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## Rhode Island Gaming and State Revenue Forecast

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# Rhode Island Gaming and State Revenue Forecast

Christiansen Capital Advisors, LLC (CCA) has been retained by the State of Rhode Island Department of Revenue to update parts of our previously conducted study of gaming in Rhode Island,<sup>1</sup> with actual licensee locations, and the likely revenue impact of recently authorized gaming in the Commonwealth of Massachusetts. CCA was also asked to update our Status Quo projections from our previous report in the event that the gaming law is repealed in Massachusetts.

To develop projections for the revenue potential of casinos (and one racino) in Massachusetts, CCA utilized proprietary models it has used in previous studies,<sup>2</sup> modified to take into account specific Southern New England and surrounding area market conditions, to develop projections for the market potential of expanded gaming in Massachusetts and its impact on Rhode Island.

In preparing this report CCA compiled pertinent historical data relating to casinos and video lottery terminal (VLT) facilities in New England, including the Twin River and Newport markets, casino gaming in Connecticut and in adjoining States, and constructed models of similar markets in other jurisdictions. On the basis of this work, we provide the following independent analysis and conclusions.

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## REVENUE ANALYSIS METHODOLOGY

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The methodology and detail employed by CCA in constructing such estimates is rigorous in its approach. To develop these projections, CCA utilized the proprietary models it has used in previous studies, modified to take into account specific New England and surrounding area market conditions, to develop projections for the market potential of, and impacts on, existing licensees of expanded gaming in New England.

The model chosen, which is used in many location-based analyses of this type, is often referred to as a "gravity model," because it is similar to Newton's Law of Gravitation (for which the distance factor would be  $-2.0$ : if you double the distance, the attraction declines by a factor of four). This model has been refined by CCA over the years as it relates to gaming facilities; the technique focuses on the demographics of areas surrounding each facility, in particular the number of adults residing at various distances (measured in drive time), and the observed ratio of actual spending of other similar adult populations.

<sup>1</sup> Christiansen Capital Advisors, LLC, for the Rhode Island Department of Revenue "Gaming Study and Economic Impact Analysis," January 17, 2012.

<sup>2</sup> CCA has conducted similar studies with accurate results for the Federal National Gambling Impact Study Commission and in Kentucky, Kansas, Pennsylvania, Connecticut, Iowa, Illinois, Massachusetts, Florida, New York, Rhode Island, California, and various other North American markets.

Our model assesses, and projects, gambling revenues based upon the distribution and characteristics of the adult populations surrounding each facility. The model includes parameters for distance, *per capita* income, urban/rural population mix, the nonresident "visitor" population, and competition. These elements are then weighted and aggregated to generate the resulting projections. In conducting these analyses, CCA drills down to an extremely precise level of detail. CCA models markets in the United States down to adult population by ZIP Code, and in Canada by postal FSA. Carrying the analysis down to the zip code level is particularly important in markets that have several gambling facilities in close proximity.

Another important component of CCA's modeling procedure is a verifiable adult spending base for slot machines and table games. We apply the experience of existing casino, riverboat, and/or device only facilities in the existing market and in other comparable markets to estimate the consumer demand for a proposed gambling facility and its potential impacts upon other forms of gaming. CCA's analyses are based upon observed verifiable drive time adjusted spending per adult in existing comparable gambling markets, providing a firm foundation supporting the analysis. We have applied the experience of existing casinos and video lottery terminal (VLT) facilities in New England and in other comparable markets to estimate the consumer demand for Massachusetts casinos and their impacts upon Rhode Island gaming facilities. To this end, we analyzed the performance of gaming machines and table games at casinos and racetrack gaming facilities in a wide variety of markets, including Pennsylvania, West Virginia, Delaware, Connecticut, and Maryland.

Our projections of casino demand and potential revenues are based on an important observation: other things being equal, gambling patrons overwhelmingly tend to gamble at the facility that is most conveniently located for them. In recent hearings before the New York Gaming Facility Location Board, several experienced casinos executives stated that, "Most casinos derive 90% of their revenue from within a 60 minute drive time of the facility."<sup>3</sup>

Because the public tends to gamble at the facility that is most conveniently located, patronage (and associated spending) at full-service casino gambling facilities falls off with increased drive time, but less rapidly than for many other forms of gambling (and other leisure) spending. For casino resorts, we assume (based upon previous research and CCA's experience) a "drive time coefficient"<sup>4</sup> of -0.5, compared to values of about -0.7 for racino or VLT only facilities. In other words, casino patronage rises with increased proximity to a gaming facility, but at differing rates for different types of gaming properties.

Because slot machines and table games are commodities, drive time is the predominant determinant of casino patronage (and, hence, we assume, spending). Drive time not only determines the overall level of *per capita* expenditures in the marketplace; it weighs heavily in consumer choice among competing

<sup>3</sup> <http://gaming.ny.gov/gaming/casinos.php>

<sup>4</sup> The "distance factors" estimated for these models are, technically, the "elasticities" of spending with respect to distance. Based upon survey data from several jurisdictions, rates of casino visitation appear to decline in proportion to about the 0.5 to 0.6 power of the distance to the casino, yielding distance factors of about 0.5 to 0.6. This is a relatively "long-distance" attraction; if distance doubles, spending declines by only about 30 percent.

suppliers. In general, the evidence from other markets overwhelmingly indicates that consumer expenditures on casino games will flow to the closest supplier to any given market.<sup>5</sup> Effective player databases and promotions also play a key role in the relative *attractiveness* of competing gambling properties, particularly those in close proximity. The analysis presented in this report, however, does not draw sharp geographical distinctions between markets within Rhode Island. Casino patrons sometimes do visit more distant facilities, particularly if there is a critical mass of casinos or amenities that they cannot get at the nearest facility. But other things being equal, VLTs, and casino machine games generally, are commodities: geographic proximity tends to outweigh other factors in consumer choice among competing suppliers.

It is important to bear in mind that the drive time data utilized in our models are daily averages, and do not reflect peak hour traffic congestion. Moreover, our models do not take into account the availability of parking. We understand both considerations (peak-hour traffic congestion and the availability of parking) are material for many New England locations.

To recap, the models used for the projections in this report adjust the populations surrounding each facility (or proposed facility) for drive time, *per capita* income,<sup>6</sup> the proportion of urban to rural residents in the population (urbanites typically spend more), the nonresident "visitor" population, and competition. From these data, we calculate an *adjusted adult population* around each facility, or group of facilities. This measure weights the adults who live closest to a facility at higher values than those who live at greater drive times. Total actual or estimated revenues (or consumer spending) in each market is divided by these adjusted population figures to arrive at a drive time adjusted spending base.<sup>7</sup>

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**BASELINE: THE CURRENT NEW ENGLAND MARKET, FY 2014**

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The following section presents an overview of the current New England gambling market.

Exhibit 1.1 presents a map of the regional New England market. The locations of the six existing Connecticut, New York City metropolitan area, and Rhode Island gaming facilities are indicated on this map.

<sup>5</sup> The best known exception is Las Vegas. The Las Vegas market is unique both in terms of intensity of development and of the attractions it has evolved, which enable it to attract a truly global market.

<sup>6</sup> We assume that for counties with *per capita* money incomes below regional averages, resort casino spending declines with income with an elasticity of 0.5.

<sup>7</sup> As noted above, these populations are adjusted for several other factors as well; however, the most significant variable, in terms of casino spending, is drive time. Hence, we refer to these populations as "drive time" adjusted.

### Exhibit 1.1 – Map of the Current Regional Gaming Market



Source: Christiansen Capital Advisors, LLC

## The Connecticut Casino Industry

Connecticut's two casinos, located approximately 10 miles apart in the Ledyard/Montville area in the southeastern region of the State, are the largest destination gaming resort attractions north of Atlantic City, more than 270 miles to the south.

The southern Connecticut region and the New York City metropolitan area have historically been an important source of gaming revenue for Foxwoods and Mohegan Sun, Connecticut's two tribal casino resorts. In the New York City metropolitan area Empire Casino/Yonkers Raceway opened in October 2006 with 1,870 VLTs. Currently Empire has approximately 5,300 VLTs,<sup>8</sup> and generated \$547.2 million in VLT revenue in FY 2014. Resorts World Casino/Aqueduct opened its doors in October 2011 and is now one of the largest casinos in the United States with roughly 5,000 VLTs and 595 electronic table games<sup>9</sup> that generated \$792.6 million in revenue in FY 2014. These facilities, and eastern Pennsylvania resort casinos and racinos and Twin River (which now offers traditional and electronic table games) are cannibalizing Connecticut tribal casinos consumer spending. Notwithstanding these impacts, Foxwoods Casino and Resort and Mohegan Sun remain among the largest casinos in North America.

<sup>8</sup> <http://newyork.casinocity.com/yonkers/empire-city-at-yonkers-raceway/>

<sup>9</sup> <http://newyork.casinocity.com/jamaica/resorts-world-casino-new-york-city/>

Foxwoods and Mohegan Sun at a Glance<sup>10</sup>

- Foxwoods: 450 tables; 6,400 slot machines; 344,000 square feet of casino floor; 2,523 hotel rooms and \$737.5 million in estimated gross gaming revenue in 2014;
- Mohegan Sun Casino, 320 table games; 5,500 slot machines; 364,000 square feet of casino floor; 40-story, 1,176 room hotel and \$874.8 million in estimated gross gaming revenue in 2014.

Exhibit 1.2 presents consumer spending (gross gaming revenue) on casino gaming at the two Connecticut tribal facilities between FY 2005 and FY 2014 and includes by-facility reported slot revenue and reported/estimated table revenue (*italics* represent estimates).

