

Impact of the Harrah's Casino on State Finances in Rhode Island



RIPEC

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Executive Summary

This RIPEC report, *Impact of the Harrah's Casino on State Finances in Rhode Island*, analyzes and discusses the impact that the proposed Constitutional Amendment to permit Harrah's Entertainment Inc. to construct and operate a casino in West Warwick will likely have on the State's fiscal health. In addition, the report explores the proposal in the context of promised annual property tax relief of \$144 million. Based on the findings of this report, RIPEC believes that the proposed Harrah's Casino would result in a significant loss to the State's coffers. In considering the expansion of gaming, the State should not adopt policies that would compromise existing and projected gaming proceeds that fund essential public services.

RIPEC projects that if a Harrah's Commercial Casino is operational in Rhode Island by FY 2010:

- The State would incur a net loss of \$1.1 billion during the first ten years of operation - an average annual reduction in State tax revenue of \$100 million.
 - RIPEC projects that the State will incur a tax revenue loss of \$2.8 billion - \$2.4 billion of which is due to reductions in existing Video Lottery Terminal proceeds.
 - If the State applies the \$1.7 billion in projected tax revenues from a Harrah's Casino to the projected loss of \$2.4 billion, the State would experience a net revenue loss of \$662.0 million.
 - The \$440.2 million balance is due to "slippage" payments the State must make to these facilities during this period.

Summary					
Estimated Impact on State Tax Revenue From Gaming					
(Millions)					
Fiscal Year	No Casino	With Casino	Revenue Loss	Slippage Payment	Total Impact
2010	\$427.8	\$427.5	(\$0.3)	(\$36.0)	(\$36.3)
2011	452.7	430.3	(22.4)	(46.8)	(69.2)
2012	479.0	439.3	(39.7)	(55.4)	(95.1)
2013	506.8	465.3	(41.4)	(51.5)	(92.9)
2014	536.2	495.3	(40.9)	(46.0)	(87.0)
2015	567.4	526.8	(40.5)	(40.2)	(80.8)
2016	600.3	543.5	(56.8)	(30.9)	(87.7)
2017	635.3	560.7	(74.5)	(31.9)	(106.4)
2018	672.2	578.5	(93.7)	(32.8)	(126.5)
2019	711.3	596.7	(114.6)	(33.8)	(148.4)
2020	752.7	615.5	(137.1)	(34.8)	(172.0)
Total	\$6,341.6	\$5,679.6	(\$662.0)	(\$440.2)	(\$1,102.1)

Source: RIPEC projections

- Nearly 60% of the gaming revenue generated at the Harrah's Commercial Casino would come at the expense of existing gaming activity at Lincoln Park and Newport Grand.
 - There are drive time savings that will impact consumer behavior –nine out of every ten trips to a West Warwick casino would originate within 100 miles of the casino's site.
 - Harrah's superior marketing expertise will enable it to offer deeper and richer complimentary benefits (comps) that will put the existing gaming facilities at a competitive disadvantage.
 - A graduated state tax rate structure for the Harrah's casino (blended state tax rate of 26.1% over the ten-year period) as compared to the taxes on net terminal income at both Lincoln and Newport (61.2% and 63.5% respectively) enables Harrah's Casino to further underwrite its comps and marketing programs.
- While the introduction of a Harrah's Commercial Casino would increase overall gaming activity statewide by 27.0% by FY 2020, The State would experience a 17.3% decline (\$1.1 billion) in net tax revenue.
 - If the casino were not built, gaming activity over the ten year period is estimated at \$10.3 billion, and the State would collect \$6.3 billion in taxes.
 - If a casino is approved and operational by FY 2010, gaming activity over the ten year period would total \$13.0 billion, but the State would collect \$5.2 billion in net taxes.
- If the State uses the projected \$1.7 billion in revenue generated from a Harrah's Casino for direct property tax relief as prescribed in the proposed constitutional amendment, the State budget would have to make up nearly \$2.8 billion in lost revenue from existing gaming facilities from FY 2010 through FY 2020.

Introduction

In November 2006, Rhode Island voters will vote on a Constitutional Amendment that would permit a privately owned business (Harrah's Entertainment Inc.) to establish and operate a private commercial casino in the Town of West Warwick.

The Constitutional question that will be placed before the voters on November 7, 2006 reads as follows:

A new section 23 shall be added to and included in Article VI of the Constitution to read as follows:

Section 23. Resort Casino – Notwithstanding sections 15 and 22 of this Article, and provided that a majority of electors of the Town of West Warwick have voted to approve this amendment, the establishment of a resort casino and games located therein is authorized in the Town of West Warwick. The resort casino shall be privately owned and privately operated by a business entity established pursuant to Rhode Island law by the Narragansett Indian Tribe and its chosen partner, which entity shall be: (i) legally distinct and separate from the Narragansett Indian Tribe, (ii) subject to the laws of the state of Rhode Island, including regulation and taxation, and (iii) required in its organizing documents to expressly waive any sovereign immunity relating to any and all matters of the resort casino, including compliance with and enforcement of the laws of the state of Rhode Island, and the regulation and taxation thereof. The per annum tax rate shall be established by the general assembly with all of such tax proceeds to be dedicated to property-tax relief, as prescribed by statute.

As provided in the proposed constitutional amendment, the casino will not be an Indian Casino, but rather a commercial casino regulated by the State. The constitutional amendment specifically provides that the casino shall be "legally distinct and separate from the Narragansett Indian Tribe." While the amendment provides that the casino would be operated by a company established by the Narragansett Indian Tribe and its chosen partners (Harrah's Entertainment Inc.), Harrah's has reported the Tribe will receive 5.0% of adjusted gross revenue from the proposed Harrah's Casino.

In July 2006, RIPEC's Board of Directors adopted a resolution urging voters to reject the proposed Constitutional Amendment. One of the many reasons that the RIPEC Board recommends rejection of the Constitutional Amendment relates to the impact the proposed Harrah's Casino could have on the State's fiscal health. Therefore, the following analysis discusses the potential impact the proposed Harrah's casino could have on State revenues and the casino's ability to finance a meaningful property tax relief program.

Existing Gaming Revenue in Rhode Island

Rhode Island introduced video lottery terminals (VLTs) in 1993. As the tax revenues from the VLTs have grown over the years, the State has become more reliant on gaming revenues to support its general budget. Net terminal income is defined as gross income minus prizes. In the current fiscal year (FY 2007), gaming revenues are projected to finance 11.2% of the State's operating budget. In order to estimate the potential impact of Harrah's Casino on existing gaming venues in Rhode Island and the net gaming taxes paid to the State, it is first necessary to analyze net terminal income.

Fiscal Year	Lincoln Park	Newport Grand	Total	Actual Change	Percent Change
1996	\$71.5	\$15.1	\$86.6	\$29.6	51.9%
1997	91.9	20.5	112.3	25.7	29.7%
1998	107.0	25.1	132.1	19.8	17.6%
1999	126.5	28.8	155.3	23.2	17.5%
2000	157.9	36.8	194.7	39.4	25.3%
2001	182.1	47.0	229.1	34.4	17.6%
2002	221.3	59.7	281.0	52.0	22.7%
2003	248.6	66.1	314.7	33.7	12.0%
2004	283.3	75.6	358.9	44.2	14.0%
2005	319.8	79.4	399.2	40.3	11.2%
2006	338.9	77.6	416.5	17.3	4.3%
Total	\$2,148.8	\$531.8	\$2,680.6		
Ave Annual	16.8%	17.8%	17.0%		

Source: RIPEC Calculations based on data from the two gaming facilities and RIPEC forecasts

As shown on Table 1, in FY 1996, the Lincoln Park and Newport Grand facilities generated \$86.6 million in net terminal income, of which 82.6% (\$71.5 million) was generated at the Lincoln facility and 17.4% (\$15.1 million) was generated at the Newport facility. In FY 2006, preliminary data shows the two gaming facilities generating \$416.5 million in net terminal income, of which 81.4% (\$338.9 million) will have been generated at the Lincoln facility and 18.6% (\$77.6 million) at the Newport facility.¹ From FY 1996 through FY 2006, net terminal income statewide increased at an average annual rate of 17.0%, with Newport enjoying slightly higher rates of growth (17.8%) as compared to Lincoln (16.8%).

