

**ECONOMIC & FISCAL IMPACT ANALYSIS
FOR A WEST WARWICK RESORT CASINO**



Prepared for

STATE SENATE OF RHODE ISLAND

By



**CENTER FOR
POLICY ANALYSIS**

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CENTER FOR POLICY ANALYSIS**

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Economic Research Series No. 51

WEST WARWICK RESORT CASINO

ECONOMIC & FISCAL IMPACT ANALYSIS

MAJOR FINDINGS

Investment:

\$600 million resort casino

Direct Economic Impacts (Construction):

3,016 jobs and \$106.6 million payroll

Indirect & Induced Economic Impacts (Construction):

1,839 jobs and \$56.9 million payroll

Total Revenue:

\$566.6 million

Direct Economic Impacts (Operations):

3,571 jobs and \$101.4 million payroll

Indirect & Induced Economic Impacts (Operations):

1,335 jobs and \$36.9 million payroll

Net Fiscal Impact (Probable Scenario):

+\$118.9 million additional revenue to State of Rhode Island

a) Net Fiscal Impact (Best Case Scenario):

+\$133.8 million additional revenue to State of Rhode Island

b) Net Fiscal Impact (Worst Case Scenario):

+\$77.5 million additional revenue to State of Rhode Island

Additional Social Savings:

\$1.3 million TANF and \$1.9million UI

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EXECUTIVE SUMMARY

The Center for Policy Analysis at the University of Massachusetts Dartmouth was retained by the Rhode Island State Senate to conduct an objective economic and fiscal impact analysis of a proposed resort casino to be located in West Warwick, Rhode Island. The proposed casino's economic impact is quantified in terms of Gross Gaming Revenues (output), employment, and personal income. Gross fiscal impacts are estimated by applying the proposed wagering tax rate (25%) to Gross Gaming Revenue, by applying the effective personal income tax rate to new casino-related incomes, and by applying the sales tax and hotel tax rates to the casino's estimated non-gaming revenues. Net fiscal impacts are calculated by deducting the impact of a casino on VLT revenues from gross fiscal impacts.

THE U.S CASINO INDUSTRY

The U.S. casino industry had total revenues of approximately \$37.8 billion in 2002. Of that amount, \$26.6 billion was derived from gaming activities (gross gaming revenues) and the other \$11.2 billion came from hotel, entertainment, restaurant, and retail sales:

- Commercial casinos paid \$10.9 billion in wages and directly employed 351,500 persons nationwide.
- Commercial casinos generate an average of 13 jobs for every \$1 million in Gross Gaming Revenue and, excluding Nevada, from 6 to 12 jobs per \$1 million of Gross Gaming Revenue.
- Commercial casinos paid more than \$4 billion in special gaming taxes to the states, which is an average effective tax rate of 15.2% of Gross Gaming Revenues. Nevada has the lowest effective tax rate on Gross Gaming Revenues (7.6%), while Illinois has the highest effective tax rate on Gross Gaming Revenues (37.0%).

ECONOMIC IMPACTS OF A WEST WARWICK RESORT CASINO

The economic impact analysis covers five calendar years, or four and a half fiscal years beginning January 1, 2005 through June 30, 2009. It is assumed that site preparation will begin in January of 2005 and that construction will be completed by December of 2007. The casino is scheduled to open in January of 2007 with the hotel opening on July 1, 2007. It is assumed that the casino will achieve 80% of its gaming capacity in the first year of operations, 90% in its second year, and 100% in its third year. It is further assumed that the hotel will have a 65% occupancy rate in its first year of operation and 80% in its second and third years.

The economic impacts are estimate separately for casino construction and casino operations:

- The economic impacts of casino construction are based on an expected total investment of \$600 million. The actual expenditures for construction are expected to be \$498,200,000 with an additional \$40 million for land acquisition and \$61,800,000 for the purchase of gaming equipment.
- The economic impacts of casino operations are based on expected Gross Gaming Revenues of \$510.1 million and \$56.1 million in non-gaming revenues. The casino will realize \$566.2 million in total revenues at full capacity.

Estimated Direct Expenditures Generated by West Warwick Resort Casino					
	Year 1	Year 2	Year 3	Year 4	Year 5
	1/1/2005 to 12/31/2005	1/1/2006 to 12/31/2006	1/1/2007 to 12/31/2007	1/1/2008 to 12/31/2008	1/1/2009 to 12/31/2009
Casino Visits (millions)			3.0	3.9	4.8
Expenditures	\$142.0	\$313.3	\$493.6	\$509.6	\$566.2
Construction	\$142.0	\$313.3	\$42.8		
Gross Gaming Revenue			\$408.1	\$459.1	\$510.1
Non-Gaming Revenue			\$42.7	\$50.5	\$56.1

Casino Construction

The construction phase of a \$600 million West Warwick Resort Casino will generate 3,016 direct construction jobs and \$106.6 million in direct employee compensation. These jobs will have an annual average wage of \$35,330, which does not include payments for fringe benefits.

The construction phase will sustain an additional 759 jobs in Rhode Island through indirect impacts (i.e., construction-related purchases) and 1,080 jobs through induced impacts (i.e., employee purchases). The employment generated by indirect and induced impacts will sustain an additional \$55.8 million in employee compensation in Rhode Island.

Employment & Employee Compensation Impacts of Construction Phase, 2005 to 2007				
	Direct	Indirect	Induced	Total
Employment	3,016	759	1,080	4,855
Compensation	\$106,556,695	\$25,433,366	\$31,453,212	\$163,443,273
Annual Avg. Wage	\$35,330	\$33,509	\$29,123	\$33,665
Note: Adjusted to 2004 dollars.				

Casino Operations

A West Warwick Resort Casino will directly generate 3,571 full- and part-time jobs and \$101,434,542 million in direct employee compensation operating at its full capacity of \$510.1 million in GGR:

- The casino jobs will have an annual average wage of \$27,042, which does not include tips or payments for fringe benefits.
- Tips normally account for an additional 22% of the actual wages of a casino operations employee.
- Fringe benefits for casino employees are normally 32% of the wages and salaries of full-time employees.
- The average total employee compensation is estimated to be \$41,645, including wages, tips, and fringe benefits.

Casino operations will sustain an addition 528 jobs in Rhode Island through indirect impacts (i.e., casino-related purchases) and 806 jobs through induced impacts (i.e., employee purchases). The employment generated by indirect and induced impacts will sustain an additional \$33.9 million in employee compensation in Rhode Island.

Employment & Employee Compensation Impacts of Casino Operations, 2007 to 2009				
	Direct	Indirect	Induced	Total
Employment	3,571	528	807	4,906
Compensation	\$101,434,542	\$15,044,659	\$21,898,648	\$138,377,849
Annual Avg. Wage	\$27,042	\$28,494	\$27,136	\$28,206
Note: Adjusted to 2004 dollars.				

Total Employment Impacts Generated by West Warwick Resort Casino					
	Year 1	Year 2	Year 3	Year 4	Year 5
	1/1/2005 to 12/31/2005	1/1/2006 to 12/31/2006	1/1/2007 to 12/31/2007	1/1/2008 to 12/31/2008	1/1/2009 to 12/31/2009
Direct Economic Impacts	860	1,897	3,044	3,250	3,571
Construction	860	1,897	259	-	-
Operations	-	-	2,785	3,250	3,571
Indirect Economic Impacts	216	477	478	480	528
Construction	216	477	66	-	-
Operations	-	-	412	480	528
Induced Economic Impacts	309	679	721	733	806
Construction	309	679	92	-	-
Operations	-	-	629	733	806
Total Economic Impacts	1,385	3,053	4,243	4,463	4,905
Construction	1,385	3,053	417	0	0
Operations	-	-	3,826	4,463	4,905

Source: Center for Policy Analysis (2004).

Total Employee Compensation Impacts Generated by West Warwick Resort Casino					
	Year 1	Year 2	Year 3	Year 4	Year 5
	1/1/2005 to 12/31/2005	1/1/2006 to 12/31/2006	1/1/2007 to 12/31/2007	1/1/2008 to 12/31/2008	1/1/2009 to 12/31/2009
Direct Economic Impacts	\$30,368,658	\$67,024,161	\$88,282,819	\$92,305,433	\$101,434,542
Construction	\$30,368,658	\$67,024,161	\$9,163,876	-	-
Operations	-	-	\$79,118,943	\$92,305,433	\$101,434,542
Indirect Economic Impacts	\$7,248,509	\$15,997,587	\$12,868,978	\$13,690,640	\$15,044,659
Construction	\$7,248,509	\$15,997,587	\$2,187,270	-	-
Operations	-	-	\$10,681,708	\$13,690,640	\$15,044,659
Induced Economic Impacts	\$8,964,165	\$19,784,070	\$18,253,016	\$19,927,770	\$21,898,648
Construction	\$8,964,165	\$19,784,070	\$2,704,976	-	-
Operations	-	-	\$15,548,040	\$19,927,770	\$21,898,648
Total Economic Impacts	\$46,581,332	\$102,805,818	\$119,404,813	\$125,923,843	\$138,377,849
Construction	\$46,581,332	\$102,805,818	\$14,056,122	-	-
Operations	-	-	\$105,348,691	\$125,923,843	\$138,377,849

Source: Center for Policy Analysis (2004).

Job Quality

A full-service commercial casino, such as the one proposed for West Warwick will employ about 34% of its workforce in casino operations. These operations employ a wide range of occupations from semi-skilled to managerial, including table games analyst, game supervisor, shift manager, dealer, keno writer, bingo attendant, and cashier. The majority of the workforce will be employed in auxiliary and support services such as hotel operations (6.4%), food and beverage services (34.3%), marketing and administration (7.7%), or other areas such as security (3.6%), accounting (2.4%), and facilities maintenance (8.4%).

Sectoral Distribution of Resort Casino Employees		
Sector	Number	Percent
Food & Beverage	1,226	34.3%
Retail/Entertainment	112	3.1%
Hotel	229	6.4%
Marketing & Administration	275	7.7%
Facilities	299	8.4%
Security	127	3.6%
Casino Operations	1,215	34.0%
Accounting	87	2.4%
TOTAL	3,571	100.0%

Source: Center for Policy Analysis (2004).

The operation of a resort casino in West Warwick will not only improve employment levels in Rhode Island, it will improve overall job quality in traditionally low-wage service sectors:

- Annual average earnings paid in the food and beverage sector are nearly twenty-eight percent (+27.8%) higher than for comparable establishments in Rhode Island;
- nearly nineteen percent (+18.6%) higher in the hotel sector than for comparable establishments in Rhode Island;
- nearly twenty-three percent higher (+22.7%) in the retail sector than for comparable establishments in Rhode Island.
- In contrast to comparable non-casino jobs in the service sector, a majority of new casino jobs (77%) are full-time jobs with benefits.

Comparison of Annual Average Wages			
NAICS Sector	WW Casino* (excludes benefits)	Rhode Island* (excludes benefits)	Differential
Amusement & Recreation (7132)	\$25,116	\$25,739	-2.4%
Food & Beverage (722)	\$16,797	\$13,139	+27.8%
Hotels (721)	\$24,354	\$20,527	+18.6%
Retail (452)	\$22,363	\$18,228	+22.7%
All Sectors (Private)	\$25,960	\$33,226	-21.9%

Source: Center for Policy Analysis (2004) and U.S. Bureau of Labor Statistics. **Note:** *Data is for 2002.

Note: The earnings comparisons do not include tip income, which normally adds twenty-two percent (22%) to base pay and would therefore widen the differential between the casino sectors and comparable sectors in Rhode Island.

FISCAL IMPACTS OF WEST WARWICK RESORT CASINO

The fiscal impacts of constructing and operating a resort casino in West Warwick consists of special gaming taxes levied on gross gaming revenues by the Rhode Island Gaming Control and Revenue Act, personal income tax payments by construction and casino employees, indirect tax payments stimulated by casino operations (e.g., room occupancy and retail sales), and social savings from lower welfare and unemployment insurance rolls, minus substitution effects on current revenue from Video Lottery Terminals.

The Act specifically states that there “shall be no tax incentives given nor any employer tax credits allowed to a casino licensee” (41-9.1-12).