**Exhibit 1.2- Estimated Connecticut Casino Win (Gross Gaming Revenue in \$ Millions) between FY 2005 and FY 2014**

**Estimated Connecticut Casino Win (Gross Gaming Revenue in \$ Millions)  
between FY 2005 and FY 2014**

FY	Mohegan Sun Slot GGR (from CT DOSR) [1]	Mohegan Sun Table GGR (from SEC) [1]	Foxwoods Slot GGR (from CT DOSR) [2]	Foxwoods Table GGR	Total Ct. Tribal GGR
2005	\$851.5	\$330.3	\$819.8	\$318.0	\$2,332.8
2006	\$892.0	\$360.7	\$818.0	\$330.8	\$2,419.8
2007	\$916.4	\$384.2	\$805.5	\$337.2	\$2,450.8
2008	\$885.1	\$387.3	\$760.2	\$332.6	\$2,323.1
2009	\$802.6	\$314.9	\$708.6	\$278.0	\$2,072.2
2010	\$748.9	\$297.2	\$652.2	\$258.8	\$1,953.5
2011	\$719.2	\$309.9	\$650.0	\$258.0	\$1,912.6
2012	\$689.3	\$297.4	\$613.9	\$264.9	\$1,865.5
2013	\$628.8	\$305.0	\$542.8	\$263.3	\$1,739.9
2014	\$587.7	\$285.1	\$507.9	\$246.4	\$1,627.0

*Italicized numbers indicate estimates. Printed numbers indicate actual data.*

Sources:

[1] Mohegan Tribal Gaming Authority Form 10-K FY 2013, FY 2010 and FY 2007. Christiansen Capital Advisors estimates.

[2] "Statistics for Tribal Casinos". Connecticut Division of Special Revenue.

Source: Connecticut Division of Special Revenue, Mohegan Tribal Gaming Authority Form 10-K. Christiansen Capital Advisors estimates.

The Connecticut Division of Special Revenue reports Foxwoods and Mohegan Sun slot gross gaming revenue (GGR). It does not report non-electronic table GGR. Mohegan Sun reports both its slot and table revenue (using a different fiscal calendar) in that the Mohegan Tribal Gaming Authority has

<sup>10</sup> <http://connecticut.casinocity.com/>

publicly issued debt and reports these statistics in the annual 10-Ks it files with the Securities and Exchange Commission (SEC).

As reported in The Mohegan Tribal Gaming Authority's SEC filings slot revenues accounted for an about 67.3 percent of total gambling revenues. We have assumed that the percentage of total revenues derived from slot machines at Mohegan Sun is roughly the same at Foxwoods. This ratio of table GGR to slot machine GGR is moreover roughly consistent with observed experience in other regional markets. Given that the two Connecticut casinos are serving the same market and their close proximity to each other, it seems unlikely that the disposition of revenues from slot machines versus table games would vary to any great degree between the two facilities. The resulting statistics for table spending at Mohegan Sun from its 10-Ks and estimates for facility table game revenue at Foxwoods for the years FY 2005-2014 are presented in Exhibit 1.2

As Exhibit 1.2 shows, Connecticut gross gaming revenue increased from approximately \$2.33 billion in FY 2005 to approximately \$2.45 billion in FY 2007, but has been declining ever since.

This decline in GGR can be attributed to the severe 2008 U.S. economic contraction as well as to an increase in the regional gaming supply. With the addition of casinos and racinos in Massachusetts, as well as the recently authorized expansion of casino gaming in New York, Connecticut tribal gaming will feel additional competitive pressure going forward.

## **Massachusetts**

### Region B: MGM Springfield at Springfield, Massachusetts<sup>11</sup>

On June 13<sup>th</sup> of 2014, the Massachusetts Gaming Commission awarded casino license for Region B to MGM Springfield. Enrique Zuniga, a Commissioner responsible for investigating MGM's proposed business scheme and financial situation of the company, wrote in his report<sup>12</sup> that "MGM has demonstrated that they have the financial capabilities and direct access to funds required to develop and operate a successful Category 1 facility". Zuniga's report also states that MGM's projected gross gaming revenue per year is approximately \$500 million by the third year of operations. MGM forecasts that the resort construction period for its 14.5-acre resort will take approximately 27 months. Further details on the project are shown in Exhibit 1.3.<sup>13</sup>

MGM Springfield is proposing to host 3,000 slot machines and 100 table games in approximately 127,000 sq. feet of gaming space. The proposed property will also include 8 outlets, 250 hotel rooms,

<sup>11</sup> *MGM Springfield's finances, revenue projections rated positively by Massachusetts Gaming Commission's Enrique Zuniga.* Mass Live. <[http://www.masslive.com/politics/index.ssf/2014/06/mgm\\_springfields\\_finances\\_revenue\\_projections\\_rated\\_well\\_by\\_massachusetts\\_gaming\\_commissions\\_enrique\\_zuniga.html](http://www.masslive.com/politics/index.ssf/2014/06/mgm_springfields_finances_revenue_projections_rated_well_by_massachusetts_gaming_commissions_enrique_zuniga.html)>. 24 Oct 2014.

<sup>12</sup> Massachusetts Gaming Commission Report: Category 1 – MGM Springfield Resort Casino. Enrique Zuniga. 10 June 2014. 24 Oct 2014

<sup>13</sup> *Category 1 – Region A Resort Casino Presentation.* Enrique Zuniga, Finance Commissioner of the Massachusetts Gaming Commission. 8 Sep 2014. 24 Oct 2014.

approximately 20,000 sq. feet of exhibition/meeting space, 3,853 sq. feet of parking spaces and 43,000 sq. feet of retail spaces.

Region A: Wynn MA, LLC at Everett, Massachusetts

Wynn Casino was awarded its casino license by the Massachusetts Gaming Commission on September 17<sup>th</sup> of 2014. With its \$1.6 billion budget, Wynn MA is planning on deploying 3,242 slot machines and 168 table games in its 193,000 sq. feet gaming facility. Wynn MA property also includes 504 hotel rooms; the hotel rooms in the property are rated as “5 Star” according to Zuniga’s report. In addition, Wynn MA plans on incorporating approximately 33,000 sq. feet exhibition space and multi-purpose rooms, 77,250 sq. feet of retail and 3,700 sq. feet of parking spaces. Further details on the project are shown in Exhibit 1.3.

**Exhibit 1.3: Project Summaries for Wynn, MA LLC and MGM Springfield**

<b>Category 1 Applications - Project Summaries</b>		
<b>Applicant</b>	<b>Springfield/ MGM</b>	<b>Everett/ Wynn</b>
Name	MGM Springfield	The Wynn Resort in Everett
Location	Springfield	Everett
Construction Period	27 months	36 months
Opening Date	Subject to certain factors including license award	Q2 2017
<b>Gaming</b>		
Slots	3,000	3,242
Table Games	100	168
Area (sq ft)	126,701	192,543
<b>Non-Gaming</b>		
Number of Outlets	8	10
Total Seats	2,065	1,160
Hotel (rooms)	250	504
Entertainment	Bowling Alley, Cinema, Radio/TV Studio	Nightclub, 1,000 seat multi-purpose venue, 500 seat outdoor amphitheatre
Exhibition/Meeting Space (sq ft)	19,388	32,942
Retail	8,000 sq ft branded retail 35,000 sq ft outdoor retail	77,250 sq ft retail
Parking (spaces)	3,853	3,700
<i>Source: HLT Advisory Inc. based on applicants' submissions.</i>		

Source: Presentation of Category 1 – Region A Resort Casino. Enrique Zuniga, the Massachusetts Gaming Commission Finance Commissioner. Pg. 3.

**Slot Parlor: Penn National Gaming**

On February 28<sup>th</sup> of 2014, Penn National Gaming, with its \$225 million proposal to bring in the first slot machine parlor in Massachusetts, was awarded its casino license (Category 2) with a 3-to-2 majority vote by the Commission. According to the Boston Globe, Penn National Gaming is “now nearly halfway complete” on its Plainridge Park Casino facility expansion project (as of October 2014) and is expected to open next spring if the project does not encounter any significant challenges.

Penn National Gaming is proposing to use its full allotment of 1,250 slot machines in its 106,000 sq. feet expansion to the existing racecourse site.<sup>14</sup> In addition Penn will add 1,620 structured and surface parking spaces to the existing facility, and feature seasonal and year-round entertainment and upscale casual restaurants, Penn National Gaming also will feature local hero, Doug Flutie’s first restaurant, Flutie’s Sports Pub.

The original harness racing track located in Plainville, Plainridge Racecourse, has 100 live racing days per year. The length of the racecourse is 5/8 Mile and the length of stretch is 600 feet. In terms of facility, the original Plainridge Racecourse offers the “21 Club”, which is a 172-seat simulcast theater with 80-inch screen TV’s, 15-inch LCD TV’s. The racecourse provides a total of 3,500 seating accommodations, in Grandstand, Simulcast Theater and Clubhouse.

**Region C: Current Timeline**

Currently, the Commission is accepting Request for Applications – Phase 1 (RFA-1) from applicants until December 1, 2014 for Region C. Subsequently, the Committee has set the deadline for submitting RFA-2 (Request for Applications – Phase 2) to March 27, 2015. The casino license is expected to be awarded around August of 2015.

**Region C: Currently Known Applicants**

**Taunton (Wampanoags)**

The Mashpee Wampanoag Tribe, also known as the People of the First Light, proposes to build a \$500 million casino and resort facility at East Taunton, which is located approximately 35 miles south of Boston and 20 miles east of Providence.