This revenue growth was generated by an increasing number of video lottery terminal positions as well as increased activities at both facilities. In FY 1996, Rhode Island had 1,485 VLT positions, of which 28.7% (426) positions were located at the Newport facility and 71.3% (1,049) positions were located at the Lincoln facility. By FY 2006, Rhode Island had 4,455 VLT positions, of which 24.0% (1,070) positions were located at the Newport facility and 76.0% (3,385) positions were located at the Lincoln facility.

Projected Growth in Net Terminal Income

There are a number of variables to consider when projecting gaming revenue through FY 2020. Each facility has a somewhat unique customer base, each offer slightly different amenities, and each tap into a slightly different geographic region to draw consumers. In addition, both facilities are investing in infrastructure and other improvements, as well as increasing the total number of positions to 6,852 by FY 2009 (expanding the total VLT positions by 54% in the State). There are no additional machines expected for either facility beyond FY 2009.

Fiscal Year	Lincoln Park	Newport Grand	Total	Actual Change	Percent Change
2010	\$560.1	\$131.3	\$691.4	\$24.7	3.7%
2011	593.7	137.9	731.6	40.2	5.8%
2012	629.3	144.8	774.1	42.5	5.8%
2013	667.0	152.0	819.1	45.0	5.8%
2014	707.1	159.6	866.7	47.6	5.8%
2015	749.5	167.6	917.1	50.4	5.8%
2016	794.4	176.0	970.5	53.3	5.8%
2017	842.1	184.8	1,026.9	56.5	5.8%
2018	892.6	194.0	1,086.7	59.8	5.8%
2019	946.2	203.7	1,149.9	63.3	5.8%
2020	1,003.0	213.9	1,216.9	67.0	5.8%
Total	\$8,384.9	\$1,865.9	\$10,250.8		
Ave Annual	6.0%	5.0%	5.8%		

Source: RIPEC Calculations based on data from the two gaming facilities and RIPEC forecasts

The following attempts to forecast each facility's net terminal income through FY 2020 in order to understand the potential revenues that would be collected by the State as it taxes the two facilities' income. Table 2 presents a forecast of net terminal income for the period FY 2010 through FY 2020. During this period, combined net terminal income is projected to increase from \$691.4 million to \$1,216.9 million, an increase of \$525.5 million or 76.0%. From FY 2010 through FY 2020, the two facilities combined would experience an average annual rate of growth of 5.8% in net terminal income. Lincoln would experience growth at 6.0% while Newport would grow at 5.0% during this period.

Lincoln - The Lincoln facility currently offers 3,385 VLT positions, but is projected to increase by 1,367 VLT positions to a total of 4,752 by the close of FY 2007. There are currently no other plans to expand the number of VLT positions offered at this facility in the near future.

Table 3 shows the estimated net terminal income at Lincoln Park without a Harrah's Casino. Based on recently reported data, the Lincoln facility generated \$338.9 million in net terminal income in FY 2006.ⁱⁱ With the additional 1,367 VLT positions in place in FY 2007, the facility will generate \$482.2 million, representing a net increase of \$143.3 million over FY 2006. In FY 2010, Lincoln is projected to generate \$560.1 million in net terminal income. With a projected 6.0% average annual rate of growth, the facility's net terminal income is projected to reach \$1.0 billion by FY 2020. .ⁱⁱⁱ

Table 3
Lincoln Park - No Harrah's Casino
(Millions)

Fiscal Year	Gross Revenue			State Share of Revenue			VLT Positions
	Amount	Change	% Growth	Amount	Change	% Growth	
2010	\$560.1	\$18.4	3.4%	\$344.4	\$11.3	3.4%	4,752
2011	593.7	33.6	6.0%	365.1	20.7	6.0%	4,752
2012	629.3	35.6	6.0%	387.0	21.9	6.0%	4,752
2013	667.0	37.8	6.0%	410.2	23.2	6.0%	4,752
2014	707.1	40.0	6.0%	434.8	24.6	6.0%	4,752
2015	749.5	42.4	6.0%	460.9	26.1	6.0%	4,752
2016	794.4	45.0	6.0%	488.6	27.7	6.0%	4,752
2017	842.1	47.7	6.0%	517.9	29.3	6.0%	4,752
2018	892.6	50.5	6.0%	549.0	31.1	6.0%	4,752
2019	946.2	53.6	6.0%	581.9	32.9	6.0%	4,752
2020	1,003.0	56.8	6.0%	616.8	34.9	6.0%	4,752
Total	\$8,384.9			\$5,156.7			

Source: RIPEC Projections

The State's tax revenue generated from Lincoln Park is projected to increase from \$344.4 million in FY 2010 to \$616.8 million in FY 2020 – a 79.1% increase over this ten year period. This projection assumes a tax rate of 61.5% on net terminal income and no additional VLT positions added during this period.

Newport - The Newport facility currently offers 1,070 VLT positions, but is projected to nearly double the total number of positions (2,100) by the close of FY 2009. According to Newport officials, approximately 230 VLT positions are expected to be online in FY 2007, and the remaining 800 are to be added in FY 2009. In these two fiscal years, net terminal income is expected to grow by 20.3% and 28.7% respectively. There are currently no other plans to further expand the number of VLT positions offered at this facility beyond FY 2009. In FY 2010 and thereafter, Newport net terminal income is projected to increase by 5.0% based on 2,100 total VLT positions.^{iv}

Based on reported FY 2006 data, the Newport facility generated \$77.6 million in net terminal income in FY 2006 – a 2.3% loss from FY 2005 (\$79.4 million). With the additional 230 VLT positions in place in FY 2007, it is projected that the facility will generate \$93.3 million, representing a net increase of \$15.7 million over FY 2006. As shown on Table 4, Newport Grand is projected to generate \$131.3 million in net terminal

income in FY 2010. With a projected 5.0% average annual rate of growth, the facility's net terminal income is projected to reach \$213.9 million by FY 2020.

The State's tax revenue generated from Newport Grand is projected to increase from \$83.4 million in FY 2010 to \$135.8 million in FY 2020 – a 62.8% over this ten year period. This projection assumes a tax rate of 63.5% on net terminal income and no additional VLT positions added during this period.