Special Wagering Tax

A twenty-five percent (25%) tax on gross gaming revenue will yield \$127.5 million annually once the casino achieves full capacity for an entire fiscal year.

Indirect Taxes

The casino proposed for West Warwick is a commercial casino so its non-gaming revenues are subject to the state’s retail sales tax, meals tax, and hotel tax. It is assumed that retail and food and beverage outlets will open at 78% of capacity on January 1, 2007 and incrementally reach 100% of estimated sales in the calendar year beginning January 1, 2009. It is assumed that the hotel will open on July 1, 2007 with an occupancy rate of 65% in the first year of operation and 80% in all subsequent years. It is assumed that the nightly charge for an average hotel room will be \$175, which is the rate charged at Foxwoods Resort Casino. Non-gaming revenues are also conservatively estimated to equal 11% of GGR, which is comparable to Mohegan Sun’s 2003 fiscal year:

- It is estimated that non-gaming indirect tax revenues will be \$0.8 million in Fiscal Year 2007 and gradually increase to \$3.4 million in FY 2010.

State Personal Income Taxes

The construction and operation of a West Warwick Resort Casino will produce additional taxable personal income as a result of direct, indirect, and induced economic impacts. Rhode Island's personal income tax rate is twenty-five (25%) of federal taxable income. The Rhode Island tax is levied on personal income earned in the state of Rhode Island so the wages and salaries of construction and casino employees is taxable by Rhode Island regardless of the employees' place of residence. The *effective tax rate* on personal income is 2.9%, which is the percentage of personal income actually collected as personal income taxes in Rhode Island:

- It is estimated that state personal income tax revenues will be \$0.4 million in Fiscal Year 2005 and gradually increase to \$2.9 million in FY 2010.

Estimated Wagering, Sales, and Hotel Tax Revenues, FY 2005 to FY 2010 (millions)						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
	1/1/2005		1/1/2007		1/1/2009	1/1/2010
	to	1/1/2006 to	to	1/1/2008 to	to	to
	12/31/2005	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010
Gross Gaming Revenue	-	-	\$408.1	\$459.1	\$510.1	\$510.1
Hotel Room Revenue	-	-	\$10.4	\$23.0	\$25.5	\$25.5
Retail Sales	-	-	\$23.9	\$27.8	\$30.6	\$30.6
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Wagering Tax on GGR (25%)	-	-	\$51.0	\$108.4	\$121.2	\$127.5
Hotel Tax (5%)	-	-	-	\$1.1	\$1.3	\$1.3
Sales Tax (7%)	-	-	\$0.8	\$1.7	\$2.0	\$2.1
Income Tax - Construction (2.9%)	\$0.4	\$1.4	\$1.1	\$0.1	-	-
Income Tax - Operations (2.9%)	-	-	1.2	2.5	2.8	2.9
Gross Casino-Related Tax Revenue	\$0.4	\$1.4	\$54.1	\$113.8	\$127.3	\$133.8

Source: Center for Policy Analysis (2004)

IMPACT ON VIDEO LOTTERY REVENUE

The Center for Policy Analysis projected a casino's impact on the state's video lottery revenue using a probable case, best case, and worst case scenario.

Probable Impact on VLT Revenues

A West Warwick Resort Casino will probably have some impact on the state's VLT revenue, but the potential impact will be mitigated and offset by factors:

(1) The proposed West Warwick Resort Casino has position constraints that prevent it from absorbing all of the Lincoln's and Newport's patrons who might prefer to substitute trips to the new casino for visits to the existing venues. The Center's *Market Analysis for a West Warwick Resort Casino* documents that there will still be \$287 million to \$483 million in unmet demand in the designated market area after the West Warwick casino reaches full capacity. There is ample room in the existing market to support a resort casino and two "racino" type facilities.

(2) Lincoln and Newport have begun introducing new amenities (e.g., dining, live music, and dancing) that will make them more attractive to existing patrons and give them the capacity to attract new patrons (unmet demand),

(3) Over the last decade population and income growth, as well as increases in the propensity to gamble, have allowed Lincoln and Newport to record real growth in net terminal income per VLT per year despite the simultaneous growth of Foxwoods Resort and Mohegan Sun. From 1995 to 2004, annual net terminal income per VLT at Lincoln Park increased by 47.2% in real dollars or at an average compound annual rate of 4.0% per year. From 1995 to 2004, annual net terminal income per VLT increased at Newport Grand increased by 115.5% in real dollars or at an average compound annual rate of 8.0% per year. With unmet demand in the market, there is reason to believe real growth will continue in the future even if moderates compared to previous years.

(4) Investor confidence in Lincoln Park's ability to generate returns on investment remains high as evidenced by a bidding war that now places its value at \$555 million. Private investors are demonstrating a high level of confidence in Lincoln Park's future even amidst discussions about authorizing a resort casino in West Warwick. Private investors with experience and proven success in the gaming market would not be prepared to commit over \$550 million to purchase Lincoln Park and also commit \$100 million or more to improve the facility, if they were not

satisfied after due diligence that it has the capacity to expand revenues in the future and provide a reasonable return on investment.

Net Fiscal Impact (Probable Scenario)

After adjusting the substitution impact of a West Warwick Resort Casino on the state’s share of VLT revenues to incorporate projected real market growth:

- the casino’s impact on VLT revenues peaks at \$20.9 million in FY 2008, a year after the casino opens, and then steadily declines in future years.
- The maximum probable impact on Lincoln and Newport revenues would be 9.8% in the peak year of impact (FY 2008).
- The net fiscal impact on state revenues in the most probable scenario (casino-related tax payments minus probable impact on VLT revenue) will be +\$4.1 million in FY 2007, the casino’s first year of operation. The net fiscal impact will increase to +\$118.9 million in FY 2010, the first full fiscal year of a casino’s operation at full capacity.

Total Fiscal Impact: Probable VLT Impact						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
	1/1/2005		1/1/2007		1/1/2009	1/1/2010
	to	1/1/2006 to	to	1/1/2008 to	to	to
	12/31/2005	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010
Gross Gaming Revenue	-	-	\$408.1	\$459.1	\$510.1	\$510.1
Hotel Room Revenue	-	-	\$10.4	\$23.0	\$25.5	\$25.5
Retail Sales	-	-	\$23.9	\$27.8	\$30.6	\$30.6
			FY 2007	FY 2008	FY 2009	FY 2010
Wagering Tax on GGR (25%)	-	-	\$51.0	\$108.4	\$121.2	\$127.5
Hotel Tax (5%)	-	-	-	\$1.1	\$1.3	\$1.3
Sales Tax (7%)	-	-	\$0.8	\$1.7	\$2.0	\$2.1
Income Tax - Construction (2.9%)	\$0.4	\$1.4	\$1.1	\$0.1	-	-
Income Tax - Operations (2.9%)	-	-	1.2	2.5	2.8	2.9
Total Casino-Related Tax Revenue	\$0.4	\$1.4	\$54.1	\$113.8	\$127.3	\$133.8
Reduction in VLT Revenue	-	-	-\$2.2	-\$20.9	-\$19.8	-\$14.9
GTECH Refund	-	-	-	-	-	-
Total Net Casino-Related Revenue	\$0.4	\$1.4	\$51.9	\$92.9	\$107.5	\$118.9

Source: Center for Policy Analysis (2004)

Minimum Impact on VLT Revenues (Best Case Scenario)

The Rhode Island Lottery Commission has authorized Lincoln Park to install an additional 681 Video Lottery Terminals, while Newport Grand is authorized to install an additional 281 Video Lottery Terminals. The major obstacle to installing the authorized allotment of VLTs is space constraint at both facilities. New investment in the facilities would allow them to add more VLTs and to capture unmet demand in their market areas. This scenario would give both facilities the ability to generate additional visits from existing patrons and to attract new patrons excluded from the market by position constraints.

The additional revenue generated by another 942 VLTs plus real growth in the market would offset even the maximum impact anticipated in the worst case scenario (see below). The state's share of VLT revenue would continue to increase each year, although the rate of growth would slow as the casino reaches full capacity.

The net fiscal impact on state revenues in the best case scenario (casino-related tax payments minus maximum impact on VLT revenue) will be +\$4.1 million in FY 2007, the casino's first year of operation. The net fiscal impact will increase to +\$133.8 million in FY 2010, the first full fiscal year of a casino's operation at full capacity.

Total Fiscal Impact: Best Case Scenario						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
	1/1/2005	1/1/2006 to	1/1/2007	1/1/2008 to	1/1/2009	1/1/2010
	to	12/31/2006	to	12/31/2008	to	to
	12/31/2005	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010
Gross Gaming Revenue	-	-	\$408.1	\$459.1	\$510.1	\$510.1
Hotel Room Revenue	-	-	\$10.4	\$23.0	\$25.5	\$25.5
Retail Sales	-	-	\$23.9	\$27.8	\$30.6	\$30.6
			FY 2007	FY 2008	FY 2009	FY 2010
Wagering Tax on GGR (25%)	-	-	\$51.0	\$108.4	\$121.2	\$127.5
Hotel Tax (5%)	-	-	-	\$1.1	\$1.3	\$1.3
Sales Tax (7%)	-	-	\$0.8	\$1.7	\$2.0	\$2.1
Income Tax - Construction (2.9%)	\$0.4	\$1.4	\$1.1	\$0.1	-	-
Income Tax - Operations (2.9%)	-	-	1.2	2.5	2.8	2.9
Total Casino-Related Tax Revenue	\$0.4	\$1.4	\$54.1	\$113.8	\$127.3	\$133.8
Reduction in VLT Revenue	\$9.4	\$17.4	\$25.8	\$7.9	\$8.2	\$8.5
GTECH Refund	-	-	-	-	-	-
Total Net Casino-Related Revenue	\$0.4	\$1.4	\$54.1	\$113.8	\$127.3	\$133.8
Source: Center for Policy Analysis (2004)						

Maximum Impact on VLT Revenues (Worst Case Scenario)

The worst case scenario assumes that (1) a West Warwick Resort Casino has the capacity to absorb all of the Lincoln and Newport gamblers who would prefer to substitute trips to the new casino for visits to the existing venues, (2) that Lincoln and Newport make no substantial improvements to their facilities and do not offer new amenities that make them more attractive to patrons, and (3) does not allow for future growth in the region's gaming market due to population and income growth.

The Center derived an estimate of a resort casino's impact on VLT revenues from responses to its gaming behavior survey:

- Nearly eighty-eight percent (87.7%) of survey respondents who live in the designated market area and currently gamble at Lincoln Park report that if a Foxwoods-style casino opened in West Warwick, they would be more likely to visit the casino than Lincoln Park.
- Nearly eighty-nine percent (88.7%) of survey respondents who live in the designated market area and currently gamble at Newport Grand report that if a Foxwoods-style casino opened in West Warwick, they would be more likely to visit the casino than Newport Grand.
- However, Lincoln patrons in the DMA report that they would visit Lincoln only 3.50 times less times per year to visit a West Warwick casino, while Newport patrons in the DMA report they would visit Newport only 1.30 times less per year to visit a West Warwick casino.
- Despite the high percentage of people who would substitute trips, the low average number of trips substituted to the casino generates a maximum capture rate of 28.8% for Lincoln Park and 17.7% for Newport Grand.
- The capture rates for a West Warwick Resort casino indicate that under a worst case scenario, VLT revenues retained by the state would fall by \$56.3 million (2004 dollars) *compared to what they would have been* without a casino.

The maximum impact on VLT revenues predicted in the worst case scenario would also impact the terms of a 20-year Master Contract between the Rhode Island Lottery Commission (RIL) and the GTECH Corporation, which receives a commission on VLT revenues as the communications provider:

- It is likely even under a worst case scenario that the release from obligations would be temporary and would not last for more than one or two years until NTI returned to 90% of the Base Period.

- Under the worst case scenario, Section 7.5 of the Master Contract would be activated and a refund would be due to GTECH. If a refund became due on July 1, 1998, one year after the casino opens, GTECH would receive a \$9,372,500 refund from the Rhode Island Lottery Commission.