The tribe proposes a construction plan (also known as The Project First Light Casino plan) over four different time phases – Phase 1, Phase 2, Phase 3 and Phase 4 – which are anticipated to be completed approximately 12-15 Months, 24-30 Months, 32-60 Months and over 60 Months, respectively. Phase 1 of the construction plan involves building a 150,000 sq. feet casino facility to host 3,000 slot machines, 150 table games and 40 non house banked poker games. Phase 1 of the plan will also include the following facilities: 2,500 to 3,200 space parking garage, 2,085 surface parking spaces, food court, international buffet, two dining restaurants, center bar with lounge seats and a small stage and 10 retail stores.

<sup>14</sup> Plainridge Racecourse Visitor’s General Information. <[http://www.prcharness.com/Visitor\\_Info/General\\_Info/general\\_info.html](http://www.prcharness.com/Visitor_Info/General_Info/general_info.html)>. 25 Oct 2014.

New Bedford (KG Urban Enterprises)

KG Urban Enterprises (“KG Urban”) was the first applicant to submit an application for Region C, after The Mashpee Wampanoag Tribe proposed to build a casino at East Taunton through federal approval. The companies Cannon Street Station would be located on the waterfront in New Bedford, Massachusetts. The company’s master plan includes an 115,000 square-foot casino with 3,000 slot machines, 115 table games and two hotel towers comprising approximately 1,000 rooms.

Fall River (Foxwoods)

Foxwoods is the second applicant to submit its \$750 million application to seek casino license from Massachusetts. Foxwoods also submitted an application for casino license at Region A, but its \$1 billion casino proposal at Milford, MA was ultimately rejected on November 19<sup>th</sup> 2013.<sup>15</sup> Foxwoods then decided to transfer its rejected application to Fall River to compete for casino license at Region C. Fall River Mayor William Flanagan “hopes to break ground on the Foxwoods casino by 2015, but many questions are still unanswered”. Consequently, Mayor Flanagan called for an extension of the Region C application submission deadline to attract new investors and other applicants<sup>16</sup>.

Foxwoods originally proposed to build its casino facility on a 30-acre site (approx. 1.3 million sq. feet) at the Harbour Mall, but Foxwoods is apparently now looking at a 120-acre waterfront property that would triple the scope of the project<sup>17</sup>. With the proposed \$750 million budget, casino developers are aiming to construct a 140,000 sq. feet gaming facility, a hotel, approximately 10 restaurants, a “name-brand” retail store, an entertainment facility, a convention center and a spa. Furthermore, Foxwoods also projects that its casino facility would open up approximately 2,000 new job opportunities for the city.

Other Applicants may appear before the December 1 deadline. For instance, it has been reported that Chicago’s Neil Bluhm and his company Rush Street Gaming have been mulling a bid for the region. It remains unclear if Rush Street has a site (and they would need local approval), but the Boston Business Journal predicts that Rush would most likely construct its casino on a 170-acre parcel controlled by the Claremont Companies near Route 24 and Interstate 495 . At this point in time, however, whether Rush Street will actually submit a bid remains to be seen.

**Rhode Island**

Video lottery terminals (VLTs) were installed at Rhode Island’s two former pari-mutuel facilities, Lincoln Park (now Twin River) and Newport Jai Alai (Newport Grand), late in 1992. Lincoln Park installed 166 video poker terminals on September 28 of that year, and rapidly increased their number

<sup>15</sup> Here’s What’s Going on with Casinos in Southeastern Mass. Nesi, Ted. <http://blogs.wpri.com/2014/01/29/heres-whats-going-on-with-casinos-in-southeastern-mass/>. 29 Jan 2014.

<sup>16</sup> Mayor: Fall River Courting New Casino Plan amid Concerns over Foxwoods. <http://fall-river.wickedlocal.com/article/20140617/News/140616836/?Start=1>. 17 Jun 2014.

<sup>17</sup> Foxwoods Seeks Waterfront Property to Expand Fall River Casino Project. <http://www.patriotledger.com/article/20140519/News/305209989>. 19 May 2014.

over the following months. The types of machines and number of vendors were restricted by the State, however, and the financial results were not as positive as expected. By early 1993, machine revenues were running at an annual rate of about \$16 million. In early 1994, however, reel type video slot machines were first allowed, and machine wins increased substantially. In June of 2013, Twin River began offering non-electronic tables games.

Given the proximity of full scale casino competition from Foxwoods and Mohegan Sun in nearby Connecticut, we believe Rhode Island's experience points up the importance of geographic convenience in VLT operations. Exhibit 1.3 shows that Lincoln/Twin River and Newport Grand are drawing substantial numbers of machine customers and consumer spending.

Exhibit 1.4 presents the VLT performance of Twin River and Newport Grand for the years FY 2006 – FY 2014. Twin River has benefited from both its proximity to Massachusetts and convenient access, together with increases in the supply of VLTs and the addition of table games in late FY 2013. Due to the removal of VLTs to accommodate the new table games, and the industrywide trend of declining consumer spending on machine games, VLT revenues at Twin River have declined slightly (a little more than 2%) in the past year.

By contrast, Newport Grand has been in steady decline since 2006 when it recorded GGR of \$77.6 million, compared to \$44.7 million in FY 2014, a trend that was accelerated with the addition of table games at nearby Twin River in June of 2013. Likewise, its machine productivity as measured by win/unit/day (w/u/d) is significantly lower than Twin River: in FY 2014, Newport Grand w/u/d was \$111.54 vs. Twin River with \$279.28 w/u/d.

This disparity highlights the importance of location relative to population/personal income and competition within the market.

**Exhibit 1.4– Rhode Island VLT and Table Data FY 2006-FY 2014**

<b>Rhode Island VLT Data FY 2006 - FY 2014</b>									
	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
VLT Net Terminal Income									
Twin River	\$338,935,939	\$342,024,297	\$406,503,579	\$396,638,140	\$410,461,472	\$442,373,975	\$475,950,951	\$472,626,468	\$462,394,315
Newport Grand	\$77,566,491	\$74,561,320	\$71,170,983	\$64,202,010	\$57,306,664	\$50,220,215	\$51,372,171	\$48,120,638	\$44,662,396
<b>Rhode Island Total</b>	<b>\$416,502,430</b>	<b>\$416,585,617</b>	<b>\$477,674,562</b>	<b>\$460,840,150</b>	<b>\$467,768,136</b>	<b>\$492,594,190</b>	<b>\$527,323,122</b>	<b>\$520,747,106</b>	<b>\$507,056,711</b>
Average Number of VLTs (FY)									
Twin River	3,385	3,794	4,615	4,744	4,745	4,748	4,751	4,700	4,536
Newport Grand	1,070	1,070	1,080	1,431	1,327	1,123	1,099	1,088	1,097
<b>Rhode Island Total</b>	<b>4,436</b>	<b>4,693</b>	<b>5,679</b>	<b>6,175</b>	<b>6,072</b>	<b>5,870</b>	<b>5,850</b>	<b>5,787</b>	<b>5,633</b>
VLT Win per unit Day									
Twin River	\$274.33	\$246.98	\$241.32	\$229.06	\$237.00	\$255.26	\$274.46	\$275.50	\$279.28
Newport Grand	\$198.61	\$190.91	\$180.55	\$122.92	\$118.32	\$122.52	\$128.07	\$121.17	\$111.54

<b>Rhode Island Table Data FY 2013 - FY 2014</b>		
	FY 2013	FY 2014
Table Games Revenue		
Twin River	\$1,881,238	\$88,108,367
Transfers to General Fund*		
Twin River	-572,284	11,707,887

\* Net of Administrative Operating Expenses

Source: Rhode Island Lottery

Twin River is fortunate to be located in Providence County, which contains more than half the adult population of the State of Rhode Island. According to our models, Twin River draws upon a population of over half-million adults within a 10-mile radius of the facility. This segment of the market population contributes over 30% of the facilities revenues.

Exhibit 1.5 presents estimates for patron origins by State (for 2013) provided by the Center for Policy Analysis (CPA), University of Massachusetts at Dartmouth (Exhibit 1.4).<sup>18</sup>

This analysis indicates that 45.8 percent of the consumer spending at Twin River is derived from Rhode Island patrons. Exhibit 1.5 shows that two States, Massachusetts and Rhode Island, account for the vast majority of patrons or consumer spending at both Twin River and Newport Grand.

<sup>18</sup> Center for Policy Analysis, “New England Update” 2013, Executive Summary, page v.

Exhibit 1.5 – Estimates for Consumer Spending and Patron Origin by State

		<u>Foxwoods</u>	<u>Mohegan</u>	<u>Twin River</u>	<u>Newport</u>
Massachusetts	MA	32.1%	18.5%	51.4%	44.5%
Connecticut	CT	38.0%	57.5%	0.8%	0.9%
Rhode Island	RI	11.7%	4.5%	45.8%	51.4%
New Hampshire	NH	2.9%	1.7%	0.5%	0.3%
Maine	ME	1.8%	0.5%	0.1%	0.0%
Vermont	VT	0.3%	0.4%	0.0%	0.0%
New York	NY	9.8%	13.4%	0.2%	0.6%
New Jersey	NJ	1.9%	1.7%	0.1%	0.1%
Other		1.5%	1.8%	1.1%	2.2%
Total		100.0%	100.0%	100.0%	100.0%

Source: "New England Gaming Update", Center for Policy Analysis, University of Massachusetts at Dartmouth, 2013. Page v.

The Newport facility is not as favorably located as Twin River. Within 10 miles Newport Grand can draw upon an adult population of approximately 82,000, compared to Twin River with an adult population of over half million within the same radius. Thus Newport Grand must attempt to draw its clientele from farther away. We estimate that less than \$10.0 million of VLT net terminal income in FY 2014 is derived from the local (10-mile radius) market.