Table 4
Newport Grand - No Harrah's Casino
(Millions)

Fiscal Year	Gross Revenue			State Share of Revenue			VLT Positions
	Amount	Change	% Growth	Amount	Change	% Growth	
2010	\$131.3	\$6.3	5.0%	\$83.4	\$4.0	5.0%	2,100
2011	137.9	6.6	5.0%	87.6	4.2	5.0%	2,100
2012	144.8	6.9	5.0%	91.9	4.4	5.0%	2,100
2013	152.0	7.2	5.0%	96.5	4.6	5.0%	2,100
2014	159.6	7.6	5.0%	101.4	4.8	5.0%	2,100
2015	167.6	8.0	5.0%	106.4	5.1	5.0%	2,100
2016	176.0	8.4	5.0%	111.8	5.3	5.0%	2,100
2017	184.8	8.8	5.0%	117.4	5.6	5.0%	2,100
2018	194.0	9.2	5.0%	123.2	5.9	5.0%	2,100
2019	203.7	9.7	5.0%	129.4	6.2	5.0%	2,100
2020	213.9	10.2	5.0%	135.8	6.5	5.0%	2,100
Total	\$1,865.9			\$1,184.8			

Source: RIPEC Projections

State General Revenue

Table 5 shows the changes since FY 1993 in the distribution of the net terminal income to the facilities, other players and the State. In FY 1993, 33.0% of the net terminal income was allocated to the two gaming facilities, 15.0% to the technology providers, approximately 3.0% to the central communication provider, 10% to the dog kennel owners (at Lincoln only), 1.0 percent to the host municipalities and the 38.0% balance was transferred to the State.^v

By FY 2006, the allocation has become more complicated. Approximately 61.2% of the net terminal income was transferred to the State. The Newport gaming facility receives 26.0% of the net terminal income. The Lincoln facility receives 28.85% of the net terminal income of the “old” machines (the first 3,002 machines) and 26.0% of the net terminal income from the “new” machines (the additional 1,750 added in FY 2007). This translates into a blended rate of 27.8% of net terminal income. Technology providers receive 7.0% and the central communication provider approximately 2.5% of net terminal income (in part driven by performance-based incentives). The City of Newport receives 1.0% of net terminal income based on the revenue generated from “old” machines (1,070

machines) and 1.25% of the net terminal income of the new machines (1,030 machines). The Town of Lincoln receives 1.25% of net terminal income based on the revenue generated from “old” machines (3,002 machines) and 1.50% of the net terminal income of the new machines (1,750 machines).

Table 5
Share of Net Terminal Income

Recipient	1993	2006	
	Both	Lincoln	Newport
Gaming Facility	33.0%	27.8%	26.0%
Technology Providers	15.0%	7.0%	7.0%
Communication Providers	3.0%	2.5%	2.5%
Dog Kennel Owners	10.0%	0.0%	0.0%
Each Host Municipality	1.0%	1.5%	1.0%
Transfer to State	38.0%	61.2%	63.5%

Source: House Fiscal Advisory Staff - Rhode Island Revenue Facts and RIPEC Calculations

Over the last decade, the State has increased its share of net terminal income from 49.4% in FY 1996 to an overall share of 61.9% in FY 2006 (61.2% at Lincoln and 63.5% at Newport). This has translated into reducing each facility’s share of net terminal income from 33.0% to 26.0% in Newport and 27.8% in Lincoln. It should be noted that under current law, the Narragansett Indian Tribe receives 5.0% of the net terminal income from the Lincoln facility generated by the additional 1,367 VLT positions added in FY 2007. This amount is capped at \$10.0 million annually.

The State’s general revenue budgets have increasingly relied on gaming revenues to balance the budget. In FY 1996, the State received approximately \$42.8 million in revenues from the State’s two gaming facilities. This represented 2.5% of the State’s total general revenue (\$1,713.5 million). In FY 2006, it is projected that the State will receive \$257.7 million in revenue from the two gaming facilities. This will represent 8.2% of the revenues included in the FY 2006 Revised Budget (\$3,123.9 million).^{vi} In the current fiscal year, gaming revenue will contribute 11.2% to fund State programs and operations, and this is projected to increase to 15.0% by FY 2020 (assumes an average annual rate of 3.5% growth in state general revenue budget).

Proposed Harrah’s Casino in West Warwick

The following analysis to explore the potential casino in West Warwick could have on State finances is based on information that Harrah’s has used to promote its commercial casino. It must be noted that a specific contract between Harrah’s and the State has not been made public or approved by the Governor and General Assembly.

Harrah’s Entertainment Inc. has proposed to develop, construct and operate a destination casino in the Town of West Warwick Rhode Island. As noted earlier, the proposal will be presented to the voters in the form of a constitutional amendment. If approved, the proposed casino would be situated adjacent to I-95 with its own interchange designed to

provide consumers with the only access to the casino site. The casino would be owned and operated by Harrah’s Entertainment Inc. The casino would be a commercial casino, not a casino established and regulated under the Federal Indian Gaming Regulatory Act.

According to Harrah’s Entertainment, Inc., the casino would offer 140,000 square feet of casino space (providing 3,500 slot machines and 150 table games), a 500 room hotel, eight food and beverage outlets, nearly 55,000 square feet in meeting space, and parking for 5,900 vehicles. Harrah’s Entertainment, Inc. has indicated that it intends to make a capital investment in the casino of nearly \$1.0 billion.^{vii} A comparison of the proposed Harrah’s Casino with other gaming facilities located in the Ocean State can be found on Table 6. Note that the table shows each facility as of FY 2010.

Table 6
Comparison of Gaming Facilities in Rhode Island in FY 2010

Amenities	Lincoln Park	Newport Grand	Proposed Harrah's Casino
Gaming Space	150,000 sq.ft.	70,000 sq.ft.	140,000 sq.ft.
Hotel	No	123 Rooms	500 Rooms
Slot/VLT Machines	4,752	2101	3,500
Table Games	No	No	100
Poker Games	No	No	50
Meeting Space	29,000 sq.ft.	8,000 sq.ft.	55,000 sq.ft.
Full Service Spa/Pool	No	Pool only	Yes
Parking Garage	No	No	4,000
Surface Parking	5,350	2,000	1,900
Food/Beverage Outlets	14	8	8
Retail Space	Yes - one	Yes/unknown	Yes/unknown
VIP Lounge	Yes	Yes	Yes

Sources: Harrah's Entertainment, Inc. Newport Grand and Lincoln Park Officials

If approved, this analysis assumes that the Harrah’s Casino would be in its first year of operation by 2010 and fully operational by 2012. In developing the model to forecast the net impact on gaming revenue in the State, one must include the potential revenue generated by the proposed casino that would be owned and operated by the Harrah’s Entertainment Inc. If approved, this casino would have a direct impact on the State’s revenue structure. As noted, since there is not a specific agreement between the State and Harrah’s Entertainment Inc., certain assumptions must be made concerning the Harrah’s forecasted revenues and the tax rates that would apply to gaming revenues.

There have been discussions that there could be a State tax rate of 25%, or a series of tax rates depending on the gaming revenue generated at the facility, increasing the rate to 40% on revenues exceeding \$1.0 billion. However, it is unclear what rates might be used. It appears that the tax rate would apply to all gaming revenue generated at the facility – both video lottery terminals and table games. Harrah’s has been using a graduated rate structure depending on the amount of gross gaming revenue generated at the proposed facility. Therefore, as the following analysis uses the same methodology (See Table 7).

Should the State implement the tax structure noted above, the State would generate \$113.0 million in gaming tax revenue from the Harrah's Casino in FY 2010. As presented on Table 8, this would reach \$159.7 million by FY 2015 and \$189.9 million by FY 2020 (based on Harrah's gross gaming revenue forecast). Over the course of a ten-year period (FY 2010 through FY 2020), the Harrah's Casino would pay \$1.74 billion in gaming taxes to the State. With projected gross gaming revenue of \$6.6 billion and estimated tax revenue to the State of \$1.74 billion from FY 2010 through FY 2020, this translates into a blended tax rate over this period of time of 26.1%.