Net Fiscal Impact (Worst Case Scenario)

The net fiscal impact on state revenues in a worst case scenario will be +\$32.1 million in FY 2007, the casino's first year of operation. The net fiscal impact will increase to +\$77.5 million in FY 2010, the first full fiscal year of a casino's operation at full capacity.

Total Fiscal Impact: Maximum VLT Impact						
	Year 1 1/1/2005 to 12/31/2005	Year 2 1/1/2006 to 12/31/2006	Year 3 1/1/2007 to 12/31/2007	Year 4 1/1/2008 to 12/31/2008	Year 5 1/1/2009 to 12/31/2009	Year 6 1/1/2010 to 12/31/2010
Gross Gaming Revenue	-	-	\$408.1	\$459.1	\$510.1	\$510.1
Hotel Room Revenue	-	-	\$10.4	\$23.0	\$25.5	\$25.5
Retail Sales	-	-	\$23.9	\$27.8	\$30.6	\$30.6
	FY 2005	FY2006	FY 2007	FY 2008	FY 2009	FY 2010
Wagering Tax on GGR (25%)	-	-	\$51.0	\$108.4	\$121.2	\$127.5
Hotel Tax (5%)	-	-	-	\$1.1	\$1.3	\$1.3
Sales Tax (7%)	-	-	\$0.8	\$1.7	\$2.0	\$2.1
Income Tax - Construction (2.9%)	\$0.4	\$1.4	\$1.1	\$0.1	-	-
Income Tax - Operations (2.9%)	-	-	1.2	2.5	2.8	2.9
Total Casino-Related Tax Revenue	\$0.4	\$1.4	\$54.1	\$113.8	\$127.3	\$133.8
Reduction in VLT Revenue	-	-	-\$22.0	-\$47.6	-\$53.7	-\$56.3
GTECH Refund	-	-	-	-\$9.4	-	-
Total Net Casino-Related Revenue	\$0.4	\$1.4	\$32.1	\$56.8	\$73.6	\$77.5

Source: Center for Policy Analysis (2004)

**SOCIAL SAVINGS:
IMPACT ON UNEMPLOYMENT & WELFARE DEPENDENCY**

It is estimated that the total employment gains generated by a West Warwick Resort Casino will:

- reduce the current (March 2004) Rhode Island unemployment rate from 5.9% to 5.3%.
- The new jobs created by a West Warwick casino will reduce Transitional Assistance for Needy Family (TANF) rolls by 825 persons (adults and children) and reduce the unemployment insurance rolls by 535 persons.
- The casino's new jobs will generate social savings of \$1.3 million annually in TANF expenditures and \$1.9 annually in UI expenditures.

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1.00 PURPOSE OF THE STUDY

The Center for Policy Analysis at the University of Massachusetts Dartmouth was retained by the Rhode Island State Senate to conduct an objective economic and fiscal impact analysis of a proposed resort casino to be located in West Warwick, Rhode Island. Its purpose is to estimate the impact of the casino's operations on the local and statewide economies. The proposed casino's economic activity is quantified in terms of gross gaming revenues (output), employment, and income. In addition to its own operations, a casino also generates "spin-off" or multiplier effects on other companies and their employees, which are quantified using an input-output model that traces an establishment's purchases of goods, services, and labor through that model. The scope of services for the economic and fiscal impact assessment includes a requirement that the analysis:

1. estimate the local and state economic and fiscal impacts of a commercial casino and entertainment complex located at West Warwick, Rhode Island:
 - a. the analysis will assume that a commercial casino and entertainment complex will be located at West Warwick, Rhode Island as stipulated in "The Rhode Island Gaming Control and Revenue Act" (S.2338);
 - b. the analysis will construct baseline estimates of direct economic impacts based on information provided to the principal investigators by the developers, including the size of the commercial casino, number of gaming positions, amenities such as lodging, retail, and eating facilities, and capital investment in the new facility;
 - c. the economic impact analysis will estimate direct, indirect, induced, and total economic impacts using the IMPLAN econometric modeling system. The economic impact analysis will provide separate estimates for the initial construction phase impacts and the recurring operating impacts;
 - d. the economic impact analysis will estimate additional local property tax, impact and licensing fee, and other local tax revenues, as well as state income, sales, and payroll taxes, as well as the proposed 25% tax on gross gaming revenues generated by the commercial casino based on the rates set in the Rhode Island Gaming Control and Revenue Act (S.2338).
 - e. the economic impact analysis will include a "quality of jobs" analysis that identifies the number of jobs, types of jobs, and occupations likely to be created by a West Warwick, Rhode Island casino, including an estimate of annual average wages for the different occupations.

2. The estimated impact of a casino and entertainment complex on Rhode Island state lottery revenues, particularly the potential impact on video lottery terminal revenues generated by Newport Grand and Lincoln Park facilities:
 - a. the analysis will construct estimates based on patron intercept surveys or telephone surveys of persons residing in Rhode Island and Massachusetts, who have visited Newport Grand or Lincoln Park in the last twelve months;
 - b. the analysis will include a review of the Master Contract between G-Tech Corporation and the State of Rhode Island and whether the operation of a casino in West Warwick, Rhode Island would materially affect the terms of the contract and revenues accruing to the state as a result of the contract.

The report is intended for the use of Rhode Island government officials for the purpose of addressing pending legislation, including, but not limited to S.2338, which “authorizes submission to all of the electors of the state, at the general election to take place on November 2, 2004, the following single question and explanation: “Shall there be a casino in the Town of West Warwick operated by an Affiliate of Harrah’s Entertainment in association with the Narragansett Indian Tribe?” (S.2338 41-9.1-9).

2.00 THE GAMING INDUSTRY

The U.S. gaming market is divided into five different segments consisting of charitable gaming,¹ pari-mutuel wagering,² state lotteries,³ commercial casinos, and tribal casinos. Currently, 47 states and the District of Columbia allow charitable gaming, 41 states allow pari-mutuel wagering, 40 states and the District of Columbia have lotteries, 11 states license commercial casinos, and 28 states have Class II or Class III tribal casinos (AGA 2004, NIGA 2004). In 2002, the total U.S. gaming market was \$68.7 billion (GGR) compared to \$30.4 billion (GGR) in 1992 (AGA 2004). Gaming industry revenues have grown by 126% over the last ten years (1992-2002), which is a compound annual growth rate of 8.4 percent.

The recent growth of the U.S. gaming market was catalyzed by passage of the federal Indian Gaming Regulatory Act (IGRA) in 1988 and the legalization of commercial casinos by states other than Nevada and New Jersey. Casinos now constitute a majority (59.8%) of the total U.S. gaming market with commercial casinos accounting for 38.7% of GGR and Native American casinos for 21.1% of GGR. The GGR of riverboat casinos (including dockside casinos) has increased by 69.2% over the last five years (1997 to 2002). GGR at commercial land-based casinos outside New York and New Jersey has grown by 302.8% during the same period, while GGR at Native American Class III casinos has grown by 120.1% (see Table 1).

Table 1 below provides a breakdown of gross gaming revenues for the major categories of gambling in the United States and the percentage of U.S. personal income spent on the various forms of gambling in 1997 and 2002.

¹ For example, bingo and raffles.

² Greyhound racing, thoroughbred horse racing, quarter horse racing, harness racing, and jai-alai, including simulcast and off-track betting.

³ Instant tickets, lotto games, keno, and video lottery terminals.

Table 1

Gross Gaming Revenues by Industry, 1997 and 2002					
	1997	2002	5-Year Growth Rate	% of US Personal Disposable Income, 1997	% of US Personal Disposable Income, 2002
PARI-MUTUELS					
Horse Total	\$3,251,400,000	\$3,519,600,000	8.2%	0.0469%	0.0392%
Greyhound Total	\$509,400,000	\$430,300,000	-15.5%	0.0074%	0.0048%
Jai Alai Total	\$50,100,000	\$36,900,000	-26.3%	0.0007%	0.0004%
Total Pari-Mutuels	\$3,810,900,000	\$3,986,800,000	4.6%	0.0550%	0.0444%
LOTTERIES					
Video Lotteries	\$1,101,900,000	\$2,223,300,000	101.8%	0.0159%	0.0248%
Traditional Games	\$15,464,900,000	\$16,415,300,000	6.1%	0.2232%	0.1827%
Total Lotteries	\$16,566,800,000	\$18,638,600,000	12.5%	0.2391%	0.2075%
CASINOS					
Nevada/NJ Slot Machines	\$7,611,000,000	\$9,535,000,000	25.3%	0.1098%	0.1061%
Nevada/NJ Table Games	\$3,913,400,000	\$4,096,600,000	4.7%	0.0565%	0.0456%
Deepwater Cruise Ships	\$244,100,000	\$294,400,000	20.6%	0.0035%	0.0033%
Cruises-to-nowhere	\$219,600,000	\$385,100,000	75.4%	0.0032%	0.0043%
Riverboats	\$6,170,500,000	\$10,437,900,000	69.2%	0.0891%	0.1162%
Other Land-Based Casinos	\$474,500,000	\$1,911,200,000	302.8%	0.0068%	0.0213%
Other Commercial Gambling	\$157,500,000	\$162,600,000	3.2%	0.0023%	0.0018%
Non-Casino Devices	\$1,737,000,000	\$1,320,900,000	-24.0%	0.0251%	0.0147%
Total Casinos	\$20,527,600,000	\$28,143,700,000	37.1%	0.2963%	0.3133%
LEGAL BOOKMAKING					
Sports Books	\$89,700,000	\$110,400,000	23.1%	0.0013%	0.0012%
Horse Books	\$6,600,000	\$5,800,000	-12.1%	0.0001%	0.0001%
Total Bookmaking	\$96,300,000	\$116,200,000	20.7%	0.0014%	0.0013%
CARD ROOMS	\$700,200,000	\$972,500,000	38.9%	0.0101%	0.0108%
CHARITABLE BINGO	\$956,900,000	\$1,124,500,000	17.5%	0.0138%	0.0125%
CHARITABLE GAMES	\$1,562,200,000	\$1,510,300,000	-3.3%	0.0225%	0.0168%
INDIAN RESERVATIONS					
Class II	\$899,200,000	\$1,478,900,000	64.5%	0.0130%	0.0165%
Class III	\$5,779,300,000	\$12,718,400,000	120.1%	0.0834%	0.1416%
Total Indian Reservations	\$6,678,500,000	\$14,197,300,000	112.6%	0.0964%	0.1580%
INTERNET GAMBLING	N/A	\$4,007,000,000	N/A	N/A	0.0446%
GRAND TOTAL	\$50,899,400,000	\$68,689,900,000	35.0%	0.7346%	0.7647%
U.S. Personal Income				\$6,928,545,000,000	\$8,982,839,000,000
Sources: <i>International Gaming & Wagering Business</i> (August 1998); Christiansen Capital, LLC 2004; US Bureau of Economic Analysis (1997, 2002).					
Note: Because Internet gambling is conducted globally, gross gambling revenue from Internet gambling is not included in the grand total.					

2.10 COMMERCIAL CASINOS

Nevada was the first state to legalize casino gambling in 1931 and not until 1976 did New Jersey become the second state to legalize casinos in Atlantic City. Since 1989, however, nine states have legalized commercial casinos, including South Dakota (1989), Iowa (1989), Colorado (1990), Illinois (1990), Mississippi (1990), Louisiana (1991), Missouri (1993), Indiana (1993), and Michigan (1996).⁴ In 2002, these 11 states had 432 operating commercial casinos with 171 of the casinos operating outside the traditional venues of Nevada and New Jersey (see Table 2).

More than 51 million people – or about one-quarter of the nation’s adult population – made a total of 297 million visits to commercial casinos (2002). Commercial casinos had Gross Gaming Revenues of \$26.6 billion in 2002 and nearly half (48.1%) of the GGR was generated by casinos in the nine non-traditional venues (see Table 2 and Appendix A). Non-traditional venues increased their share of the commercial casino market from 0.1% in 1990 to 33% in 1995 to 48% in 2002.