Moreover, Twin River is only four miles from the center of Providence and is easily accessible from Massachusetts via the heavily traveled I-95 and I-295 corridors. To get to Twin River from the north, (south bound on I-95) travelers exit I-95 at I-295 and then exit I-295 onto the Lousquisset Pike (U.S. Route 146) south bound for approximately four miles.

Newport Grand is located on Aquidneck Island, a coastal location that lacks the high volume of traffic found on the western side of Narragansett Bay. Newport Grand is accessible from the west and south via I-95. On I-95 north, travelers take Exit 5A to Route 102 east and then US Route 1 south to US Route 1A crossing the Jamestown and Claiborne Pell Bridges into Newport. From eastern Massachusetts via I-95 travelers take Exit 8A onto Route 24/114/138 into Newport. It should be noted that Newport, Rhode Island has a sizeable tourist influx during the summer months.

That, however, is still only part of the story. Not only does Newport operate in smaller and more seasonal market, but the per adult spending base is less than half that at Twin River. What this means is that not only is Newport operating in a smaller market, it is generating less spending from the available adults in this market. In other words, Newport is underperforming on a relative basis when compared to Twin River.

**BASELINE: STATUS QUO ANALYSIS**

In order to fully assess the extent of the impact of gaming in Massachusetts, and evaluate the potential for the enabling legislation to be repealed on November 4, 2014, CCA was asked by the State of Rhode Island to generate *status quo* projections for Twin River and Newport Grand for the next six years (FY 2015 - FY 2020), assuming there are no new casinos open in Massachusetts during this period. The resulting projections are presented in Exhibits 1.6 and 1.7.

**Exhibit 1.6: Status Quo Rhode Island Revenue Projections (in \$ Millions) by Fiscal Year**

<b>GGR (in millions)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>CAGR</b>
Twin River VLTs	\$460.1	\$457.8	\$455.5	\$453.2	\$450.9	\$448.7	-0.5%
Twin River Tables	\$114.5	\$125.6	\$127.5	\$129.4	\$131.3	\$133.3	3.3%
Newport Grand VLTs	\$44.0	\$43.1	\$42.3	\$41.4	\$40.6	\$39.8	-1.9%
<b>Rhode Island Gaming Revenue</b>	<b>\$618.6</b>	<b>\$ 626.5</b>	<b>\$ 625.2</b>	<b>\$ 624.0</b>	<b>\$ 622.9</b>	<b>\$ 621.8</b>	<b>0.1%</b>

<b>Net State Revenue (in millions)*</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>CAGR</b>
Twin River VLTs	\$276.5	\$275.1	\$273.7	\$272.3	\$270.9	\$269.5	-0.5%
Twin River Tables	\$13.9	\$15.7	\$16.0	\$15.6	\$16.6	\$16.9	4.3%
Newport Grand VLTs	\$26.0	\$26.4	\$25.9	\$25.3	\$24.8	\$24.4	-1.2%
<b>Rhode Island Gov't Revenue</b>	<b>\$316.4</b>	<b>\$317.2</b>	<b>\$315.6</b>	<b>\$313.2</b>	<b>\$312.3</b>	<b>\$310.8</b>	<b>-0.4%</b>

\* Provided by the Office of Revenue Analysis. Excludes payments to third parties, such as host municipalities.

Source: Rhode Island Department of Revenue, Christiansen Capital Advisors, LLC. estimates

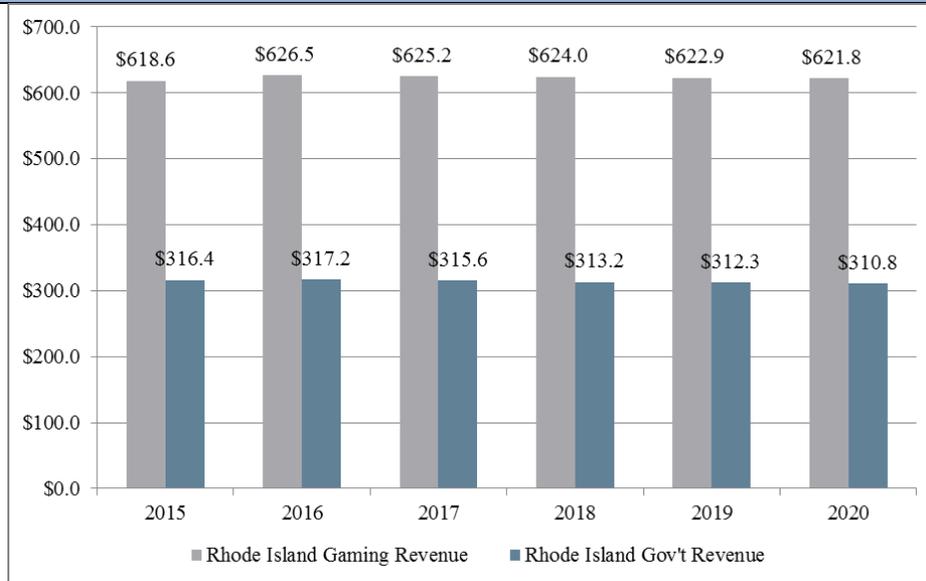
We project that, in absence of competition from casinos and a racino in Massachusetts, Rhode Island gross gaming revenue from FY 2015 to FY 2020 would grow by only approximately \$3.2 million, or 1.9 percent, over the next six years Exhibit 1.6. We estimate that the State's share of these revenues would decline by \$5.6 million over the same period.

This projected decline in State revenues is reflective of a material change in gaming in the United States. Beginning in 2013, stable gaming markets (markets without material supply additions or other changes) across the United States began to decline, or only marginally increase, on a year over year basis. Underlying these results has been a decline in spending on machine gaming and marginal increases in table gaming, as we project for Rhode Island here. Many reasons have been given for this phenomenon: Baby Boomers with less retirement savings after the 2008 market crash; an anemic recovery in the 6 years since that event; Millennials and Generation Xers that don't gamble at the

levels of their parents (and showing a clear preference for table gaming when they do gamble); and the hollowing out of the middle class.<sup>19</sup> Most likely, all of these things are affecting consumer spending on gambling at some level, but whatever the reasons the evidence is incontrovertible: consumers in the United States are spending less on gambling.

Exhibit 1.7 summarizes and expresses in graphical form the results from Exhibit 1.6.

**Exhibit 1.7: Status Quo Rhode Island Revenue Projections by Fiscal Year**



Source: Rhode Island Department of Revenue, Christiansen Capital Advisors, LLC. estimates

<sup>19</sup>[http://www.publicgaming.com/index.php?option=com\\_content&view=article&id=15911:fitch-ratings-just-released-a-fascinating-prognosis-about-longterm-casino-prospects-nationwide-fitch-sees-young-old-as-barriers-to-robust-longterm-traditional-casino-growth&Itemid=92](http://www.publicgaming.com/index.php?option=com_content&view=article&id=15911:fitch-ratings-just-released-a-fascinating-prognosis-about-longterm-casino-prospects-nationwide-fitch-sees-young-old-as-barriers-to-robust-longterm-traditional-casino-growth&Itemid=92)

## Competitive Threats Scenarios

Utilizing the models and methodology developed in our assessment of the current casino gambling market in New England, which is described in the previous section, we constructed estimates of the revenue potential of locating three casinos and a racino in Massachusetts and their impacts on Rhode Island's two gaming facilities.

The projections presented below represent the revenue potential and the impacts of the proposed Massachusetts facilities assuming this regional market is effectively serviced. We have assumed that the proposed Massachusetts casino facilities will be relatively comparable to others in the marketplace (notably Foxwoods, Mohegan Sun and Twin River).

In evaluating the Plainville property, we have assumed that the lack of table games, the restricted size of the racino, and the indoor smoking ban in Massachusetts will give Twin River a slight competitive advantage.<sup>20</sup> These two sites, a mere 11 miles apart, would aggressively compete for gamblers. If, however, Penn National builds a superior facility or implements a superior marketing program, they could capture significant additional market share despite the statutory limitations, and these limitations could be lifted by the State of Massachusetts at some point in the future. A site in Plainville will draw from areas that are rich in population and *per capita* income. Our models and results from these areas are very sensitive to changes in facility and/or operator quality. In other words, small differences in facility quality and/or management effectiveness in the densely populated areas of southern Massachusetts and northern Rhode Island can produce large swings in the revenue potential of gaming facilities located in this area.

As discussed elsewhere in this report, geographic proximity is an important variable when assessing the demand for a proposed casino facility. As casino gaming becomes increasingly available throughout New England, casino visitation becomes more frequent and spending on casino games increases. For example, casino visitation and spending by residents of Massachusetts will increase as travel time to the nearest casino is reduced to 45 minutes to an hour for the vast majority of Massachusetts residents. Furthermore, geographic proximity to population centers is a significant competitive advantage in the casino gaming business.

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### THE REVENUE IMPACTS OF MASSACHUSETTS CASINOS

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As of the writing of this report, one license, for Region C, in Massachusetts remains unawarded. As such, we have constructed three different scenarios for gaming in Massachusetts including the awarded slot parlor in Plainville, the Region B casino in Springfield, the Region A casino in Everett, and three likely possible locations for the Region C casino (Taunton, New Bedford and Fall River). In all three of the scenarios we examined the advent of casino gaming in Massachusetts has substantial negative impacts on Twin River and Newport Grand. A substantial portion of Rhode Island gambling revenues are contributed by Massachusetts residents (Exhibit 1.2), and, as previously noted, it is rare

<sup>20</sup> In accordance with Massachusetts Session Law, Act 2011, Chapter 194, Plainville will be smaller than Twin River (1,250 machines).

for the public to drive by one gambling facility to get to another. The end result of expanded gaming in Massachusetts is that a great deal of the spending that currently crosses the Rhode Island border on its way to Connecticut or the two Rhode Island establishments will stay in Massachusetts. In terms of the relative revenue impacts upon the State of Rhode Island, the following section shows that the closer Massachusetts facilities are located to Rhode Island, the greater the impacts on Rhode Island gaming facilities.