The Impact of Harrah's Casino in Rhode Island

In assessing the impact that the Harrah's Casino may have on State finances, it is necessary to consider the impact on the businesses at Lincoln Park and Newport Grand. There are many variables to consider, such as the number of people residing in different population centers, driving distance, customer behavior and preferences, estimated gaming penetration in the market, the appeal of each facility, as well as the tax structures in place and other agreements that affect the overall fiscal health of the State. The following analysis takes some of these factors into consideration to understand the potential impact the proposed casino may have on the State's general revenue budget.

Estimated Impact on Existing Gaming Industry

Harrah's Entertainment Inc.'s research shows nearly 29.0 million people aged 21 or older live within a 250-mile radius of the proposed Harrah's Casino site. Harrah's demand model establishes distance rings in 25-mile increments. Taken together, the 29.0 million people take an estimated 55.9 million gaming trips. This translates to 1.9 gaming trips per person per year. As Table 9 shows, the closer one is to the gaming facility (drive time in miles), the more frequent the gaming trips. For example, approximately 27.0% (7.8 million) of the targeted population lives within 100 miles of the proposed site of the casino in West Warwick. On average this group makes 3.1 gaming trips per year.^{ix}

Table 9
Estimated Vistis When Harrah's Entertainment Inc.'s Casino Fully Operational
(Year Three)

Miles from Casino	Population Over 21	Total Trips	Trip Incidence	Trips to Harrah's in West Warwick			
				Percent of Total	Estimated	Share of Harrahs Trips	Incidence
0-25	721,900	3,274,094	4.5	52.0%	1,702,529	17.4%	2.4
25-50	1,295,114	4,946,765	3.8	40.0%	1,978,706	20.2%	1.5
50-100	5,815,592	15,782,662	2.7	33.0%	5,208,278	53.2%	0.9
100-150	4,729,386	7,310,426	1.5	7.0%	511,730	5.2%	0.1
150-200	11,668,241	14,304,153	1.2	2.0%	286,083	2.9%	0.0
200-250	4,803,858	10,238,375	2.1	1.0%	102,384	1.0%	0.0
Total	29,034,091	55,856,475	1.9		9,789,710		0.3
1-100	7,832,606	24,003,521	3.1		8,889,513		1.1

*Estimated draw to The Harrah's Casino

Source: Harrah's Entertainment Inc.

There are a number of interesting findings from this data. RIPEC calculations based on Harrah's data show that Harrah's Entertainment Inc. estimates to capture approximately 17.5% (9.8 million trips) of the gross gaming trips taken within a 250 mile radius of the facility. This is consistent with estimated visits to Foxwoods (over 20.0 million) and Mohegan Sun (over 15.0 million). What this data also shows is that Harrah's expects at least 38.0% of the trips to a West Warwick-based casino would likely originate in Rhode Island (within 50 mile radius). Approximately half of the gaming trips to West Warwick would originate from a distance of 50 to 100 miles. In other words, nine out of every ten trips to the West Warwick casino would originate within 100 miles of the casino's site. This translates into a trip incidence of 1.1 gaming trips per person.^x

Additional data provided by Harrah's Entertainment Inc. relates to the primary markets that are likely to take advantage of the proposed casino, which includes Providence, Boston, Springfield, Worcester and to some extent, New Bedford. Harrah's Entertainment Inc. estimates that nearly a third of the Providence population 21 and older gamble in some form, while approximately 25% of the Boston population participates in some form of gaming. Most New England western markets and those from New York City would be drawn to the Connecticut casinos and have little interest in the additional drive time to West Warwick. As Table 10 shows, the drive times from these markets do vary.

Table 10
Estimated Drive Time From Different Markets
Displayed in Miles Driven

Gaming Facility	Primary Market				
	Providence	Boston	Springfiled	Worcester	New Bedford
Region's Population	1,186,613	3,406,829	591,932	511,389	175,198
Harrah's West Warwick	14	64	97	51	44
Lincoln Park	9	58	92	46	38
Newport Grand	34	72	118	71	31
Foxwoods	58	114	75	72	87
Mohegan Sun	61	109	71	67	91

Source: Harra's Entertainment, Inc.

However, Table 10 does show that a portion of the estimated trips discussed earlier are likely to come at the expense of existing gaming facilities in Lincoln and Newport. Given the location of the proposed Harrah's casino, the Newport facility is likely to be cut off of all major gaming markets. For example, the Providence market has a drive time of 14 minutes to the proposed Harrah's casino as compared to 9 minutes to the Lincoln facility and 34 minutes to the Newport facility. There is only an estimated 14 minute difference between the Harrah's casino and Newport facility for those coming from the greater Boston market, and less than 6 minutes compared to the Lincoln facility for the same consumers.^{xi}

Drive time and overall satisfaction of the experience at a gaming facility play a significant role in consumer behavior. Consumers make choices in their selection of venue based on a balance between the highest value of the purchased service or product and overall convenience. Value is the difference between what a consumer pays for a product, service, or experience, and the benefits they receive. In the case of a gaming facility, the price a customer pays is the time it takes (and the associated gasoline cost) to drive to a given gaming facility. Second, the limited differential in drive times indicates that convenience will play less of a role in the decision among similarly situated facilities (in terms of drive time).

An example of how this may play out may be useful. Assume a local resident in Warwick wishes to go to a gaming facility. Mohegan Sun is the most expensive local gaming facility, because it is the furthest away. Foxwoods follows as the next most expensive, with Lincoln and Newport as the least expensive because of their proximity.

However, price is not the same as value, which depends not only on what one pays, but what one receives in return. Mohegan Sun recognizes this and compensates for its longer drive times by providing entertainment offerings. The Mohegan Sun facility targets its marketing strategy towards consumers in the Boston and Rhode Island markets who give considerable weight to superior entertainment value when choosing which gaming location to visit.

Prior to the purchase of the Lincoln facility, the Lincoln VLT-only facility primarily served as a venue for “convenience gaming”. In other words, the facility provided a basic offering – VLTs with minimal food and entertainment – at a very low price in terms of drive time. Judging from the revenues generated at Lincoln Park, there is a market for “convenience” gaming customers. However, the fact that a significant number of VLT-focused customers also drive to Foxwoods indicates that there is another consumer segment that places value on facilities, food and entertainment. The recent purchase of the Lincoln facility and the subsequent capital investments have upgraded the Lincoln facility’s offering in food, entertainment and overall atmosphere. With these investments, the Lincoln facility expects to gain market share.

This is the context in which we must ask – “What happens if Harrah’s Entertainment Inc. opens a commercial casino in West Warwick? For one segment of the market, this will clearly be good news. These are the customers in the Boston, Providence, and Newport/Southeastern Massachusetts markets who put a high priority on table games. West Warwick will provide this product with significantly less drive time compared to Foxwoods and Mohegan Sun. However, table games account for approximately 20-25% of casinos’ gaming income – VLT gaming represents the largest segment of gaming revenues at casinos.

Therefore, the critical question becomes, “what the potential impact the proposed Harrah’s casino in West Warwick would have on gaming consumers who focus on VLTs?” These consumers will compare the packages of benefits (VLTs, facility, food and entertainment) available at Mohegan, Foxwoods, Lincoln, Newport and West

Warwick to the drive time required to obtain them. Inevitably, there will be people who, because of shorter drive times, will choose to go to the Harrah’s Casino, rather than Lincoln or Newport. This type of consumer behavior will have an adverse affect on the businesses at Lincoln Park and Newport Grand, and subsequently have a negative financial impact on State resources.