Table 2

State	Legalization Date	First Casino Opening Date	No. of Operating Casinos	Casino Gross Gaming Revenue (millions)
Colorado	Nov-90	Oct-91	42	\$719.7
Illinois	Feb-90	Sep-91	9	\$1,800.0
Indiana	Nov-93	Dec-95	10	\$2,100.0
Iowa	Jul-89	Sep-91	13	\$972.3
Louisiana	1990	Oct-93	16	\$2,000.0
Michigan	Nov-96	Jul-99	3	\$1,100.0
Mississippi	Feb-90	Aug-92	29	\$2,700.0
Missouri	Aug-93	May-94	11	\$1,300.0
Nevada	1931	N/A	249	\$9,400.0
New Jersey	1976	1978	12	\$4,400.0
South Dakota	1989	Nov-89	38	\$66.3
Total Commercial			432	\$26,558.3
Native American	1988	N/A	354	\$14,500.0
Total			786	\$41,058.3
Source: AGA (2004) as collected from casino operators and state regulatory agencies and associations.				

⁴ The years identify dates when legislation was passed legalizing commercial casinos, although in most cases the first casino did not begin operations until one to three years later.

2.20 NATIVE AMERICAN CASINOS

Although commercial casinos and Native American casinos are similar from an economic and operational standpoint, the statutory basis of their existence is different and this distinction has numerous ramifications for the states' regulatory and taxing authority. The Indian Gaming Regulatory Act, enacted in 1988 as Public Law 100-497 and now codified as 25 U.S.C. §2701, establishes the jurisdictional framework that governs Native American gaming. The Act establishes three classes of games with a different regulatory scheme for each class of games. Class I gaming is defined as traditional Indian gaming and social gaming for minimal prizes. Regulatory authority over class I gaming is vested exclusively in tribal governments. Class II gaming is defined as bingo, without distinction to whether it is played electronically, on a computer, or with other technological devices, so long as it is played in the same location as the bingo, pull tabs, punch board, tip jars, instant bingo, and other games similar to bingo.

Class II gaming also includes non-banked card games or card games played exclusively against other players rather than against "the house" or a player acting as a bank. The Act specifically excludes slot machines or electronic facsimiles of any game of chance from the definition of class II games. Tribes retain their authority to conduct, license, and regulate class II gaming so long as the state where the Tribe is located permits such gaming for any purpose and the Tribal government adopts a gaming ordinance approved by the National Indian Gaming Commission. Tribal governments are responsible for regulating class II gaming with Commission oversight.

The definition of class III gaming includes all forms of gaming that are neither Class I nor Class II. Games commonly played at casinos, such as slot machines, black jack, craps, and roulette clearly fall within the Class III category, as well as wagering games and electronic facsimiles of any game of chance. Generally, Class III is referred to as "casino-style gaming" and it is Class III facilities that are comparable to commercial casinos in both traditional and non-traditional venues.

Before a Tribe can lawfully conduct Class III gaming, the following conditions must be met: (1) The particular form of Class III gaming (e.g., slot machines) that the Tribe wants to conduct must be permitted in the state where the tribe is located; (2) the Tribe and the state must have negotiated a compact that has been approved by the Secretary of the Interior, or the Secretary must have approved regulatory procedures; and (3) the Tribe must have adopted a Tribal gaming ordinance that has been approved by the Chairman of the National Indian Gaming Commission (NIGC). Although Congress intended for most regulatory issues to be addressed in Tribal-State compacts, it left a number of key functions in federal hands, including approval authority over compacts, management contracts, and Tribal gaming ordinances. Congress also vested the NIGC with broad authority to issue regulations in furtherance of the purposes of the Act. Accordingly, the NIGC plays a key role in the regulation of Class II and Class III Native American gaming.

There are currently 562 federally-recognized Indian tribes. At present, 224 of these tribes have negotiated 249 compacts with 28 states to establish 354 Class II or Class III gaming operations. Native American Indian casinos had GGR of \$14.5 billion in 2002. There are 10 federally-recognized Indian tribes in New England, although only two of the tribes – the Mashantucket Pequot Tribe and the Mohegan Tribe -- currently operate Class III gaming facilities (see Table 3). The two tribes operate the only casinos in New England, which in calendar year 2003 had combined gross gaming revenues of \$2.7 billion. The Mashantucket Pequot's Foxwoods Resort Casino is now the largest casino in the United States, while the Mohegan Tribe's Mohegan Sun is the second largest casino in the United States. Connecticut's two Native American casinos have made it the fourth largest casino market in the United States behind Nevada (\$9.9 billion), New Jersey (\$4.4 billion), and Mississippi (\$2.7 billion) (see Table 2).

2.30 THE CASINO INDUSTRY

Casino gaming in one form or another – including land-based casinos, floating riverboats, dockside riverboats, casino cruise boats, and Native American casinos – is now available in 33 states. Casinos enjoy a high level of acceptance by the American public with 51% of the adult population viewing casino entertainment as “perfectly acceptable for anyone” and another 28% viewing it as “acceptable for others,” but not for themselves. Only 16% of the American public views casino gaming as “not acceptable for anyone” (AGA 2002, 18). Eighty-one percent (81%) of the adult population agree that “casino gaming can be a fun night out” (Harrah's 1997). Indeed, when casino gaming is viewed from a purely economic standpoint “as just another industry,” its recent expansion in the United States can be understood in the context of a continuing expansion in leisure, amusement, and entertainment services generally.

The emerging significance of casino gaming in the U.S. economy is best captured conceptually by changes in the industrial classification systems used by the United States Government to collect data and monitor trends in employment, wages, and business vitality. The United States adopted its first Standard Industrial Classification (SIC) System in 1939 and periodically revised this classification system to account for changes in the structure of the economy (Executive Office of the President 1987). Every business establishment in the United States – both public and private -- was assigned one or more “SIC Codes” based on Division (e.g., manufacturing), Major Group (e.g., textile mill products), and Industry Group (e.g., spinning mills). An establishment's Division is identified by a single letter code (A-J). Its Major Group was identified by a 1- or 2-digit numeric code (01-99) and its Industry Group was identified by a 3- or 4-digit numeric code (001-9999). The final iteration of the *Standard Industrial Classification Manual* was released in 1987, but the economic significance of casinos was not considered important enough to warrant the assignment of their own SIC Code. Casinos were either classified with “Hotels and Motels” (SIC 7011) or with Amusement and Recreation Services, Not Elsewhere Classified” (SIC 7999).

In 1997, the United States began phasing out the Standard Industrial Classification System, which had been designed mainly for classifying business establishments in an older industrial economy. The North American Industry Classification System (NAICS), which replaced the SIC system was developed jointly by the USA, Canada, and Mexico following NAFTA to provide new comparability in statistics about business activity across North America. In designing NAICS, economic and government experts for the first time constructed a conceptual framework that identify “new and emerging industries” and capture the growing importance of “service industries in general” to the new economy (Executive Office of the President 1997, 3). NAICS classifies business establishments into one of twenty different Sectors and assigns them a six-digit code.

The North America Industry Classification System classifies all gaming establishments in Sector 71 – Arts, Entertainment, and Recreation. Casinos, bingo halls, slot machine parlors, race tracks, and video gaming establishments are grouped with performing arts, spectator sports, theme parks, golf courses, and bowling centers due to the similarity of their production processes. For the first time, casinos and other gaming establishments have been assigned their own six-digit NAICS Codes, but the coding system specifically distinguishes between Racetracks (Code 711212), Casinos (Code 713210), Other Gambling Industries (713290), and resort Casino Hotels (Code 721120) (see Table 3).

Viewed from this perspective, the popularity of casino entertainment has been climbing for the last fifteen years and the industry has expanded to supply unmet demand. For instance, the percentage of adults who gambled at least once at a casino in the last twelve months climbed from 17% in 1990 to 26% in 2002 (Harrah’s 2003). The number of visits to casinos has increased from 46 million in 1990 to 297 million in 2002 (Harrah’s 1997; AGA 2004, 2). Nearly 82% of the increase in visitations occurred in non-traditional venues. The average patron visited a casino approximately 4.8 times per year in 1996, but now visits a casino about 5.8 times per year (Harrah’s 1997, 2003).

Table 3

NORTH AMERICAN INDUSTRY CLASSIFICATION
<p>711212 Racetracks</p> <p>Comprises establishments primarily engaged in operating racetracks (cars, dogs, and horses).</p>
<p>713210 Casinos (except Casino Hotels)</p> <p>Comprises establishments primarily engaged in operating gambling facilities that offer table wagering games along with other gambling activities, such as slot machines and sports betting. These establishments often provide food and beverage services. Included in this industry are floating casinos (i.e., gambling cruises, riverboat casinos).</p>
<p>713290 Other Gambling Industries</p> <p>Comprises establishments primarily engaged in operating gambling facilities (except casinos or casino hotels) or providing gambling services. Included in this industry are bingo, off-track betting, or slot machine parlors, or in supplying and servicing coin-operated gambling devices, such as slot machines and video gaming terminals in places of business operated by others.</p>
<p>721120 Casino Hotels</p> <p>Comprises establishments primarily engaged in providing short-term lodging in hotel facilities with a casino on the premises. The casino on premises includes table wagering games and may include other gambling activities, such as slot machines and sports betting. These establishments generally offer a range of services and amenities, such as food and beverage services, entertainment, valet parking, swimming pools, and conference and convention facilities.</p>

2.40 ECONOMIC IMPACTS OF CASINOS

The United States casino industry had total revenues of approximately \$37.8 billion in 2002 with \$26.6 billion of that amount derived specifically from gaming activities (gross gaming revenues) and the other \$11.2 billion coming from hotel, entertainment, restaurant, and retail sales. Commercial casinos paid \$10.9 billion in wages and directly employed 351,500 persons nationwide (see Table 4). Commercial casinos generate an average of 13 jobs for every \$1 million in Gross Gaming Revenue and, excluding Nevada, from 6 to 12 jobs per \$1 million of Gross Gaming Revenue depending on the venue, wage levels, the ratio of full-time to part-time jobs, and the mix of gaming to non-gaming operations.

Commercial casinos paid more than \$4 billion in gaming taxes to the states and these figures do not include the tax revenues generated by state compacts with Native American casinos, casino boats, card rooms, and non-casino based slot machines and video lottery terminals (i.e., so-called racinos), nor does it include state income taxes paid by employees or sales, room occupancy, and meals taxes generated by the casinos' non-gaming operations (see Table 5; Appendix C for statutory tax rates).

The casino gaming industry also spends more than \$4 billion annually on construction, real estate, furniture, and equipment. It is no longer uncommon for individual companies to invest \$100 million to \$1 billion for the construction of a new facility or to spend several hundred million dollars to expand an existing facility. The casino industry's capital expenditures directly create an additional 40,000 jobs annually in the construction and manufacturing sectors.⁵

Table 4

Employment at Commercial Casinos, 2002						
State	No. of Operating Casinos	Gross Gaming Revenue (millions)	No. of Casino Employees	Employees Per \$1 Million GGR	Casino Employee Wages (millions)	Annual Average Wage
Colorado	42	\$719.7	7,675	11	\$194.9	\$25,394
Illinois	9	\$1,800.0	10,923	6	\$419.6	\$38,414
Indiana	10	\$2,100.0	16,555	8	\$514.5	\$31,078
Iowa	13	\$972.3	8,799	9	\$275.4	\$31,299
Louisiana	16	\$2,000.0	18,329	9	\$497.4	\$27,137
Michigan	3	\$1,100.0	8,286	8	\$334.0	\$40,309
Mississippi	29	\$2,700.0	31,343	12	\$990.1	\$31,589
Missouri	11	\$1,300.0	11,500	9	\$300.0	\$26,087
Nevada	249	\$9,400.0	191,759	20	\$6,200.0	\$32,332
New Jersey	12	\$4,400.0	44,820	10	\$1,200.0	\$26,774
South Dakota	38	\$66.3	1,511	23	\$23.3	\$15,420
Total Commercial	432	\$26,558.3	351,500	13	\$10,949.2	\$31,150
Native American	354	\$14,500.0	400,000	28	N/A	
Total	786	\$41,058.3	751,500	18	N/A	

Source: AGA (2004) as collected from casino operators and state regulatory agencies and associations. NIGA (2004) as collected from Tribes.