In assessing the impacts of Massachusetts gaming on the existing Rhode Island facilities, we have relied primarily upon a gravity model analysis utilizing the methodologies and methods described in the previous section.

Timing

We assumed in all three scenarios that a slots parlor in Plainville opens in July 2015 (FY 2016) with the casinos in Springfield and Everett opening in July 2017 (FY 2018). The only difference between the scenarios is where the Region C Casino is located (Taunton, Fall River, or New Bedford). In all three scenarios it is estimated that the Region C casino will open around July 2018 (FY 2019).

Exhibit 1.8 presents a map of the awarded and potential locations for gaming facilities in Massachusetts (awarded licenses are denoted with a green pin, potential licenses, a red pin).

**Exhibit 1.8: Map of Known and Potential Massachusetts Casino Locations**



Source: Christiansen Capital Advisors, LLC

**TAUNTON CASE**

Exhibit 1.9 presents our estimates of the impacts of gaming in Massachusetts on Rhode Island VLT revenue under the current Taunton case scenario for casino/racino locations in Massachusetts. As shown in this exhibit, the impacts on Rhode Island gaming revenue are severe. We project total

gaming revenue will decline from \$618.6 million in FY 2015 to \$386.4 million by FY 2020, a decline of 37.5 percent. The State's share of this revenue will decline from \$316.4 million in FY 2015 to \$187.1 million in FY 2020, a decline of 40.8 percent.

**Exhibit 1.9: Taunton Case Revenue Projections, by Fiscal Year**

<b>GGR (in millions)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>CAGR</b>
Twin River VLTs	\$460.1	\$391.0	\$389.1	\$330.7	\$279.5	\$278.1	-7.9%
Twin River Tables	\$114.5	\$120.3	\$122.1	\$103.8	\$87.7	\$89.0	-4.5%
Newport Grand VLTs	\$44.0	\$38.7	\$37.9	\$30.5	\$19.7	\$19.3	-11.2%
<b>Rhode Island Gaming Revenue</b>	<b>\$618.6</b>	<b>\$550.0</b>	<b>\$549.0</b>	<b>\$465.0</b>	<b>\$386.9</b>	<b>\$386.4</b>	<b>-7.5%</b>

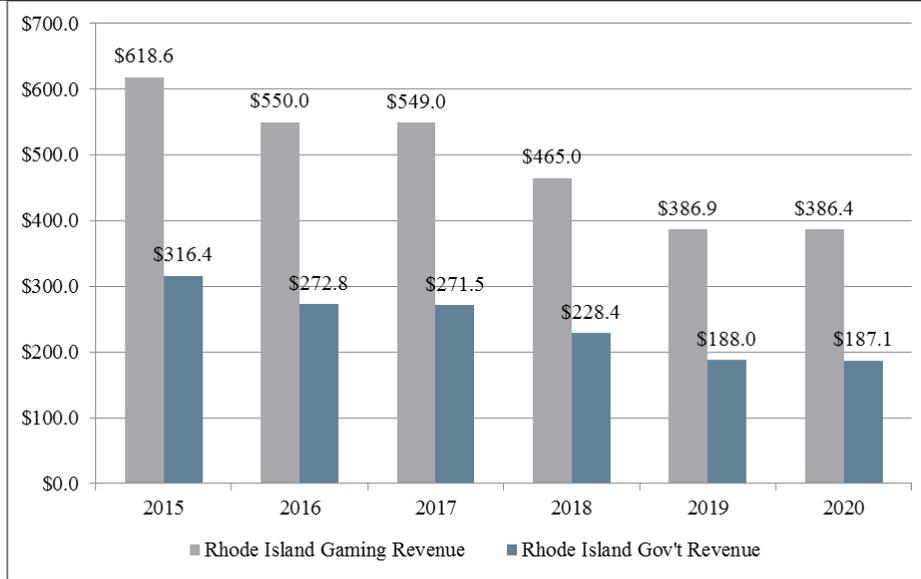
<b>Net State Revenue (in millions)*</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>CAGR</b>
Twin River VLTs	\$276.5	\$234.3	\$233.2	\$197.6	\$166.3	\$165.5	-8.0%
Twin River Tables	\$13.9	\$14.8	\$15.1	\$12.2	\$9.6	\$9.8	-5.9%
Newport Grand VLTs	\$26.0	\$23.7	\$23.2	\$18.6	\$12.0	\$11.8	-10.9%
<b>Rhode Island Gov't Revenue</b>	<b>\$316.4</b>	<b>\$272.8</b>	<b>\$271.5</b>	<b>\$228.4</b>	<b>\$188.0</b>	<b>\$187.1</b>	<b>-8.2%</b>

\* Provided by the Office of Revenue Analysis. Excludes payments to third parties, such as host municipalities.

Source: Rhode Island Department of Revenue, Christiansen Capital Advisors, LLC estimates.

Exhibit 1.10 summarizes and expresses in graphic format the results presented in Exhibit 1.9.

Exhibit 1.10: Taunton Case Revenue Projections, by Fiscal Year



Source: Rhode Island Department of Revenue, Christiansen Capital Advisors, LLC. estimates

**NEW BEDFORD CASE**

Exhibit 1.11 presents our estimates of the impacts of gaming in Massachusetts on Rhode Island VLT and Twin River table revenue under our New Bedford case scenario for casino/racino locations in Massachusetts. The impacts on Rhode Island gaming revenue are severe, but not as bad as with a Taunton facility which will take a greater bite out of Rhode Island's largest gaming facility, Twin River. In this New Bedford case scenario, Rhode Island gaming revenue declines from a peak of \$618.6 million in FY 2105 to \$414.9 million by FY 2020, or a negative 32.3 percent. The State of Rhode Island's share of video lottery net terminal income declines from a peak of \$316.4 million in FY 2105 to \$201.2 million in FY 2020.

Unlike our Taunton case scenario, our New Bedford case scenario would have less impact on Twin River and, subsequently, State gaming revenues. On Twin River the overall impact would be a 30.9 percent decline from FY 2105. For Newport Grand, VLT revenues would decline by 40.4 percent and it seems likely that the facility would be unable to continue operating at that level.

**Exhibit 1.11: New Bedford Case Revenue Projections, Facility Detail by Fiscal Year**

<b>GGR (in millions)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>CAGR</b>
Twin River VLTs	\$460.1	\$ 391.0	\$ 389.1	\$ 330.7	\$ 302.3	\$ 300.8	-6.9%
Twin River Tables	\$114.5	\$ 120.3	\$ 122.1	\$ 103.8	\$ 94.9	\$ 96.3	-3.2%
Newport Grand VLTs	\$44.0	\$ 38.7	\$ 37.9	\$ 30.5	\$ 18.2	\$ 17.8	-11.9%
<b>Rhode Island Gaming Revenue</b>	<b>\$618.6</b>	<b>\$ 550.0</b>	<b>\$ 549.0</b>	<b>\$ 465.0</b>	<b>\$ 415.4</b>	<b>\$ 414.9</b>	<b>-6.6%</b>

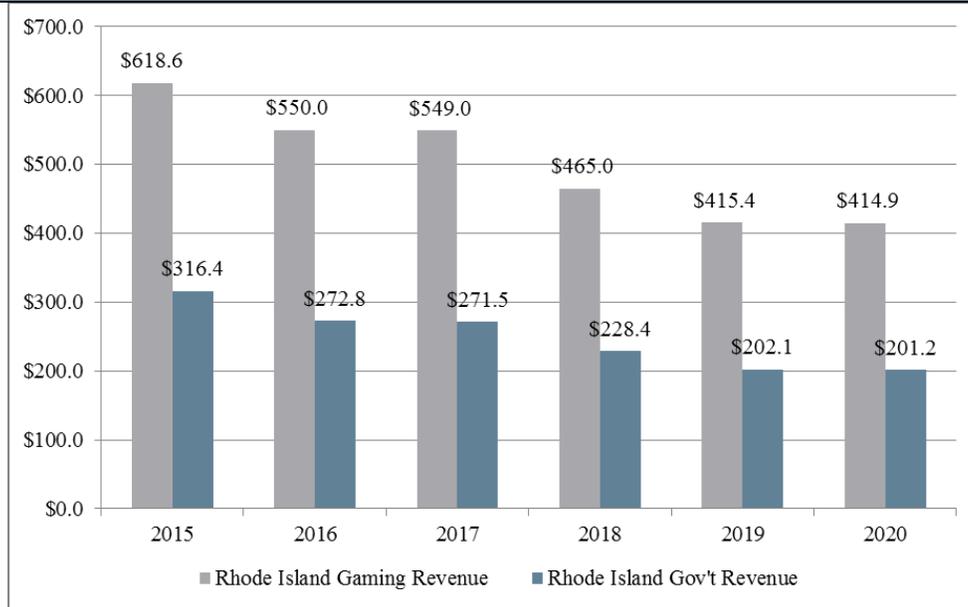
<b>Net State Revenue (in millions)*</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>CAGR</b>
Twin River VLTs	\$276.5	\$234.3	\$233.2	\$197.6	\$180.3	\$179.3	-7.0%
Twin River Tables	\$13.9	\$14.8	\$15.1	\$12.2	\$10.8	\$11.0	-4.2%
Newport Grand VLTs	\$26.0	\$23.7	\$23.2	\$18.6	\$11.1	\$10.8	-11.7%
<b>Rhode Island Gov't Revenue</b>	<b>\$316.4</b>	<b>\$272.8</b>	<b>\$271.5</b>	<b>\$228.4</b>	<b>\$202.1</b>	<b>\$201.2</b>	<b>-7.3%</b>

\* Provided by the Office of Revenue Analysis. Excludes payments to third parties, such as host municipalities.