Harrah’s Casino Impact on Existing Gaming Revenue and State Revenues

In order to determine what the net impact on gaming revenues in the State would be, two forecasts are necessary. The first is to forecast each existing facility’s net terminal income and assume a casino is not introduced in the State. This will provide a benchmark for the relative impact the introduction of a casino might have on net terminal income as well as net state general revenues. The details of this forecast are provided earlier in this report and highlighted here for convenience. Assuming no Harrah’s Casino, as shown on Table 11, gross gaming revenue at Lincoln Park and Newport Grand will increase from \$691.4 million in FY 2010 to \$1,216.9 million in FY 2020 – an increase of 76.0%. During this period, the State’s share of gaming proceeds will increase by approximately \$325.0 million - from \$427.8 million in FY 2010 to a projected \$752.7 million in FY 2020.

Table 11
Lincoln Park and Newport Grand Facilities - No Harah's Casino

Fiscal Year	Gross Revenue			State Share of Revenue			VLT Positions
	Amount	Change	% Growth	Amount	Change	% Growth	
2010	\$691.4	\$24.7	3.7%	\$427.8	\$15.3	3.7%	6,852
2011	731.6	40.2	5.8%	452.7	24.8	5.8%	6,852
2012	774.1	42.5	5.8%	479.0	26.3	5.8%	6,852
2013	819.1	45.0	5.8%	506.8	27.8	5.8%	6,852
2014	866.7	47.6	5.8%	536.2	29.4	5.8%	6,852
2015	917.1	50.4	5.8%	567.4	31.2	5.8%	6,852
2016	970.5	53.3	5.8%	600.3	33.0	5.8%	6,852
2017	1,026.9	56.5	5.8%	635.3	34.9	5.8%	6,852
2018	1,086.7	59.8	5.8%	672.2	36.9	5.8%	6,852
2019	1,149.9	63.3	5.8%	711.3	39.1	5.8%	6,852
2020	1,216.9	67.0	5.8%	752.7	41.4	5.8%	6,852
Total	\$10,250.8			\$6,341.6			

Source: RIPEC Projections

Second, one must forecast net terminal income and assume that a casino is indeed introduced and begins operation in FY 2010. There have been a number of studies that have attempted to ascertain the impact on net terminal income on the two existing Rhode Island gaming facilities should a casino begin operating in the State in FY 2010. These studies have assumed that there would be a reduction in net terminal income at both facilities. However, the extent of which and the time of recovery assumed in these studies do differ, and also differs between the two facilities. The impact on net terminal income for each facility will vary given their location, the estimated drive time for consumers, consumer behavior changes and the like.^{xii}

Bottom line is that there are three key elements that support an expected loss in patronage and thus a negative impact on net terminal income at the two existing Rhode Island gaming facilities should a Harrah's Casino be introduced into the Greater Rhode Island market. First, there are clearly drive time savings that will impact consumer behavior – as noted earlier, nine out of every ten trips to the West Warwick casino could originate within 100 miles of the casino's site. Second, Harrah's superior marketing expertise will enable it to offer deeper and richer complimentary benefits (comps) that will put the existing gaming facilities at a competitive disadvantage. It is estimated that complimentary benefits can represent approximately 21% of gross gaming revenues.^{xiii} Third, a graduated state tax rate structure for the Harrah's casino (blended state tax rate of 26.1% over the ten-year period) as compared to the taxes on net terminal income at both Lincoln and Newport (61.2% and 63.5% respectively) enables the Harrah's casino to further underwrite its comps and marketing programs.

As summarized on Table 12, RIPEC estimates that the two facilities will lose \$182.8 million in net terminal income in FY 2010 should the Harrah's Casino be permitted to open and operate. The annual reduction in net terminal income would reach \$528.2 million by FY 2020 if a Harrah's Casino is permitted to open. Over the ten-year period, the two existing facilities would generate \$3.9 billion less in income due to the Harrah's Casino as compared to projections without such a facility in place. This represents a 37.8% decrease in overall net terminal income in the State prior to accounting for revenues generated by a casino operated by Harrah's Entertainment Inc. This translates into an average annual loss of \$400 million in net terminal income. The following outlines the forecast details for each facility.

Table 12
Estimated Impact of a Harrah's Casino on Gross Gaming Revenues on Existing Facilities
(Millions)

Fiscal Year	Lincoln Park			Newport Grand			Lincoln and Newport		
	No Casino	With Casino	Net Impact	No Casino	With Casino	Net Impact	No Casino	With Casino	Net Impact
2010	\$560.1	\$418.4	(\$141.6)	\$131.3	\$90.2	(\$41.2)	\$691.4	\$508.6	(\$182.8)
2011	593.7	402.2	(191.4)	137.9	86.3	(51.6)	731.6	488.5	(243.1)
2012	629.3	394.8	(234.5)	144.8	82.0	(62.8)	774.1	476.8	(297.3)
2013	667.0	426.7	(240.3)	152.0	84.5	(67.6)	819.1	511.2	(307.9)
2014	707.1	464.6	(242.4)	159.6	87.0	(72.6)	866.7	551.6	(315.1)
2015	749.5	504.4	(245.0)	167.6	89.6	(78.0)	917.1	594.1	(323.0)
2016	794.4	519.6	(274.9)	176.0	92.3	(83.7)	970.5	611.9	(358.6)
2017	842.1	535.2	(306.9)	184.8	95.1	(89.7)	1,026.9	630.2	(396.7)
2018	892.6	551.2	(341.4)	194.0	97.9	(96.1)	1,086.7	649.1	(437.5)
2019	946.2	567.8	(378.4)	203.7	100.9	(102.9)	1,149.9	668.6	(481.3)
2020	1,003.0	584.8	(418.2)	213.9	103.9	(110.0)	1,216.9	688.7	(528.2)

2010-2020 **\$8,384.9** **\$5,369.7** **(\$3,015.2)** **\$1,865.9** **\$1,009.6** **(\$856.3)** **\$10,250.8** **\$6,379.3** **(\$3,871.5)**

Source: RIPEC calculations based on data provided by the State Budget Office, Lincoln Park and Newport Grand

V=SOS 11

Lincoln - The Lincoln facility offers its own set of circumstances that make estimating the potential impact of a casino challenging. The facility is now completing major capital improvements and will be adding 1,367 new VLT positions within the year (expanding its number of positions by 40%).

There are a number of assumptions built into this model. First, Lincoln would continue to pay the State 61.5% of the net terminal income and would retain 27.8% of the net terminal income. The balance would continue to go to technical providers and the Town of Lincoln. RIPEC assumes that the net revenue loss in FY 2010 would be the equivalent of 25.0% of estimated net terminal income. This would increase to 33.3% by FY 2012 – the third year of the Harrah's Casino's operation (when it is expected to be 100% operational). Again, this assumption appears to be within ranges used by both the Lincoln facility and Harrah's Entertainment Inc.

RIPEC forecasts in subsequent years that Lincoln will begin to regain some of the consumer market initially lost to the Harrah's Casino at an average annual rate of approximately four percentage points through FY 2015. It is projected that by FY 2015 and thereafter, Lincoln Park will have permanently lost approximately 22.0% of its customer base given the introduction of a Harrah's Casino. RIPEC estimates that net terminal income would increase at an average annual rate of 3.0% in FY 2010 and thereafter.