⁵ For example, in 1999, Mohegan Sun announced a \$950 million expansion that included 119,000 square feet of additional gaming space, a 1,200 room luxury hotel, 292,000 square feet of retail space, and a 10,000 seat convention and entertainment facility (Carey 1999). Investor confidence in the proposed expansion – known as Project Sunburst -- was so high that Mohegan Sun had \$3.5 billion in bids on a \$500 million initial bond offering (Groark 1999). The expansion project was completed in April of 2003. Foxwoods Resort recently announced a \$300 million expansion that will include 120,000 square feet of additional gaming space, a 2,100 car parking garage, 7,500 square feet of food and beverage outlets, and 6,000 square feet of retail space. The project is expected to be completed by the end of summer of 2004. The tribe is also constructing two golf courses that will include a golf academy, a 50,000 square foot club house, and gold villas. The golf courses are expected to be completed in the spring of 2005.

Table 5

Effective Tax Rates on Gross Gaming Revenue: Commercial Casinos, 2002				
State	No. of Operating Casinos	Gross Gaming Revenue (millions)	Gaming Tax Revenue Paid to State (millions)	Effective Tax Rate
Colorado	42	\$719.7	\$98.2	13.6%
Illinois	9	\$1,800.0	\$666.1	37.0%
Indiana	10	\$2,100.0	\$544.7	25.9%
Iowa	13	\$972.3	\$249.3	25.6%
Louisiana	16	\$2,000.0	\$414.2	20.7%
Michigan	3	\$1,100.0	\$249.1	22.6%
Mississippi	29	\$2,700.0	\$331.7	12.3%
Missouri	11	\$1,300.0	\$357.6	27.5%
Nevada	249	\$9,400.0	\$718.7	7.6%
New Jersey	12	\$4,400.0	\$403.7	9.2%
South Dakota	38	\$66.3	\$5.1	7.7%
Total Commercial	432	\$26,558.3	\$4,038.4	15.2%
Native American	354	\$14,500.0	N/A	N/A
Total	786	\$41,058.3	N/A	N/A
Source: AGA (2004) as collected from casino operators and state regulatory agencies and associations. NIGA (2004) as collected from Tribes.				
Note: Rates include several gaming tax increases passed in 2002.				

Currently, the principal casino attractions in New England, particularly for residents of Rhode Island and Massachusetts, are the Foxwoods Resort and Mohegan Sun casinos. These Class III Native American casinos, authorized by compacts with the State of Connecticut, are the first and second largest casinos in the United States, respectively. The two tribes' gaming compacts with the State of Connecticut grants them exclusive rights over casino-style gaming (i.e., slot machines) in the state in exchange for 25% of each casino's slot machine win.⁶

Foxwoods had total estimated Gross Gaming Revenues of \$1.1 billion in CY 2003 and contributed \$198 million to Connecticut's General Fund (Connecticut Division of Special Revenue 2004a). The Mohegan Sun Casino had total estimated Gross Gaming Revenues of \$1.1 billion in CY 2003 and contributed \$198 million to the State of Connecticut's General Fund (Connecticut Division of Special Revenue 2004b).

⁶ The effective tax rate on "racinos" is 35% in Delaware, 25% in New Mexico, 36% in West Virginia.

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3.00 WEST WARWICK RESORT CASINO

3.10 RHODE ISLAND GAMING CONTROL AND REVENUE ACT

“The Rhode Island Gaming Control and Revenue Act” (S.2338) was introduced into the Rhode Island State Senate on February 11, 2004. The Act:

“authorizes submission to all of the electors of the state, at the general election to take place on November 2, 2004, the following single question and explanation: ‘Shall there be a casino in the Town of West Warwick operated by an Affiliate of Harrah’s Entertainment in association with the Narragansett Indian Tribe?’” (S.2338 41-9.1-9).

If passed by the Rhode Island General Assembly, the Act requires the casino license applicant named in the legislation to submit a statement of intent to the Rhode Island Lottery Commission with evidence of a “fully executed development agreement” with the Town of West Warwick. The statement of intent must be submitted prior to the November 2nd general election, but no later than 60 days after passage of the legislation. In the event of an affirmative vote by Rhode Island voters *and* an affirmative vote by the Town of West Warwick, the Lottery Commission shall “award the casino license to the applicant that is a party with the Town of West Warwick to the development agreement no later than December 1, 2004” (41-9.1-9).

A West Warwick Resort Casino would be subject to the jurisdiction and authority of the Rhode Island Lottery Commission, which currently oversees the state’s traditional lottery games (e.g., instant tickets) and the Video Lottery Terminals (VLTs) at Lincoln Park and Newport Grand. The Act levies a 25% wagering tax on adjusted gross receipts, which is defined as “the total of all sums including valid or invalid checks, currency, tokens, coupons, vouchers, or instruments of monetary value whether collected or uncollected, received by a casino licensee from gaming, including all entry fees assessed for tournaments or other contests less a deduction for uncollectible gaming receivables not to exceed the uncollectible amounts owed as a result of wagers placed at or through a gambling game or four percent (4%) of the total gross receipts; whichever is less” (41-9.1-3(25)).⁷ The proposed casino is a commercial casino so its non-gaming revenues are automatically subject to retail sales tax, meals tax, and room occupancy tax.

The Act specifically states that there “shall be no tax incentives given nor any employer tax credits allowed to a casino licensee” (41-9.1-12).

⁷ Adjusted gross receipts is essentially Gross Gaming Revenues minus bad debt. Uncollectibles at the 11 Atlantic City casinos totaled 0.51% of casino win (GGR) in FY 2001 and FY 2002 (New Jersey Casino Control Commission 2003, 24). Thus, adjusted gross receipts equaled 99.49% of GGR.

3.20 DESCRIPTION OF PROPOSED CASINO

The economic and fiscal impact analysis makes certain assumptions about the physical capacity, gross gaming revenues, and total revenues of a West Warwick Resort Casino. The proposed casino will be located in the West Warwick Industrial Park directly adjacent to Interstate 95. The facility will include:

- 115,000 square feet of casino space ,
- a 500-room hotel,
- 3,000 slot machines,
- 100 table games.
- 55,000 square foot ballroom,
- 188,500 square feet of space for restaurants, retail shops,⁸
- a lounge for premium players (Diamond Club),
- 3,500 vehicle parking garage and surface parking for an additional 1,000 vehicles.

The casino's physical dimensions, number of gaming stations, and number of hotel rooms, would establish a resort casino roughly half the size of Foxwoods Resort Casino in Ledyard, Connecticut and Mohegan Sun Casino in Uncasville, Connecticut.⁹ It would be roughly comparable in size to Caesar's in Atlantic City.¹⁰ A West Warwick Resort Casino would be the third major casino attraction in New England after Foxwoods Resort and Mohegan Sun.

The casino is expected to generate \$510.1 million in gross gaming revenues and \$566.2 million in total revenues at full capacity.¹¹

3.30 DESCRIPTION OF TOWN OF WEST WARWICK

3.31 Location and Economic History

West Warwick, Rhode Island is a town of 29,268 (U.S. Census 2000) located about 14 miles southwest of Providence, Rhode Island. The town ranks 10th in population

⁸ Expected to include 1 buffet, 1 coffee shop, 1 steakhouse, 1 Italian restaurant, 1 ice cream/dessert restaurant, several small retail outlets, and a health spa.

⁹ Atlantic City casinos have an average of 100,489 square feet of casino space, an average of 3,465 slot machines, and an average of 107 table games. The smallest casino is the Atlantic City Hilton with 59,612 square feet of casino space, while Bally's Atlantic City is the largest with 129,998 square feet of casino space (New Jersey Casino Control Commission 2002, 22-23).

¹⁰ Caesar's Atlantic City has 117,378 square feet of casino space, 1,140 hotel rooms, 2,666 parking spaces, 4,803 employees, and \$527 million in FY 2002 gross gaming revenues (New Jersey Casino Control Commission 2002, 22-23).

¹¹ All estimates in this report are in 2004 dollars.

among Rhode Island's 39 cities and towns and is bordered by Coventry to the west, East Greenwich to the south, Warwick to the east, and Cranston to the north. West Warwick was incorporated in 1913, which makes it the youngest town in Rhode Island. It has less than 8 square miles of land and sits along a valley carved out by the Pawtuxet River.

Much of West Warwick's early economy was based on the Town's cotton mills, which were powered by the Pawtuxet River. The first stone cotton mill in the state was located in West Warwick, which at that time was part of the Town of Warwick. Many people of different nationalities came to West Warwick to work in the mills, and they formed villages that exist today including Arctic, Centerville, Crompton, Riverpoint, Natick, and Phenix.

Employment in the cotton industry gradually decreased and was replaced by synthetic fiber manufacturers after World War II. West Warwick has prime industrial and commercial sites along Interstate 95 and in recent years numerous firms have constructed new plants in the area.

The principal highways in or near West Warwick are Interstates 95 and 295, and State Routes 117, 33, and 3. Green Airport is located in adjacent Warwick, Rhode Island. As one of New England's fastest growing airports, T.F. Green is fulfilling its role as the regional airport system's short and medium haul facility for southern New England. In 2003, there were 2,589,702 passenger enplanements at the airport. To handle its increasing number of passengers and aircraft, T.F. Green has invested \$260 million in a new passenger terminal and on landside improvements, \$15 million in airside improvements, \$25 million on roadway connections to I-95 and is planning an Amtrak station at Warwick.

3.32 Demographics

The population of West Warwick is 29,268 (U.S. Census 2000), which is a 1.07% increase (313 persons) from the 1990 population of 29,268. While ethnically diverse, the percentage of residents who are white Caucasian is 90.7 percent. Hispanics are 3.1 percent of the population, which is an increase of 69.4% (+376) from the 1990 Census. The median age of West Warwick residents is 36.4 compared to 36.7 percent for the state.

More than-three quarters of West Warwick residents have a high school diploma (76.2%), while 16.7 percent have a bachelor's degree or higher. This compares to 78.0 percent and 25.6 percent respectively for the state. The percentage of West Warwick residents with a high school diploma increased by 5.9 percent from 1990, while the percentage of residents with a bachelor's degree or higher increased by 1.8 percent.

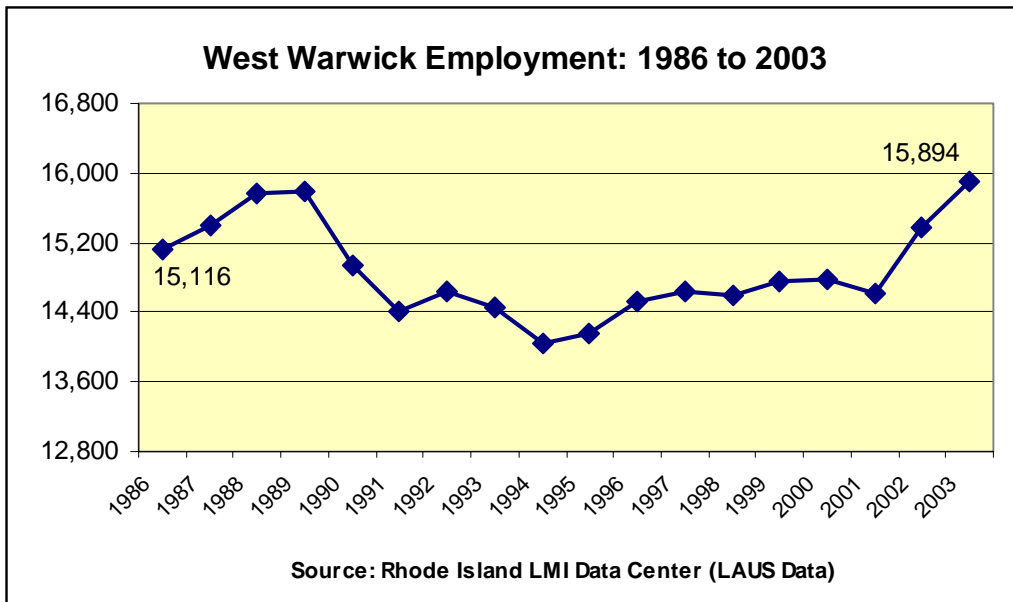
Seven percent (7.1%) of West Warwick residents are foreign-born and 13.9% speak a language other than English at home. Statewide, 11.4% of residents are foreign-born and 20.0% speak a language other than English.