Source: Rhode Island Department of Revenue, Christiansen Capital Advisors, LLC. estimates

Exhibit 1.12 summarizes and expresses in graphic form the results presented in Exhibit 1.11.

**Exhibit 1.12: New Bedford Case Revenue Projections by Fiscal Year**



Source: Rhode Island Department of Revenue, Christiansen Capital Advisors, LLC. estimates

**FALL RIVER CASE**

Exhibit 1.13 presents our estimates of the impacts of gaming in Massachusetts on Rhode Island VLT revenue and table revenue under the Fall River case for casino/racino locations in Massachusetts. As shown in this exhibit, the impacts on Rhode Island gaming revenue are severe and even worse than the New Bedford case impacts, but not as bad as Taunton. In this Fall River case scenario Rhode Island gaming revenue declines from \$618.6 million in FY 2105 to \$395.6 million by FY 2020, a decline of 36 percent. The State of Rhode Island’s share of video lottery net terminal income declines from \$316.4 million in FY 2105 to \$191 million in FY 2020, a decline of 39.6 percent.

As was the case under our New Bedford case scenario, Fall River would have less impact on Twin River when compared to the Taunton case and, subsequently, State gaming revenues. The overall impact on Twin River is a 33.5 percent decline in gaming revenue from the peak in FY 2105. At Newport Grand, gaming revenues decline by 69.7 percent and it seems likely that the facility would be unable to continue operating at that level.

**Exhibit 1.13: Fall River Case Revenue Projections w/o Table Games, Facility Detail by Fiscal Year**

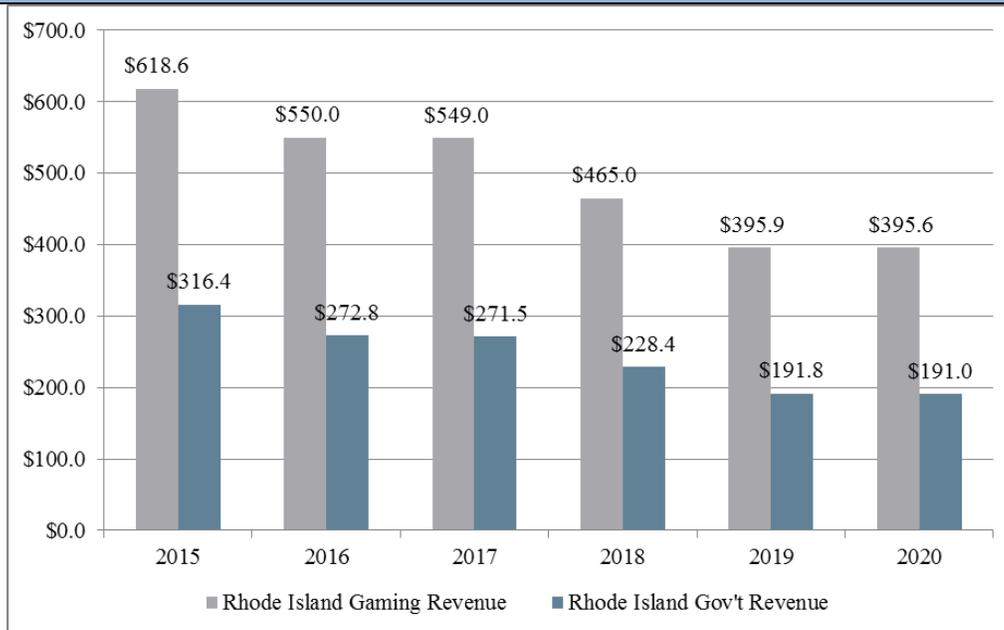
GGR (in millions)		2015	2016	2017	2018	2019	2020	CAGR
Twin River VLTs	\$	460.1	\$ 391.0	\$ 389.1	\$ 330.7	\$ 291.0	\$ 289.6	-7.4%
Twin River Tables	\$	114.5	\$ 120.3	\$ 122.1	\$ 103.8	\$ 91.3	\$ 92.7	-3.8%
Newport Grand VLTs	\$	44.0	\$ 38.7	\$ 37.9	\$ 30.5	\$ 13.6	\$ 13.3	-13.9%
<b>Rhode Island Gaming Revenue</b>		<b>\$618.6</b>	<b>\$ 550.0</b>	<b>\$ 549.0</b>	<b>\$ 465.0</b>	<b>\$ 395.9</b>	<b>\$ 395.6</b>	<b>-7.2%</b>

Net State Revenue (in millions)*		2015	2016	2017	2018	2019	2020	CAGR
Twin River VLTs		\$276.5	\$234.3	\$233.2	\$197.6	\$173.4	\$172.5	-7.5%
Twin River Tables		\$13.9	\$14.8	\$15.1	\$12.2	\$10.2	\$10.4	-5.0%
Newport Grand VLTs		\$26.0	\$23.7	\$23.2	\$18.6	\$8.2	\$8.1	-13.8%
<b>Rhode Island Gov't Revenue</b>		<b>\$316.4</b>	<b>\$272.8</b>	<b>\$271.5</b>	<b>\$228.4</b>	<b>\$191.8</b>	<b>\$191.0</b>	<b>-7.9%</b>

Source: Rhode Island Department of Revenue, Christiansen Capital Advisors, LLC. estimates

Exhibit 1.14 summarizes and expresses in graphic form the results presented in Exhibit 1.13.

**Exhibit 1.14: Fall River Case Revenue Projections w/o Table Games (in \$ Millions) by Fiscal Year**



Source: Rhode Island Department of Revenue, Christiansen Capital Advisors, LLC. estimates

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**NEWPORT ENTERTAINMENT CENTER IS ALLOWED TABLE GAMES**

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**Proposed Newport Grand Expansion**

In the 2014 session of the Rhode Island General Assembly, lawmakers approved of a \$40 million expansion proposal for Newport Grand, contingent on the ballot results for table game approval in the November 2014 election. In regards to the expansion proposal, developers, led by former Providence Mayor Joseph Paolino, proposed to “hike Newport’s stake from \$448,000 this year to at least \$1.5 million for the next six years and at least \$1 million a year thereafter”<sup>21</sup>. For the past decade, Newport Grand has been in substantial decline; for example, the gross revenue realized by video lottery terminals plummeted from \$79 million in 2005 to \$44.6 million in 2014.<sup>22</sup> Newport’s financial losses also resulted in a 25 percent reduction of employees from 2005 to 2014.

Newport Grand’s developers envision spending \$40 million to build a new entertainment center, a day-spa, event space and two new restaurants<sup>23</sup>. According to the developers, a substantial portion of the \$40 million budget will be spent on creating new job opportunities; on September 11 of this year, the developers announced that Newport Grand will invest \$20 million to open up 414 new full-time positions. Consequently, Newport Grand is anticipated to generate “more than \$2 million in tax revenue to state and local governments”. According to Providence Business News, the developers would plan on building a “new neoclassical façade, front entryway and side additions around the existing 116,000 sq. feet building” in order to commensurately resize the facility with the increase in number of jobs<sup>24</sup>.

Another substantial portion of \$40 million budget will be spent on deploying state-run table games in its property. Newport Grand is required to maintain 1,097 VLTs. The developers believe that hosting table games will help Newport Grand to generate more revenue – which will then increase tax revenue for the state. For the purposes of this analysis, we have assumed that the Newport Entertainment Center would open on January 1, 2016.

In this section, we assess the impacts of three casinos and a racino located in Massachusetts on the gross gaming revenues of the two Rhode Island gaming facilities assuming that the property gets this \$40 million “facelift” and is allowed to expand its product offering to include table games.

Our review of the experience of markets similar to Rhode Island suggests that VLTs, while an attractive product, are not as attractive as a full-blown casino (slots and tables). Virtually without

<sup>21</sup> Editorial: A Casino in Newport. *Providence Journal*. [http://www.rockinst.org/newsroom/news\\_stories/2014/2014-07-12-Providence\\_Journal.pdf](http://www.rockinst.org/newsroom/news_stories/2014/2014-07-12-Providence_Journal.pdf). 12 Jul 2014.

<sup>22</sup> Economic Impact Study of the Newport Entertainment Center. Mazze, Edward M. *The University of Rhode Island*. <http://jobsfornewport.com/images/uploads/NewportEntertainmentCenter.pdf>. Aug 2014.

<sup>23</sup> Money Watchers: Developers say Newport Grand Plan Will Create Jobs. *NBC 10 Monkey Watchers*. <http://www.turnto10.com/story/26512135/money-watchers-developers-say-newport-grand-plan-will-create-jobs>. 12 Sep 2014.

<sup>24</sup> Prospective Newport Grand Owners Not Eyeing Move. <http://pbn.com/Prospective-Newport-Grand-owners-not-eyeing-move.97044?print=1>. 12 May 2014.

exception, the gambling public prefers a broad spectrum of games, including traditional three reel machines, low denomination machines (penny and nickel slots), video machines, house-banked table games such as roulette and black jack, and non-house banked table games such as poker. Restrictions on the types of games allowed or denomination limits at casinos have been shown to limit gross gaming revenues. If the Newport Entertainment Center is allowed to be built with table games the impacts of new casinos in Massachusetts could be somewhat mitigated.