Given these assumptions, RIPEC estimates Lincoln would generate approximately \$418.4 million in net terminal income in FY 2010 as compared to a projected \$560.1 million without a casino. The projected net loss in net terminal income would be \$141.6 million in the first year of a Harrah's Casino operating in the State. In the third year of the Harrah's Casino's operation (FY 2012), RIPEC estimates that the Lincoln facility would lose approximately 33.3% of its net terminal income. The Lincoln facility would generate \$394.8 million in revenue – down \$234.5 million as compared to \$629.3 million if the casino did not open. The annual net loss would expand to \$245.0 million by FY 2015, and would reach \$418.2 million by FY 2020. Over the ten-year period, the Lincoln facility would experience a net loss of approximately \$3.0 billion in net terminal income.

Newport - Newport presents a number of issues that need to be considered when developing a forecast. The facility will be undergoing significant capital improvements, doubling its total number of VLT positions, and potentially developing a hotel on the premises within the next 3-4 years.

However, it appears that studies completed to date indicate that the Newport facility will experience a greater negative impact on its gaming revenue than the Lincoln facility – primarily due to the fact that drive time convenience will be further diminished given the location of the Harrah's Casino. In discussions with Newport Grand officials and reviewing existing bodies of work, it appears that the Newport facility could lose up to 40.0% of net terminal income should a Harrah's Casino begin operating in FY 2010. The following represents RIPEC's estimate of the impact a casino would have on the gaming revenue at the Newport Grand facility.

There are a number of assumptions built into this model. First, Newport would continue to pay the State 63.5% of the net terminal income and would retain 26% of the net terminal income. The balance would continue to go to technical providers and the City of Newport. RIPEC assumes that the initial net revenue loss in FY 2010 would be the equivalent of 30.0% of net terminal income. This would increase to 40.0% of net terminal income by FY 2012. This assumption appears to be within ranges used by both the Newport facility and Harrah's Entertainment Inc. RIPEC estimates that net terminal income would increase at an average annual rate of 3.0% in FY 2010 and thereafter.

Given these assumptions, RIPEC estimates Newport would generate approximately \$90.2 million in net terminal income in FY 2010 as compared to a projected \$131.3 million without a Harrah's Casino. The projected net loss in net terminal income would be \$41.2 million in the first year of a Harrah's Casino operating in the State. In the third year of the Harrah's Casino's operation (FY 2012), RIPEC estimates that the Newport Grand facility would lose approximately 40.0% of its net terminal income. The Newport facility would generate \$82.0 million in revenue – down \$62.8 million as compared to \$144.8 million if the casino did not open. It is unlikely that the Newport facility will recover any of the business lost to the Harrah's Casino. The 40.0% loss in revenue remains in the base of the forecast. The annual net loss would expand to \$78.0 million by FY 2015, and would peak at \$110.0 million by FY 2020. Over the ten-year period, the Newport facility would experience a net loss in net terminal income of approximately \$856.3 million.

Impact on Statewide Gaming Revenues

Under the current environment with no Harrah's Casino, the two existing facilities are projected to attract \$10.3 billion in gaming revenue from FY 2010 through FY 2020 – representing a 76.0% increase over this period of time. However, if a Harrah's Casino is operational by FY 2010, the three facilities are projected to generate approximately \$13.0 billion in gaming revenues, for a net increase of nearly \$2.8 billion in new gaming revenue statewide. This represents a 27.0% increase in gaming revenue generated in the State.

Fiscal Year	No Harrah's Casino				With Harrah's Casino					Net Impact	
	Lincoln	Newport	Total	Change	Lincoln	Newport	Harrhahs	Total	Change	Amount	Percent
2010	\$560.1	\$131.3	\$691.4		\$418.4	\$90.2	\$448.0	\$956.6		\$265.2	38.4%
2011	593.7	137.9	731.6	5.8%	402.2	86.3	504.0	992.5	3.8%	260.9	35.7%
2012	629.3	144.8	774.1	5.8%	394.8	82.0	560.0	1,036.8	4.5%	262.7	33.9%
2013	667.0	152.0	819.1	5.8%	426.7	84.5	576.8	1,088.0	4.9%	268.9	32.8%
2014	707.1	159.6	866.7	5.8%	464.6	87.0	594.1	1,145.7	5.3%	279.1	32.2%
2015	749.5	167.6	917.1	5.8%	504.4	89.6	611.9	1,206.0	5.3%	288.9	31.5%
2016	794.4	176.0	970.5	5.8%	519.6	92.3	630.3	1,242.2	3.0%	271.7	28.0%
2017	842.1	184.8	1,026.9	5.8%	535.2	95.1	649.2	1,279.4	3.0%	252.5	24.6%
2018	892.6	194.0	1,086.7	5.8%	551.2	97.9	668.7	1,317.8	3.0%	231.1	21.3%
2019	946.2	203.7	1,149.9	5.8%	567.8	100.9	688.7	1,357.4	3.0%	207.4	18.0%
2020	1,003.0	213.9	1,216.9	5.8%	584.8	103.9	709.4	1,398.1	3.0%	181.2	14.9%
2010-2020	\$8,384.9	\$1,865.9	\$10,250.8	76.0%	\$5,369.7	\$1,009.6	\$6,641.1	\$13,020.4	46.2%	\$2,769.6	27.0%

Source: RIPEC calculations based on data provided by Lincoln Downs, Newport Grand and Harrah's Entertainment

However, should the Harrah's Casino be approved, it would generate \$6.6 billion – 51.0% of the \$13.0 billion in net gaming revenue in the State. In other words, the Lincoln Park and Newport Grand facilities' share of the net gaming revenue would fall from 100% to 49.0% if a Harrah's Casino is permitted to open. This translates into a gaming revenue loss of \$3.9 billion – a 37.8% loss in net gaming revenue should the Harrah's Casino open.

Another way to look at the data is to assume that if the Harrah's Casino does open, it will be the primary generator of the additional \$2.8 billion in new gaming revenue in the State during this ten-year period. If the Casino generates \$6.6 billion from FY 2010 through FY 2020, and \$2.8 billion is net new gaming revenue previously not in the State, the remaining \$3.9 million in net gaming revenue generated at the Harrah's Casino is at the expense of the two existing facilities.

Impact on State Gaming Tax Revenue

One can assume that if there was no Harrah's Casino in Rhode Island, the State would tax the projected \$10.3 billion in gaming revenue at the two existing facilities at current tax rates, which exceed 60%. However, if the Casino is permitted to open, there would be \$13.0 billion in gaming revenue throughout the State. The State would tax \$6.6 billion generated at the Harrah's Casino (50.8% of all gaming revenue) using a graduated rate structure based on gaming revenues (blended rate over the ten years would equal 26.1%). The \$6.4 billion balance of total gaming revenue throughout the State would be taxed at the 61.5% rate at Lincoln and 63.5% at Newport, thus generating significantly less in State tax dollars over this ten-year period. Table 14 shows the estimated State tax revenue lost due to the introduction of a Harrah's Casino in FY 2010 through FY 2020.