Income levels of West Warwick residents are slightly below state averages. Per capita income in West Warwick is \$20,250 or 7.1% below the state average. Median household income is \$39,505 or 6.5% below the state average. Slightly less than one-tenth (9.2%) of West Warwick families are below the poverty level compared to 8.9 percent of families statewide.

3.33 Employment

Total employment in West Warwick in 2003 was 15,894 (LAUS 2003).¹² This is an increase of 5.1 percent from 1986. Employment peaked in 2003 and was at its recent lowest level in 1994 (15,307) (see Figure 1).

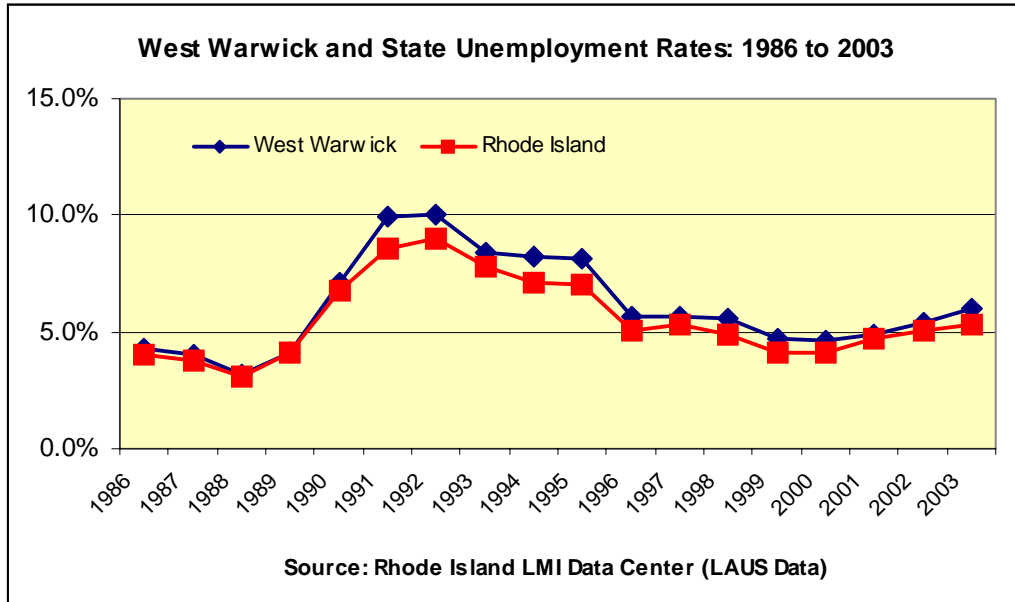
Figure 1



¹² LAUS data measures the number of West Warwick residents employed regardless of where they work.

The annual unemployment rate in West Warwick in 2003 was 6.0 percent, which compares to 5.3 percent for the state (LAUS 2003). West Warwick's unemployment rate has generally tracked the state rate by less than 1 percent each year (see Figure 2).

Figure 2

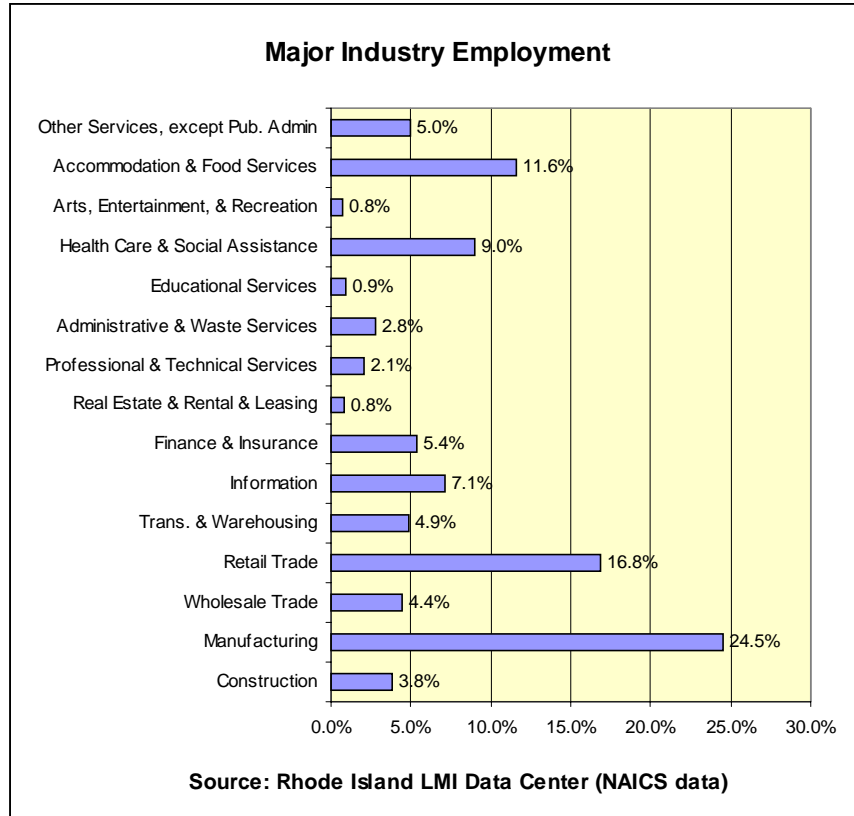


3.34 Major Industries

The highest levels of private sector employment in West Warwick are manufacturing (24.5%), retail trade (16.8%), and accommodations & food service (11.6%) (NAICS 2002) (see Figure 3).¹³

¹³ There was no employment in utilities and employment for agriculture, mining, and management is not available due to confidentiality rules.

Figure 3



4.00 ECONOMIC IMPACTS

4.10 DEFINITIONS

Economic impacts measure the importance of an economic activity primarily in terms of the output, employment, and personal (labor) income generated by that activity:

Output is the value of goods and services produced at the identified business establishment or construction project.

Employment is the number of people employed at the identified business establishment or construction project, including wage and salary employees and self-employed persons.

Personal income is the wages, benefits, and other income derived from employment that is linked geographically to the identified workplace site.

Economic impacts consist of direct impacts, indirect impacts, induced impacts, and total impacts. *Direct impacts* are the economic activities carried out at a business establishment or construction project and are therefore an immediate consequence of the economic activity that would not have occurred in the absence of the business establishment or construction project.

Indirect impacts derive primarily from off-site economic activities that are attributable to the identified business establishment. These economic activities occur mainly as a result of *non-payroll expenditures* by the business within a defined local area (i.e., town, city, county, metropolitan statistical area). Local expenditures include a range of operating expenses such as construction materials, office supplies, motor transport, horticultural services, furniture, utilities, maintenance and repairs, business machines, business services, management consulting, and so forth. Indirect impacts differ from direct impacts insofar as they originate entirely off-site, although the indirect impacts would not have occurred in the absence of the identified business establishment. *Induced impacts* are the multiplier effects of the direct and indirect impacts created by successive rounds of spending by employees and proprietors.¹⁴ *Total impacts* are the sum of the direct, indirect, and induced impacts.

The economic impact analysis covers five calendar years, or four and a half fiscal years beginning January 1, 2005 through June 30, 2009. It is assumed that site preparation will begin in January of 2005 and that construction will be completed by December of 2007. The casino is scheduled to open in January of 2007 with the hotel opening on July

¹⁴ Most of the take home-home income earned by employees is spent locally. Some of this spending becomes income to local individuals who provide services to employees. Some the spending by employees goes to local businesses and becomes income to the business owners and their employees. Subsequently, part of these second-round incomes are also spent locally and thus become income to another set of individuals. As successive rounds of spending occur, additional income is created in the local area, region, and state. The impact of these successive rounds of spending is called a “multiplier effect.”

1, 2007. It is assumed that the casino will achieve 80% of its gaming capacity in the first year of operations, 90% in its second year, and 100% in its third year. It is further assumed that the hotel will have a 65% occupancy rate in its first year of operation and 80% in its second and third years (see Table 6).

Table 6

Estimated Direct Expenditures Generated by West Warwick Resort Casino					
	Year 1	Year 2	Year 3	Year 4	Year 5
	1/1/2005 to 12/31/2005	1/1/2006 to 12/31/2006	1/1/2007 to 12/31/2007	1/1/2008 to 12/31/2008	1/1/2009 to 12/31/2009
Casino Visits (millions)			3.0	3.9	4.8
Expenditures	\$142.0	\$313.3	\$493.6	\$509.6	\$566.2
Construction	\$142.0	\$313.3	\$42.8		
Gross Gaming Revenue			\$408.1	\$459.1	\$510.1
Non-Gaming Revenue			\$42.7	\$50.5	\$56.1

4.20 METHODOLOGY: THE IMPLAN MODELING SYSTEM

The indirect and induced economic impacts of Intel Massachusetts are specified using IMPLAN (IMpact Analysis for PLANing), which is an econometric modeling system developed by applied economists at the University of Minnesota and the U.S. Forest Service. The IMPLAN modeling system has been in use since 1979 and is currently used by over 500 private consulting firms, university research centers, and government agencies. The Center for Policy Analysis has been a licensed IMPlan user since 1999 and regularly employs its econometric modeling system in conducting economic and fiscal impact analyses.

The IMPLAN modeling system uses combines the U.S. Bureau of Economic Analysis' Input-Output Benchmarks with other data to construct quantitative models of trade flow relationships between businesses and between businesses and final consumers. From this data, one can examine the effects of a change in one or several economic activities to predict its effect on a specific state, regional, or local economy (impact analysis). The IMPLAN input-output accounts capture all monetary market transactions for consumption in a given time period. The IMPLAN input-output accounts are based on industry survey data collected periodically by the U.S. Bureau of Economic Analysis and follow a balanced account format recommended by the United Nations.

IMPLAN also includes social accounting data (e.g., personal income and gross state product) that makes it possible to measure non-industrial transactions such as the payment of indirect taxes by businesses and households. The IMPLAN data base provides data coverage for the entire United States by county and has the ability to incorporate user-supplied data at each stage of the model building process to insure that estimates of

economic impacts are both up-to-date and specific to an economic impact area.¹⁵ IMPLAN can construct local input-output models in units as small as five-zip code clusters.

IMPLAN's Regional Economic Accounts and the Social Accounting Matrices are used to construct local, county, or state-level multipliers specific to an impact area. Multipliers describe the response of an economy to a change in demand or production. The multipliers allow economic impact analysis to move from a descriptive input-outputs model to a predictive model. Each industry that produces goods or services generates demand for other goods and services and this demand is multiplied through a particular economy until it dissipates through "leakage" to economies outside the specified area. Thus, multipliers calculate the response of the economic impact area to a change in demand or production.

IMPLAN models *discern and calculate leakage* from local, regional, and state economic areas based on workforce configuration, the inputs required by specific types of businesses, and the availability of both inputs in the economic area. Consequently, *economic impacts that accrue to other regions or states as a consequence of a change in demand are not counted as impacts within the economic area.* The model accounts for substitution and displacement effects by deflating industry-specific multipliers to levels well below those recommended by the U.S. Bureau of Economic Analysis. In addition, multipliers are applied only to *personal disposable income* to obtain a more realistic estimate of the multiplier effects from increased demand. The reliability of these estimates has been proven through empirical testing (Department of Commerce 1981; Brucker et al 1990).

A predictive model is constructed by specifying a series of new expenditures in a specific economic area (e.g., new employment or construction) which is then applied to the industry multipliers for that particular region. Based on these calculations, the model estimates final demand, which includes employment, employee compensation (excluding benefits), and point-of-work personal income (including benefits). The initial IMPlan data details all purchases in a given area, including imported goods and services. Importantly, IMPLAN's Regional Economic Accounts exclude imports to an economic area so the calculation of economic impacts identifies only those impacts specific to the economic impact area. IMPLAN calculates this distinction by applying Regional Purchase Coefficients (RPC) to predict regional purchases based on an economic area's particular characteristics. The Regional Purchase Coefficient represents the proportion of goods and services that will be purchased regionally under normal circumstances, based on the area's economic characteristics described in terms of actual trade flows within the area.