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**BASELINE: STATUS QUO ANALYSIS WITH NEWPORT ENTERTAINMENT CENTER TABLES**

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As part of its *status quo* analysis, CCA was asked to generate projections of the demand for table games at Newport Entertainment Center in the absence of three casinos and a racino in Massachusetts for the next five years to evaluate the potential for the repeal of the Massachusetts enabling legislation for legalizing gaming on November 4, 2014.

Exhibit 1.15 presents five-year projections for both the Newport Entertainment Center and Twin River assuming the Newport Entertainment Center is allowed table games and the Newport Entertainment Center installs and operates enough table games to absorb the existing market demand. We project that with a \$40 million investment and table games at the Newport Entertainment Center, in the absence of Massachusetts competition, that gaming revenue in Newport could grow from \$44 million in 2015 to \$63.7 million in 2020 an increase of 44.7 percent (Exhibit 1.15). As noted in the previous section, the current Newport Grand slots parlor underperforms on a relative basis, i.e. even though the facility operates in a smaller market than Twin River, it does not as effectively tap that market as Twin River and other comparable gaming properties. A significant investment in the facility should help reverse that trend, leading to not only growth with the addition of table games, but also in improved performance of VLTs at the facility, as it should become more attractive to the gambling public. Furthermore, this investment should make the new Newport Entertainment Center more resilient in the face of external threats from Massachusetts casinos.

Exhibit 1.15 presents these results. We project that, in the absence of competition from casinos and a racino in Massachusetts and a refreshed and expanded Newport Entertainment Center, Rhode Island gross gaming revenue could grow from \$618.6 million in FY 2015 to \$645.7 million in FY 2020 or by approximately \$27.1 million, or 4.4 percent, over the next five years. We estimate that the State's share of these revenues would grow by \$2.4 million over the same period.

**Exhibit 1.15: Rhode Island Revenue Projections w/Tables at Newport Entertainment Center by Fiscal Year**

<b>GGR (in millions)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>CAGR</b>
Twin River VLTs	\$460.1	\$457.8	\$455.5	\$453.2	\$450.9	\$448.7	-0.5%
Twin River Tables	\$114.5	\$125.6	\$127.5	\$129.4	\$131.3	\$133.3	3.3%
Newport Grand VLTs	\$44.0	\$47.4	\$51.1	\$50.9	\$50.6	\$50.4	2.9%
Newport Grand Tables		\$4.9	\$11.6	\$12.9	\$13.1	\$13.3	43.7%
<b>Rhode Island Gaming Revenue</b>	<b>\$618.6</b>	<b>\$ 635.7</b>	<b>\$ 645.7</b>	<b>\$ 646.4</b>	<b>\$ 646.0</b>	<b>\$ 645.7</b>	<b>0.9%</b>

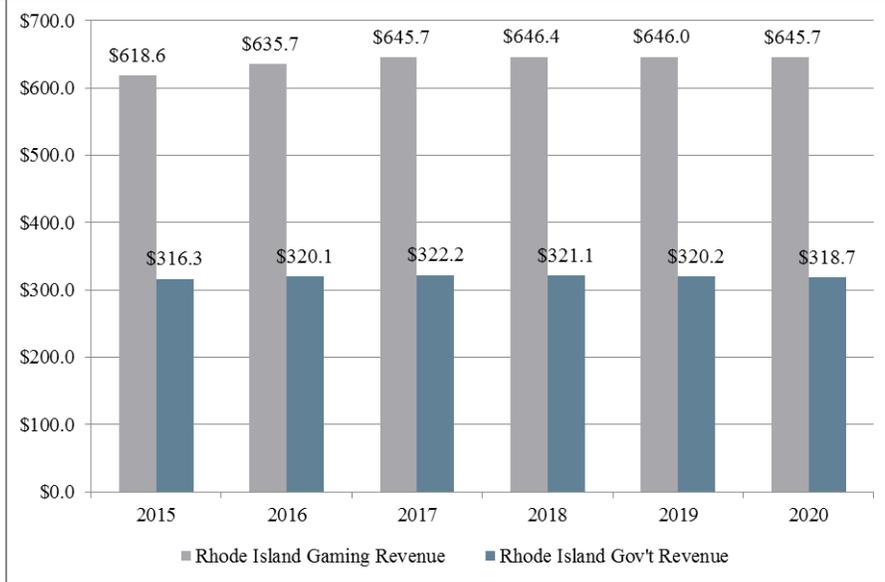
<b>Net State Revenue (in millions)*</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>CAGR</b>
Twin River VLTs	\$276.5	\$275.2	\$273.8	\$272.3	\$270.9	\$269.5	-0.5%
Twin River Tables	\$13.9	\$15.7	\$16.0	\$16.3	\$16.6	\$16.9	4.3%
Newport Grand VLTs	\$25.8	\$28.4	\$30.3	\$30.2	\$30.0	\$29.9	3.1%
Newport Grand Tables		\$0.9	\$2.1	\$2.3	\$2.7	\$2.4	42.9%
<b>Rhode Island Gov't Revenue</b>	<b>\$316.3</b>	<b>\$320.1</b>	<b>\$322.2</b>	<b>\$321.1</b>	<b>\$320.2</b>	<b>\$318.7</b>	<b>0.2%</b>

\* Provided by the Office of Revenue Analysis. Excludes payments to third parties, such as host municipalities.

Source: Rhode Island Department of Revenue, Christiansen Capital Advisors, LLC. estimates

Exhibit 1.16 summarizes and expresses in graphical form the results from Exhibit 1.15.

**Exhibit 1.16: Rhode Island Revenue Projections w/Tables at Newport Entertainment Center (in \$ Millions) by Fiscal Year**



Source: Rhode Island Department of Revenue, Christiansen Capital Advisors, LLC. estimates

**TAUNTON CASE WITH NEWPORT ENTERTAINMENT CENTER TABLES**

In this section, we adjust our Taunton case models to include table games as well as VLTs at a refreshed Newport Entertainment Center. To recapitulate, the Taunton case is a Region A casino in Everett, a Region C casino in Taunton, a racino in Plainville and a Region B casino in Springfield.

Exhibit 1.17 presents our estimates of the Taunton case impacts of gaming in Massachusetts on Rhode Island gaming revenue if Newport Entertainment Center is allowed table games. As shown in this exhibit, even with table games, Rhode Island gaming revenue and the associated State of Rhode Island share declines. In our projections Rhode Island gaming revenue declines from \$618.6 million in FY 2105 to \$399.4 million by FY 2020, or by 35.4 percent. The State of Rhode Island’s share declines from a peak of \$316.3 million in FY 2105 to \$190.4 million in FY 2020, or by 39.8 percent.

<b>Exhibit 1.17: Taunton Case Revenue Projections w/Table Games, Facility Detail by Fiscal Year</b>
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<b>GGR (in millions)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>CAGR</b>
Twin River VLTs	\$460.1	\$391.0	\$389.1	\$330.7	\$279.5	\$278.1	-7.9%
Twin River Tables	\$114.5	\$120.3	\$122.1	\$103.8	\$87.7	\$89.0	-4.5%
Newport Grand VLTs	\$44.0	\$42.5	\$45.9	\$38.3	\$24.8	\$24.3	-9.0%
Newport Grand Tables		\$4.6	\$11.1	\$12.3	\$8.0	\$8.1	18.8%
<b>Rhode Island Gaming Revenue</b>	<b>\$618.6</b>	<b>\$ 558.5</b>	<b>\$ 568.1</b>	<b>\$ 485.1</b>	<b>\$ 399.9</b>	<b>\$ 399.4</b>	<b>-7.1%</b>

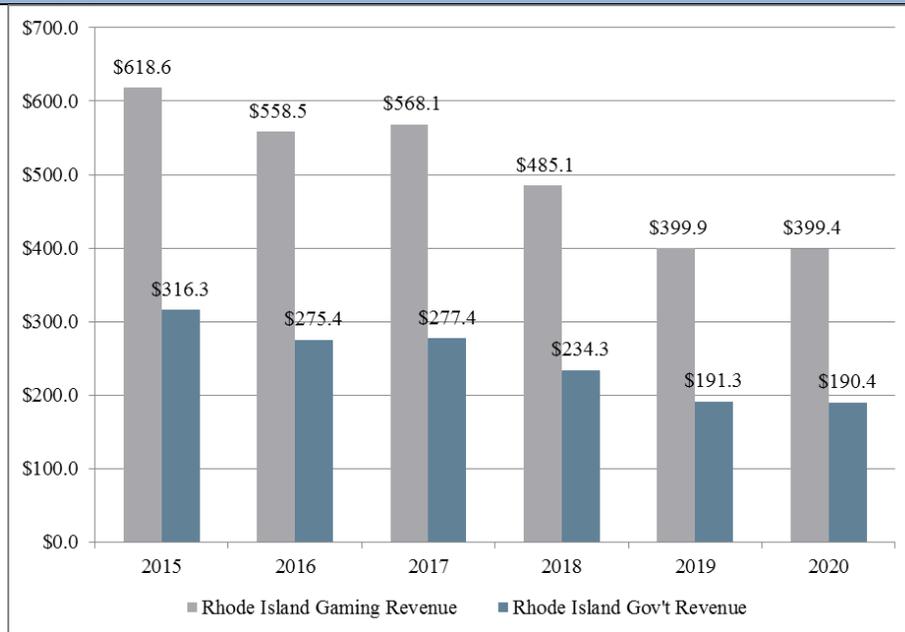
<b>Net State Revenue (in millions)*</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>CAGR</b>
Twin River VLTs	\$276.5	\$234.3	\$233.2	\$197.6	\$166.3	\$165.5	-8.0%
Twin River Tables	\$13.9	\$14.8	\$15.1	\$12.2	\$9.6	\$9.8	-5.9%
Newport Grand VLTs	\$25.8	\$25.4	\$27.1	\$22.4	\$13.9	\$13.6	-9.5%
Newport Grand Tables		\$0.8	\$2.0	\$2.2	\$1.4	\$1.5	19.0%
<b>Rhode Island Gov't Revenue</b>	<b>\$316.3</b>	<b>\$275.4</b>	<b>\$277.4</b>	<b>\$234.3</b>	<b>\$191.3</b>	<b>\$190.4</b>	<b>-8.0%</b>

\* Provided by the Office of Revenue Analysis. Excludes payments to third parties, such as host municipalities.