Table 14
Estimated Impact of Harrah's Casino on State Gaming Revenues From Existing Facilities
(Millions)

Fiscal Year	Lincoln Park			Newport Grand			Both Facilities		
	No Casino	With Casino	Loss in Revenue	No Casino	With Casino	Loss in Revenue	No Casino	With Casino	Loss in Revenue
2010	\$344.4	\$257.3	(\$87.1)	\$83.4	\$57.3	(\$26.1)	\$427.8	\$314.6	(\$113.2)
2011	365.1	247.4	(117.7)	87.6	54.8	(32.8)	452.7	302.1	(150.5)
2012	387.0	242.8	(144.2)	91.9	52.1	(39.9)	479.0	294.9	(184.1)
2013	410.2	262.4	(147.8)	96.5	53.6	(42.9)	506.8	316.1	(190.7)
2014	434.8	285.8	(149.1)	101.4	55.2	(46.1)	536.2	341.0	(195.2)
2015	460.9	310.2	(150.7)	106.4	56.9	(49.5)	567.4	367.1	(200.2)
2016	488.6	319.5	(169.0)	111.8	58.6	(53.2)	600.3	378.2	(222.2)
2017	517.9	329.1	(188.8)	117.4	60.4	(57.0)	635.3	389.5	(245.8)
2018	549.0	339.0	(210.0)	123.2	62.2	(61.0)	672.2	401.2	(271.0)
2019	581.9	349.2	(232.7)	129.4	64.0	(65.3)	711.3	413.2	(298.1)
2020	616.8	359.6	(257.2)	135.8	66.0	(69.9)	752.7	425.6	(327.1)

2010-2020 \$5,156.7 \$3,302.4 (\$1,854.4) \$1,184.8 \$641.1 (\$543.7) \$6,341.6 \$3,943.5 (\$2,398.1)

Source: RIPEC calculations based on data provided by the State Budget Office, Lincoln Park and Newport Grand

Estimated Slippage Payments

The Lincoln and Newport facilities both have contract provisions to hold both harmless against lost revenue due to the introduction of a casino in the State. This provision, often referred to as the “slippage clause”, is based on the difference between the facility’s average annual revenue for the prior two years of the introduction of a casino and the actual annual yield after the introduction of the casino. The base (average of two years prior to casino) is adjusted by the Consumer Price Index, not to exceed 3.0%.^{xiv} The State would make the adjustment in each facility’s share of net terminal income to provide for the slippage amounts. This obviously represents a negative impact on the State’s general fund, in that in order to hold the facilities harmless, the difference must come from State revenues.

Table 15
Total Estimated Slippage Payments
(Millions)

Fiscal Year	Lincoln Park	Newport Grand	Total Impact
2010	(\$30.6)	(\$5.4)	(\$36.0)
2011	(39.5)	(7.3)	(46.8)
2012	(46.1)	(9.3)	(55.4)
2013	(41.9)	(9.6)	(51.5)
2014	(36.1)	(9.9)	(46.0)
2015	(30.0)	(10.2)	(40.2)
2016	(30.9)	0.0	(30.9)
2017	(31.9)	0.0	(31.9)
2018	(32.8)	0.0	(32.8)
2019	(33.8)	0.0	(33.8)
2020	(34.8)	0.0	(34.8)
2010-2020	(\$388.3)	(\$51.8)	(\$440.2)

Source: RIPEC calculations

Table 15 summarizes the State’s slippage payments to the two existing gaming facilities. Tables 16 and 17 provide greater detail on the slippage payments the State would make to Lincoln and Newport, respectively. From FY 2010 through FY 2020, the State would be obligated to make up nearly \$440.2 million in lost revenue to the two existing facilities through slippage payments. The law states the State would reduce its share of the net terminal income from each facility to make up these revenues, thereby reducing net State revenue generated from the two gaming facilities.

Lincoln’s contract with the State provides for slippage payments through FY 2020 should a casino be introduced into the State and there is an adverse impact on the facility’s net revenues. The Lincoln facility retains 27.8% of the net terminal income. This is slightly higher than the Newport calculation because 63.0% of the Lincoln VLT positions would be taxed at a rate of 28.85% and the balance (37.0%, or 1,750 machines) would be taxed at 26%. The result is a blended tax rate of 27.8%.

Based on the forecasted revenues before and after the introduction of a Harrah's Casino (in FY 2010), RIPEC estimates that the FY 2010 slippage payment to Lincoln would total \$30.6 million, and would increase to an annual slippage payment of \$34.8 million by FY 2020. Over this period of time, it is estimated that total slippage payments for the Lincoln facility would be \$388.3 million.

Table 16
Lincoln Park Slippage Calculation Due to Harrah's Commercial Casino
(Millions)

Fiscal Year	Gross Revenue			Lincoln Share of Gross Revenue			Slippage Calculation	
	No. Casino	W/Casino	Impact	No. Casino	W/Casino	Impact	Base	State Pays
2010	\$560.1	\$418.4	(\$141.6)	\$155.7	\$116.3	(\$39.4)	\$146.9	(\$30.6)
2011	593.7	402.2	(191.4)	165.0	111.8	(53.2)	151.3	(39.5)
2012	629.3	394.8	(234.5)	174.9	109.7	(65.2)	155.8	(46.1)
2013	667.0	426.7	(240.3)	185.4	118.6	(66.8)	160.5	(41.9)
2014	707.1	464.6	(242.4)	196.6	129.2	(67.4)	165.3	(36.1)
2015	749.5	504.4	(245.0)	208.4	140.2	(68.1)	170.3	(30.0)
2016	794.4	519.6	(274.9)	220.9	144.4	(76.4)	175.4	(30.9)
2017	842.1	535.2	(306.9)	234.1	148.8	(85.3)	180.6	(31.9)
2018	892.6	551.2	(341.4)	248.2	153.2	(94.9)	186.1	(32.8)
2019	946.2	567.8	(378.4)	263.0	157.8	(105.2)	191.6	(33.8)
2020	1,003.0	584.8	(418.2)	278.8	162.6	(116.3)	197.4	(34.8)
Total	\$8,384.9	\$5,369.7	(\$3,015.2)	\$2,331.0	\$1,492.8	(\$838.2)	\$1,881.1	(\$388.3)

Source: RIPEC Calculation

Newport's contract with the State provides for slippage payments through FY 2015 should a casino be introduced into the State and there is an adverse impact on the facility's net revenues. The Newport facility retains 26% of the net terminal income. Based on the forecasted revenues before and after the introduction of a casino (in FY 2010), RIPEC estimates that the FY 2010 slippage payment to Newport would total \$5.4 million, and would increase to \$10.2 million by FY 2015. Over this period of time, it is estimated that total slippage payments for the Newport facility would be \$51.8 million.

Table 17
Newport Grand's Slippage Calculation Due to Harrah's Commercial Casino
(Millions)

Fiscal Year	Gross Revenue			Lincoln Share of Gross Revenue			Slippage Calculation	
	No. Casino	W/Casino	Impact	No. Casino	W/Casino	Impact	Base	State Pays
2010	\$131.3	\$90.2	(\$41.2)	\$34.1	\$23.4	(\$10.7)	\$28.9	(\$5.4)
2011	137.9	86.3	(51.6)	35.9	22.4	(13.4)	29.8	(7.3)
2012	144.8	82.0	(62.8)	37.6	21.3	(16.3)	30.7	(9.3)
2013	152.0	84.5	(67.6)	39.5	22.0	(17.6)	31.6	(9.6)
2014	159.6	87.0	(72.6)	41.5	22.6	(18.9)	32.5	(9.9)
2015	167.6	89.6	(78.0)	43.6	23.3	(20.3)	33.5	(10.2)
2016	176.0	92.3	(83.7)	45.8	24.0	(21.8)	0.0	0.0
2017	184.8	95.1	(89.7)	48.0	24.7	(23.3)	0.0	0.0
2018	194.0	97.9	(96.1)	50.5	25.5	(25.0)	0.0	0.0
2019	203.7	100.9	(102.9)	53.0	26.2	(26.8)	0.0	0.0
2020	213.9	103.9	(110.0)	55.6	27.0	(28.6)	0.0	0.0
Total	\$1,865.9	\$1,009.6	(\$856.3)	\$485.1	\$262.5	(\$222.6)	\$186.9	(\$51.8)

Source: RIPEC Calculation

Net Impact on the State's Gaming Tax Revenue

Should a Harrah's Commercial Casino be operational by FY 2010, the total impact on the State's gaming tax revenue is projected to result in a **net loss** of approximately \$1.1 billion over the ten-year period (FY 2010 – FY 2020). This translates into an average annual loss in State general revenue of \$100 million during this period of time.