¹⁵ The IMPLAN modeling system draws on a variety of statistical sources, including the Bureau of Labor Statistics Growth Model, Bureau of the Census, ES-202 employment and earnings data, the Regional Economic Information System (REIS), and the Bureau of Economic Analysis Gross State Product data.

The Center for Policy Analysis built input-output models for the state of Rhode Island and the West Warwick-Warwick local area using the IMPlan Professional 2.0 model building software and data packages. The data used in the model are for 2001, which is the latest available. Where necessary, all inputs were converted to 2004 dollars using appropriate deflators (producer price indices for industrial commodities and the personal consumption expenditure deflator for personal income). Model outputs are reported in 2004 dollars.

It is possible to estimate the economic impact of a casino's operations and capital expenditures simply by changing the output of the appropriate industries in the econometric model (IMPlan Codes 478 and 479). This method assumes that a West Warwick Resort Casino's production function is the same as the average of the entire industry. The Center for Policy Analysis built an additional input-output model for the casino's capital (construction) spending. In both models, payments to business establishments within the region are distributed among industrial sectors by applying the model's regional purchase coefficient to purchases. In the capital spending model, it is assumed that all construction spending went first to local contractors, which does not allow IMPlan to apply a regional purchase coefficient to that spending. Land purchases and the purchase of gaming equipment (e.g. slot machines) were not included in construction spending.

4.30 DATA SOURCES

Economic impacts are normally calculated separately for the *operations phase* and *construction phase* of a business establishment. The operations phase of a business establishment generates economic impacts that continue as long as the facility remains in existence. The economic impacts of construction and other capital expenditures are necessarily limited and temporary in duration and last only so long as construction and related capital purchases are underway.

4.31 Operations

Expenditures for payroll and company purchases are calculated based on gross gaming revenues of \$510,086,450 and non-gaming revenues of \$56,109,510 in 2009. These figures were derived as probable estimates in the Center's *Market Analysis for a West Warwick Resort Casino*. Commercial casinos directly generate an average 13 jobs per \$1 million in GGR nationwide. However, these figures include casinos in Nevada, which directly generate 20 jobs per \$1 million in GGR. When Nevada is excluded and a ratio is calculated for New Jersey and the non-traditional venues, commercial casinos directly generate 7.2 jobs per \$1 million in GGR. The Center for Policy Analysis uses this more conservative estimate of direct job generation (Arthur W. Wright & Associates 1993; Coopers & Lybrand 1996; Whelan 1996; WEFA Group 1997).

The Center estimates that a West Warwick Resort Casino will directly generate 3,571 full- and part-time jobs operating at its full capacity of \$510.1 million in GGR.

Commercial casinos generate revenue from casino operations (i.e., gaming), hotel rooms, food and beverage services, retail merchandise sales, entertainment, and other attractions. A full-service commercial casino such as the one proposed for West Warwick employs about 34% of its workforce in casino operations. These operations employ a wide range of occupations from semi-skilled to managerial, including table games analyst, game supervisor, shift manager, dealer, keno writer, bingo attendant, and cashier.

The majority of the workforce is employed in auxiliary and support services such as hotel operations (6.4%), food and beverage services (34.3%), marketing and administration (7.7%), and other areas such as security (3.6%), accounting (2.4%), and facilities (8.4%). The estimated 3,571 employees projected for a West Warwick casino are distributed among these different sectors in Table 7 (Cf. Coopers & Lybrand 1997, 11).

Table 7

Sectoral Distribution of Resort Casino Employees		
Sector	Number	Percent
Food & Beverage	1,226	34.3%
Retail/Entertainment	112	3.1%
Hotel	229	6.4%
Marketing & Administration	275	7.7%
Facilities	299	8.4%
Security	127	3.6%
Casino Operations	1,215	34.0%
Accounting	87	2.4%
TOTAL	3,571	100.0%
Source: Center for Policy Analysis (2004).		

4.31a Assignment to IMPlan Industry Sectors

The allocation of employment and expenditures among the 528 IMPlan industry sectors (account subcodes) was conducted by the Center for Policy Analysis by assigning gaming-related expenditures to IMPlan subcode 478 Other Amusement – Gambling and Recreation. Non-gaming employment and expenditures were assigned to IMPlan subcodes 479 Hotels (including casino hotels), 481 Food Services and Drinking Places, and 410 General Merchandise Stores.

4.31b Regional Purchases

The economic impacts of a West Warwick Resort Casino are calculated for two geographical areas: (1) the state of Rhode Island and (3) the local area, where the resort casino will be located in Rhode Island. The state of Rhode Island is defined as all 39

towns and cities in the State of Rhode Island and Providence Plantations. The *local area* is defined as:

Town/City	Zip Code
West Warwick	02893
Warwick	02886, 02887, 02888, 02889

Purchases from vendors outside an impact area are excluded from the calculation of economic impacts within the state and local area.¹⁶ Gambling operations have a regional purchase coefficient (RPC) of 63.5%, which means that 63.5% of all non-payroll purchases are made from vendors within the state and only that portion of non-payroll purchases are included in the calculation of indirect impacts. The RPC for Hotel (including casino hotel) operations in Rhode Island is 50.5%, while it is 86.1% for Food Services, and 93.2% for General Merchandise Stores.

4.31c Trade and Freight Margins

When a casino purchases goods or services, its expenditure covers at least the prices of the goods or services, but it may also include the cost of shipping, insurance, wholesale margin, retail margin, and brokerage fees. IMPlan provides sector-specific margins to account for these “exported” expenditures.

4.32 CAPITAL EXPENDITURES

The casino developer provided the Center for Policy Analysis with its expected budget for construction expenditures. Harrah’s Entertainment expects to invest \$600 million in building and equipping a resort casino. Construction expenditures are expected to be \$498,200,000, which does not include \$40 million for land acquisition and \$61,800,000 for the purchase of gaming equipment.

4.32a Assignment to IMPlan Industry Sectors

Construction expenditures were assigned to IMPlan subcode 38 Commercial and Institutional Buildings.

¹⁶ An inherent weakness of a single-region input-output model, such as IMPlan, is that it cannot capture the *feedback effects* that result when purchases from a supplier outside the region lead to additional purchases within the region by that supplier or suppliers. It is possible to construct a multi-region input-output model to capture feedback effects, but such a model requires a great deal of data collection and is not supported by the IMPlan software.

4.32b Regional Purchases

The IMPlan models assumes that all construction is purchased from local contractors who then purchase goods and services from inside and outside the state or local area according to the average for the industry. This assumption has been adjusted to an RPC of 50.0%, which yields a more accurate estimate of construction-related employment impacts.

4.32c Trade and Freight Margins

When a casino purchases goods or services, the expenditure covers at least the prices of the goods or services, but it may also include the cost of shipping, insurance, wholesale margin, retail margin, and brokerage fees. IMPlan provides sector-specific margins to account for these “exported” expenditures. It is assumed that construction services are purchased directly from contractors.

4.40 CONSTRUCTION PHASE

The economic and fiscal impact analysis covers five calendar years, or four and a half fiscal years beginning January 1, 2005 through June 30, 2009. It is assumed that site preparation will begin in January of 2005 and that construction will be completed by December of 2007. The casino developer provided the Center for Policy Analysis with its expected budget for construction expenditures. Harrah’s Entertainment expects to invest \$600 million in land, buildings, and equipment for a resort casino at West Warwick.

The IMPLAN modeling system can use final demand to generate direct employment and labor income estimates from the U.S. Bureau of Economic Analysis benchmark input-output accounts for Rhode Island. However, since final demand was used to generate an estimate of direct economic impacts, the final demand input was discounted from the \$600 million total construction cost to \$498,200,000 to exclude the purchase of land (which does not generate construction jobs) and gaming equipment (e.g., slot machines) that are not produced in the state. The exclusion of land purchases and gaming equipment purchases from final demand yields a more realistic estimate of economic impacts during the construction phase (Coopers & Lybrand 1996). Construction expenditures are expected to be \$498,200,00 with \$40 million is set aside for land acquisition and \$61,800,000 for the purchase of gaming equipment (e.g., slot machines).

4.41 Direct Employment and Compensation Impacts

The model predicts that the construction phase of a \$600 million resort casino in West Warwick will generate 3,016 direct construction jobs and \$106.6 million in direct employee compensation in Rhode Island (see Table 8). These jobs will have an annual average wage of \$35,330, which does not include payments for fringe benefits.

Table 8

Employment & Employee Compensation Impacts of Construction Phase, 2005 to 2007				
	Direct	Indirect	Induced	Total
Employment	3,016	759	1,080	4,855
Compensation	\$106,556,695	\$25,433,366	\$31,453,212	\$163,443,273
Annual Avg. Wage	\$35,330	\$33,509	\$29,123	\$33,665
Note: Adjusted to 2004 dollars.				

4.42 Indirect and Induced Employment and Compensation Impacts

The model predicts that the construction phase will sustain an addition 759 jobs in Rhode Island through indirect impacts (i.e., construction-related purchases) and 1,080 jobs through induced impacts (i.e., employee purchases). The employment generated by indirect and induced impacts will sustain an additional \$55.8 million in employee compensation in Rhode Island.

The IMPLAN modeling system is able to specify the sectoral distribution of indirect and induced impacts by calculating the regional effect of construction purchases based on the BEA’s input-output accounts for Rhode Island and by calculating the effect of increased consumer demand (employment) from gross state product data. The model predicts that indirect and induced impacts will be distributed widely across the state and that these impacts will be distributed across a majority of IMplan’s 538 account subcodes. The most significant indirect and induced impacts will occur in sectors that provide construction-related inputs or services and consumer services to construction employees (see Table 9):

Table 9

Sector	Indirect & Induced Employment
Architectural and engineering services	368
Food services and drinking places	325
Food and beverage stores	195
General merchandise stores	154
Hospitals	152
Offices of physicians and dentists	128
Real estate	108
Motor vehicle parts and dealers	90
Automotive repair and maintenance	75
Securities and commodities	69
Miscellaneous store retailers	68

Health and personal care stores	54
Non-store retailers	47
Telecommunications	34
Clothing and clothing accessories stores	32
Truck transportation	38
Gasoline stations	32
Plastics plumbing fixtures	31
Personal care services	24
Wood windows and door manufacturing	21
Showcases – partitions – shelving	14
Dry cleaning and laundry services	14
Automatic environmental control manufacturers	12
Glass and glass products	11

4.50 CASINO OPERATIONS

The economic impact analysis covers five calendar years, or four and a half fiscal years beginning January 1, 2005 through June 30, 2009. The casino is scheduled to open in January of 2007 with the hotel opening on July 1, 2007. It is assumed that the casino will achieve 80% of its gaming capacity in the first year of operations, 90% in its second year, and 100% in its third year. It is further assumed that the hotel will have a 65% occupancy rate in its first year of operation and 80% in its second and third years.

Casino operations generate economic impacts that continue as long as the facility remains in existence (see Appendix A). The IMPLAN modeling system uses U.S. Bureau of Labor Statistics earnings and income data and the U.S. Bureau of Economic Analysis Regional Economic Information System (REIS) to calculate place of work income. These estimates are based on direct employment estimates specific to the different aspects of a casino's operations and based on actual compensation rates in the particular region and locality.

Employment is defined as total wage and salary employees and self employed jobs in a region. It includes both full-time and part-time workers. The data sets used to calculate total employment are the ES202 data, County Business Patterns, and the Regional Economic Information System.

Personal income is wages, benefits, and other income derived from employment linked geographically to the workplace site. Personal income *does not* include tip income, which is normally an additional 22% of the actual wages of a casino operations employee; nor does it include fringe benefits, which is normally 32% of the wages and salaries of full-time employees.

The model input is that a West Warwick Resort Casino will employ 3,571 persons in various facets of the casino operations. Thus, the direct, indirect, and induced impacts have been estimated on the basis of current (2001) earnings specific to Rhode Island and on the basis of a business profile specific to a casino resort and entertainment facility in West Warwick.