Source: Rhode Island Department of Revenue, Christiansen Capital Advisors, LLC. estimates

Exhibit 1.18 summarizes and expresses in graphic form the results presented in Exhibit 1.17.

**Exhibit 1.18: Taunton Case Revenue Projections w/Table Games at Newport Entertainment Center (\$ millions), by Fiscal Year**



Source: Rhode Island Department of Revenue, Christiansen Capital Advisors, LLC. estimates

**NEW BEDFORD CASE WITH NEWPORT ENTERTAINMENT CENTER TABLES**

Exhibit 1.19 presents our estimates of the New Bedford case impacts of gaming in Massachusetts on Rhode Island gaming revenue if Newport Entertainment Center is allowed table games. As shown in this exhibit, even with table games Rhode Island gaming revenue and the associated State of Rhode Island share declines. In our New Bedford case projections gross gaming revenue declines from a peak of \$618.6 million in FY 2105 to \$422.4 million by FY 2020, or by 31.7 percent. The State of Rhode Island’s share of gross gaming revenue will decline from \$316.3 million in FY 2105 to \$201.3 million by FY 2020, a decline of 36.3 percent.

**Exhibit 1.19: New Bedford Case Revenue Projections w/Table Games, Facility Detail by Fiscal Year**

<b>GGR (in millions)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>CAGR</b>
Twin River VLTs	\$460.1	\$391.0	\$389.1	\$330.7	\$302.3	\$300.8	-6.9%
Twin River Tables	\$114.5	\$120.3	\$122.1	\$103.8	\$94.9	\$96.3	-3.2%
Newport Grand VLTs	\$44.0	\$38.7	\$37.9	\$30.5	\$18.2	\$17.8	-11.9%
Newport Grand Tables		\$4.6	\$11.1	\$12.3	\$7.3	\$7.5	15.4%
<b>Rhode Island Gaming Revenue</b>	<b>\$618.6</b>	<b>\$554.6</b>	<b>\$560.1</b>	<b>\$477.3</b>	<b>\$422.7</b>	<b>\$422.4</b>	<b>-6.3%</b>

<b>Net State Revenue (in millions)*</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>CAGR</b>
Twin River VLTs	\$276.5	\$234.3	\$233.2	\$197.6	\$180.3	\$179.3	-7.0%
Twin River Tables	\$13.9	\$14.8	\$15.1	\$12.2	\$10.8	\$11.0	-4.2%
Newport Grand VLTs	\$25.8	\$23.1	\$22.1	\$17.5	\$9.8	\$9.6	-12.6%
Newport Grand Tables		\$0.8	\$2.0	\$2.2	\$1.3	\$1.4	15.8%
<b>Rhode Island Gov't Revenue</b>	<b>\$316.3</b>	<b>\$273.0</b>	<b>\$272.4</b>	<b>\$229.4</b>	<b>\$202.2</b>	<b>\$201.3</b>	<b>-7.3%</b>

\* Provided by the Office of Revenue Analysis. Excludes payments to third parties, such as host municipalities.

Source: Rhode Island Department of Revenue and Christiansen Capital Advisors, LLC. estimates

Exhibit 1.20 summarizes and expresses in graphic format the results presented in Exhibit 1.19.

**Exhibit 1.20: New Bedford Case Revenue Projections w/Table Games (in \$ Millions) by Fiscal Year**



Source: Rhode Island Department of Revenue and Christiansen Capital Advisors, LLC. estimates

**FALL RIVER CASE WITH NEWPORT ENTERTAINMENT CENTER TABLES**

Exhibit 1.21 presents our estimates of the Fall River case impacts of gaming in Massachusetts on Rhode Island gaming revenue if Newport Entertainment Center is allowed table games. As shown in this exhibit, even with table games Rhode Island gaming revenue and the State of Rhode Island’s share declines. In our Fall River case projections gross gaming revenue declines from a peak of \$618.6 million in FY 2105 to \$401.2 million by FY 2020, or by 35.1 percent. The State of Rhode Island’s share of gross gaming revenue will decline from \$316.3 million in FY 2105 to \$190.7 million by FY 2020, a decline of 39.7 percent.

**Exhibit 1.21: Fall River Case Revenue Projections w/Table Games, Facility Detail by Fiscal Year**

GGR (in millions)	2015	2016	2017	2018	2019	2020	CAGR
Twin River VLTs	\$460.1	\$391.0	\$389.1	\$330.7	\$291.0	\$289.6	-7.4%
Twin River Tables	\$114.5	\$120.3	\$122.1	\$103.8	\$91.3	\$92.7	-3.8%
Newport Grand VLTs	\$44.0	\$38.7	\$37.9	\$30.5	\$13.6	\$13.3	-13.9%
Newport Grand Tables		\$4.6	\$11.1	\$12.3	\$5.5	\$5.6	5.2%
<b>Rhode Island Gaming Revenue</b>	<b>\$618.6</b>	<b>\$554.6</b>	<b>\$560.1</b>	<b>\$477.3</b>	<b>\$401.4</b>	<b>\$401.2</b>	<b>-7.0%</b>

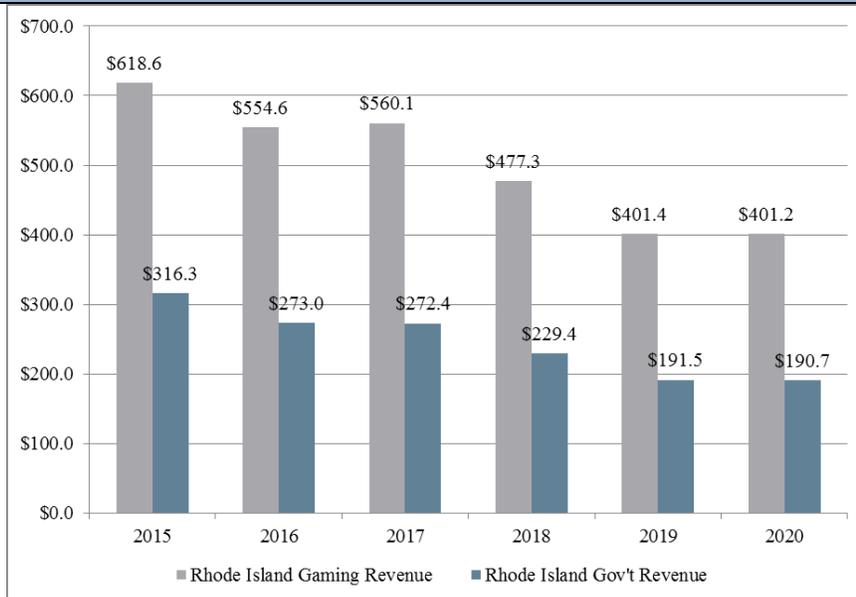
Net State Revenue (in millions)*	2015	2016	2017	2018	2019	2020	CAGR
Twin River VLTs	\$276.5	\$234.3	\$233.2	\$197.6	\$173.4	\$172.5	-7.5%
Twin River Tables	\$13.9	\$14.8	\$15.1	\$12.2	\$10.2	\$10.4	-5.0%
Newport Grand VLTs	\$25.8	\$23.1	\$22.1	\$17.5	\$7.0	\$6.8	-14.8%
Newport Grand Tables		\$0.8	\$2.0	\$2.2	\$1.0	\$1.0	5.4%
<b>Rhode Island Gov't Revenue</b>	<b>\$316.3</b>	<b>\$273.0</b>	<b>\$272.4</b>	<b>\$229.4</b>	<b>\$191.5</b>	<b>\$190.7</b>	<b>-7.9%</b>

\* Provided by the Office of Revenue Analysis. Excludes payments to third parties, such as host municipalities.

Source: Rhode Island Department of Revenue and Christiansen Capital Advisors, LLC. estimates

Exhibit 1.22 summarizes and expresses in graphic format the results presented in Exhibit 1.21.

**Exhibit 1.22: Fall River Case Revenue Projections w/Table Games (in \$ Millions) by Fiscal Year**



Source: Rhode Island Department of Revenue and Christiansen Capital Advisors, LLC. estimates

In summary, gaming and the associated State revenue derived from gaming in Rhode Island will face considerable challenges over the next five years. In addition to new competition in Massachusetts, Twin River and Newport Grand will face the same headwinds that are affecting gaming markets across the United States. Consumers in the United States are spending less on gambling. The recent reduction of gas prices and accelerated growth reported in GDP for the 3<sup>rd</sup> Quarter, should it hold, may alleviate this pressure somewhat, but as time goes on it appears more and more likely that current observed changes in gaming behavior are secular and long lasting.

With table games, the Newport Entertainment Center could generate anywhere from \$39 to \$73.6 million (depending upon which Massachusetts scenario comes to pass) in additional gaming revenue over the next six years. In the absence of table games and/or a considerable capital infusion, it seems likely that Newport Grand will not survive when a casino is eventually built in Region C of Massachusetts.

The projections presented herein are based upon the accompanying assumptions. Some of these assumptions will inevitably not materialize, and unanticipated events and circumstances will occur. Actual results may therefore vary from our projections, and such variations may be material.