As discussed above, based on projected revenues at both the Newport and Lincoln facilities, RIPEC projects a loss in State gaming tax revenues of \$2.4 billion from FY 2010 through FY 2020. RIPEC projects an additional loss of \$440.2 million due to slippage payments to the two facilities over this period of time. This would result in a projected loss in State gaming tax revenue of over **\$2.8 billion**. This is offset by an estimated \$1.7 billion in net revenue gains from the introduction of a Harrah's Casino in Rhode Island – assuming the tax revenues generated by the Harrah's Casino are deposited into the State's general fund and not earmarked for property tax relief.

Table 18
Estimated Impact of Harrah's Casino on State Revenues from Existing Facilities
(Millions)

Fiscal Year	Gross Revenue Impact					Adjust for Harrah's Casino		
	No Casino	With Casino	Revenue Loss	Est. Slippage	Total Loss	Harrah Revenue	Total Revenue	Net Impact
2010	\$427.8	\$314.6	(\$113.2)	(\$36.0)	(\$149.2)	\$113.0	\$391.5	(\$36.3)
2011	452.7	302.1	(150.5)	(46.8)	(197.3)	128.2	383.5	(69.2)
2012	479.0	294.9	(184.1)	(55.4)	(239.5)	144.4	383.8	(95.1)
2013	506.8	316.1	(190.7)	(51.5)	(242.2)	149.3	413.9	(92.9)
2014	536.2	341.0	(195.2)	(46.0)	(241.2)	154.3	449.3	(87.0)
2015	567.4	367.1	(200.2)	(40.2)	(240.5)	159.7	486.6	(80.8)
2016	600.3	378.2	(222.2)	(30.9)	(253.1)	165.4	512.6	(87.7)
2017	635.3	389.5	(245.8)	(31.9)	(277.6)	171.2	528.9	(106.4)
2018	672.2	401.2	(271.0)	(32.8)	(303.8)	177.3	545.7	(126.5)
2019	711.3	413.2	(298.1)	(33.8)	(331.9)	183.5	562.9	(148.4)
2020	752.7	425.6	(327.1)	(34.8)	(361.9)	189.9	580.7	(172.0)

2010-2020 \$6,341.6 \$3,943.5 (\$2,398.1) (\$440.2) (\$2,838.3) \$1,736.1 \$5,239.4 (\$1,102.1)

Source: RIPEC calculations based on data provided by the State Budget Office, Lincoln Park and Newport Grand

Other Considerations

Under current law, the Narragansett Indian Tribe receives 5.0% of the net terminal income from the Lincoln facility generated from the additional VLT positions, up to a cap of \$10.0 million per year. RIPEC forecasts that under current conditions, this payment should meet the \$10.0 million cap by FY 2010. Therefore, from FY 2010 through FY 2020, one can expect that the State would payout \$110.0 million to the Narragansett Indian Tribe as agreed under this arrangement.

However, should the new Casino be approved and is operational in FY 2010, one can assume that the State payment to the Narragansett Indian Tribe would cease. Therefore, this expenditure would not be needed and could offset a portion of the revenue loss experienced due to a new casino in the market. However, the value of that payment diminishes somewhat as the net revenue from the new machines at Lincoln decreases with the introduction of a casino. RIPEC estimates that the value of that payment would be approximately \$97.5 million – approximately \$12.5 million less over this period of time.

As stated above, the projected net loss to the State would be \$1.1 billion from FY 2010 through FY 2020. Adjusting this figure by eliminating the payment to the Narragansett Indian Tribe over the same period of time (\$97.5 million), the State would incur a net loss of \$1.0 billion in net gaming revenue with the introduction of a Harrah's Casino in Rhode Island in FY 2010. Again, this is based on published revenue forecasts presented by Harrah's Entertainment Inc. and RIPEC estimates of the net impact on the two existing gaming facilities in Rhode Island. In addition, the cost to regulate the gaming industry is not factored into these figures, which would likely increase the State's operating budget.

Proposal to Use Harrah's Casino Taxes for Property Tax Relief

Unfortunately, the potential net revenue loss to the State is not the entire story of the impact Harrah's Casino may have on State finances. The proposed constitutional amendment requires that tax proceeds from Harrah's Casino be dedicated to provide property tax relief.

That means tax revenues generated at the Harrah's Casino cannot be used to offset the projected \$2.8 billion in State tax revenue losses incurred at the existing facilities. Therefore, the question becomes – What gaming proceeds will be available to fund property tax relief without placing additional fiscal strains on the State's budget?

As the analysis above indicates, the Harrah's Casino will not generate tax dollars sufficient to offset the loss of State revenues experienced given the projected loss in gaming revenue at Lincoln Park and Newport Grand absent a casino in West Warwick. Therefore, if additional property tax relief programs are to be financed by the State, it would require reductions in existing State programs and/or tax increases.

The proponents of the Casino have stated that the "casino will generate \$144 million annually that will be used to cut property tax...." If such a property tax relief program is funded over a ten year period, this would require at least \$1.44 billion in State appropriations. If one assumes a net loss of \$1.1 billion in State revenue as a result of a Harrah's Casino, an additional \$1.44 billion in promised property tax relief over this period of time would require over \$2.5 billion in new State revenues (or State program reductions) in order to balance the budget. Passage of the constitutional amendment will therefore result in an annual budget gap of approximately \$250 million in each of the first ten years of operations. Such a gap equates to almost 25% of the Rhode Island personal income tax revenues collected by the State.

References

- ⁱ Preliminary FY 2006 Data provided by State Budget Office
- ⁱⁱ Preliminary FY 2006 Data provided by State Budget Office.
- ⁱⁱⁱ Lincoln Park officials provided timeline of when additional VLTs would be online.
- ^{iv} Newport Grand officials provided timeline of when additional VLTs would be online
- ^v Rhode Island Revenue Facts – October 2005 - Rhode Island House Fiscal Staff
- ^{vi} RIPEC calculations based on Rhode Island State Budget Office Data
- ^{vii} Background Paper for the Greater Providence Chamber of Commerce, Rhode Islanders for Jobs and Tax Relief, July 21, 2006
- ^{viii} Background Paper for the Greater Providence Chamber of Commerce, Rhode Islanders for Jobs and Tax Relief, July 21, 2006
- ^{ix} Harrah’s Entertainment Inc. Background paper, undated.
- ^x RIPEC calculations based on Harrah’s Entertainment Inc. Background paper, undated.
- ^{xi} Harrah’s Entertainment Inc. Background paper, undated.
- ^{xii} Fiscal Impact Analysis of A West Warwick Resort Casino – Center for Policy Analysis, University of Massachusetts, Dartmouth - Testimony prepared for the Rhode Island House Finance Committee (May 2006).
- ^{xiii} Casino Gaming in America and its Economic Impacts, Thomas Garrett, August 2003
- ^{xiv} Master Video Lottery Terminal Contract – Slippage Protection Clauses (Sections 6.1-6.6)