4.51 Direct Employment and Compensation Impacts

The model predicts that casino operations with 510.1 million in gross gaming revenues will generate 3,571 direct jobs and \$101,434,542 million in direct employee compensation (see Table 10). These jobs will have an annual average wage of \$27,042 which does not include payments for fringe benefits or tips.¹⁷

Table 10

Employment & Employee Compensation Impacts of Casino Operations, 2007 to 2009				
	Direct	Indirect	Induced	Total
Employment	3,571	528	807	4,906
Compensation	\$101,434,542	\$15,044,659	\$21,898,648	\$138,377,849
Annual Avg. Wage	\$27,042	\$28,494	\$27,136	\$28,206
Note: Adjusted to 2004 dollars.				

4.52 Indirect and Induced Employment and Compensation Impacts

The model predicts that casino operations will sustain an addition 528 jobs in Rhode Island through indirect impacts (i.e., casino-related purchases) and 806 jobs through induced impacts (i.e., employee purchases). The employment generated by indirect and induced impacts will sustain an additional \$33.9 million in employee compensation in Rhode Island.

The IMPLAN modeling system is able to specify the sectoral distribution of indirect and induced impacts by calculating the regional effect of a casino's purchases based on the BEA's input-output accounts for Rhode Island and by calculating the effect of increased consumer demand (employment) from gross state product data. The model predicts that indirect and induced impacts will be distributed widely across the state and that these impacts will be distributed across many of IMplan's 538 account subcodes. The most significant indirect and induced impacts will occur in sectors that provide casino-related inputs or services or that provide retail, health care, financial, and educational services to casino employees (see Table 11):

¹⁷ Fringe benefits payments appear in the model as indirect impacts, since the payments are to insurance carriers, pension fund managers, hospitals, health care professionals, and government agencies, among others.

Table 11

Sector	Indirect & Induced Employment
General merchandise stores	287
Real estate	87
Hospitals	60
Offices of physicians and dentists	54
Automotive repair and maintenance	40
Employment services	39
Wholesale trade	36
Food and beverage stores	35
Accounting and bookkeeping services	32
Architectural and engineering services	30
Maintenance and repair of non-residential buildings	29
Motor vehicle and parts dealers	25
Monetary authorities and depository	25
Legal services	22
Dry cleaning and laundry services	22
Insurance carriers	21
Colleges and universities	20
Non-depository credit intermediation	17
Transit and ground passenger transportation	16
Business support services	14
Truck transportation	13
Automotive equipment rental and leasing	13
Other educational services	12
Clothing and clothing accessories stores	12
Commercial printing	12
Elementary and secondary schools	12
Advertising and related services	11
Telecommunications	11
Services to buildings and dwellings	10

4.60 TOTAL COMBINED ECONOMIC IMPACTS

The total combined economic impacts for casino construction and casino operations will be realized over a five-year phase-in period with the beginning of construction, the opening of the casino, the opening of the hotel, and a ramp-up to full operating capacity. The rate at which these impacts will be realized through CY 2009 is shown in Table 12 and Table 13.

Table 12

Total Employment Impacts Generated by West Warwick Resort Casino					
	Year 1	Year 2	Year 3	Year 4	Year 5
	1/1/2005 to 12/31/2005	1/1/2006 to 12/31/2006	1/1/2007 to 12/31/2007	1/1/2008 to 12/31/2008	1/1/2009 to 12/31/2009
Direct Economic Impacts	860	1,897	3,044	3,250	3,571
Construction	860	1,897	259	-	-
Operations	-	-	2,785	3,250	3,571
Indirect Economic Impacts	216	477	478	480	528
Construction	216	477	66	-	-
Operations	-	-	412	480	528
Induced Economic Impacts	309	679	721	733	806
Construction	309	679	92	-	-
Operations	-	-	629	733	806
Total Economic Impacts	1,385	3,053	4,243	4,463	4,905
Construction	1,385	3,053	417	0	0
Operations	-	-	3,826	4,463	4,905

Source: Center for Policy Analysis (2004).

Table 13

Total Employee Compensation Impacts Generated by West Warwick Resort Casino					
	Year 1	Year 2	Year 3	Year 4	Year 5
	1/1/2005 to 12/31/2005	1/1/2006 to 12/31/2006	1/1/2007 to 12/31/2007	1/1/2008 to 12/31/2008	1/1/2009 to 12/31/2009
Direct Economic Impacts	\$30,368,658	\$67,024,161	\$88,282,819	\$92,305,433	\$101,434,542
Construction	\$30,368,658	\$67,024,161	\$9,163,876	-	-
Operations	-	-	\$79,118,943	\$92,305,433	\$101,434,542
Indirect Economic Impacts	\$7,248,509	\$15,997,587	\$12,868,978	\$13,690,640	\$15,044,659
Construction	\$7,248,509	\$15,997,587	\$2,187,270	-	-
Operations	-	-	\$10,681,708	\$13,690,640	\$15,044,659
Induced Economic Impacts	\$8,964,165	\$19,784,070	\$18,253,016	\$19,927,770	\$21,898,648
Construction	\$8,964,165	\$19,784,070	\$2,704,976	-	-
Operations	-	-	\$15,548,040	\$19,927,770	\$21,898,648
Total Economic Impacts	\$46,581,332	\$102,805,818	\$119,404,813	\$125,923,843	\$138,377,849
Construction	\$46,581,332	\$102,805,818	\$14,056,122	-	-
Operations	-	-	\$105,348,691	\$125,923,843	\$138,377,849

Source: Center for Policy Analysis (2004).

4.70 JOB QUALITY

The occupational matrix of a resort casino is distributed among a wide variety of occupations and professions that require many different types and levels of skills. The casino operation requires dealers, keno writers, changers, beverage servers, accountants, personnel managers, floor managers, repair and maintenance technicians, sound and lighting technicians, chefs, wait staff, retail sales clerks, and security personnel to name a few. However, a resort casino also employs people in many areas other than its direct gaming operations. The hotel operations require valets, housekeepers, bellmen, front-desk personnel, telephone operators, cashiers, and bookkeepers. The food and beverage services require waiters and waitresses, chefs and cooks, dishwashers, hosts and hostesses, maintenance personnel, and managers. The general administrative services require computer systems analysts, accountants, financial analysts, risk analysts, and other professional managers (Coopers & Lybrand 1997, 11).

The operation of a resort casino in West Warwick will not only improve employment levels in Rhode Island, it will improve overall job quality in traditionally low-wage service sectors. Job quality is measured by a comparison of annual average earnings and the ratio of full-time to part-time jobs. The average annual earnings and the employment status of employees at a West Warwick Resort Casino are based on the actual payroll of Harrah's Atlantic City casino.

The average annual earnings (excluding benefits) for casino employees are roughly comparable (-2.4%) to those for Rhode Island employees in the amusement and recreation sector, which includes gambling (see Table 14). Annual average earnings paid in the food and beverage sector are nearly twenty-eight percent (+27.8%) higher than for comparable establishments in Rhode Island; nearly nineteen percent (+18.6%) higher in the hotel sector than for comparable establishments in Rhode Island; and nearly twenty-three percent higher (+22.7%) in the retail sector than for comparable establishments in Rhode Island (see Table 14).

Table 14

Comparison of Annual Average Wages			
NAICS Sector	WW Casino* (excludes benefits)	Rhode Island* (excludes benefits)	Differential
Amusement & Recreation (7132)	\$25,116	\$25,739	-2.4%
Food & Beverage (722)	\$16,797	\$13,139	+27.8%
Hotels (721)	\$24,354	\$20,527	+18.6%
Retail (452)	\$22,363	\$18,228	+22.7%
All Sectors (Private)	\$25,960	\$33,226	-21.9%

Source: Center for Policy Analysis (2004) and U.S. Bureau of Labor Statistics. **Note:** *Data is for 2002.

The earnings comparisons in Table 14 do not include tip income, which normally adds twenty-two percent (22%) to base pay and would therefore widen the differential between the casino sectors and comparable sectors in Rhode Island. The earnings comparisons are consistent with the Coopers & Lybrand (1997, 11) employee impact survey, which finds that food and beverage employees, in particular, are “typically offered better compensation programs and benefits by casino employers than in similar employment in other eating and drinking establishments.”

In contrast to comparable non-casino jobs in the service sector, a majority of new casino jobs are full-time jobs with benefits. At the Harrah’s Atlantic City casino, more than three-quarters (77%) of all employees are full-time employees, with the cost of benefits accounting for an additional 38% of base pay. These compensation rates are actually better than the national average for the casino industry, where an average of one-quarter of casino employees’ total compensation is devoted to health care and other fringe benefits. The Coopers & Lybrand employee impact survey also found that 27% of casino employees obtained health care benefits by working at a casino, which were not provided by their previous employer. Sixty-three percent (63%) of casino employees report that they now receive better health care benefits than previously because of their jobs in the casino industry (Coopers & Lybrand 1997, 2).

According to the same study, 43% of casino employees report that they now have better access to day care for their children either as an employer-sponsored benefit or because of their ability to afford better care. Furthermore, despite claims by many critics that casino employment is a “dead-end,” nearly two-thirds (65%) of casino employees nationwide report that they have developed new job skills as a result of gaming industry employment (Coopers & Lybrand 1997, 2). Given the wide variety of occupations and skill levels required by a casino resort, casino employment can provide opportunities for advancement within the firm and it can provide entry-level opportunities for first-time job seekers and individuals making the transition from welfare or unemployment.

5.00 FISCAL IMPACTS

The fiscal impacts of constructing and operating a resort casino in West Warwick consists of special gaming taxes levied on gross gaming revenues by the Rhode Island Gaming Control and Revenue Act, personal income tax payments by construction and casino employees, indirect tax payments stimulated by casino operations (e.g., room occupancy and retail sales), local property tax payments by the casino enterprise, social savings from lower welfare rolls, minus substitution effects on current revenue from video lottery terminals.

The Act specifically states that there “shall be no tax incentives given nor any employer tax credits allowed to a casino licensee” (41-9.1-12).

5.10 SPECIAL GAMING TAX

A West Warwick Resort Casino would be subject to the jurisdiction and authority of the Rhode Island Lottery Commission, which currently oversees the state’s traditional lottery games (e.g., instant tickets) and the Video Lottery Terminals (VLTs) at Lincoln Park and Newport Grand. The Act levies a 25% wagering tax on adjusted gross receipts, which is defined as “the total of all sums including valid or invalid checks, currency, tokens, coupons, vouchers, or instruments of monetary value whether collected or uncollected, received by a casino licensee from gaming, including all entry fees assessed for tournaments or other contests less a deduction for uncollectible gaming receivables not to exceed the uncollectible amounts owed as a result of wagers placed at or through a gambling game or four percent (4%) of the total gross receipts; whichever is less” (41-9.1-3(25)).¹⁸

Projections of wagering tax revenue generated by the resort casino are based on an independent market analysis conducted by the Center for Policy Analysis, which estimates that annual gross gaming revenues will be \$510.1 million (2004 dollars) at full capacity.

A twenty-five percent (25%) tax on gross gaming revenue will yield \$127.5 million annually once the casino achieves full capacity for an entire fiscal year (see Table 15).

5.20 INDIRECT TAXES

The casino proposed for West Warwick is a commercial casino so its non-gaming revenues are automatically subject to the state’s retail sales tax, meals tax, and hotel tax. It is also likely that some additional cigarette and gasoline tax revenues will be collected as a result of out-of-state residents visiting a West Warwick casino, but this is an unknown factor and therefore excluded from the analysis.

¹⁸ Adjusted gross receipts is essentially Gross Gaming Revenues minus bad debt. Uncollectibles at the 11 Atlantic City casinos totaled 0.51% of casino win (GGR) in FY 2001 and FY 2002 (New Jersey Casino Control Commission 2003, 24). Thus, adjusted gross receipts equaled 99.49% of GGR.

Rhode Island's sales tax rate is imposed upon retailers at the rate of seven percent (7%) of the gross receipts from taxable sales. The state exempts prescriptions, food, some clothing, precious metal bullion, and some burial-related items from the sales tax. All eating and/or drinking establishments are required to charge and collect a one percent (1%) local tax on the sale of meals and/or beverages with the state (effective August 1, 2003). All hotels, motels, tourist homes, tourist camps, lodging houses and inns offering a minimum of three rooms for public transient lodging are required to collect and remit a five percent (5%) hotel tax (State of Rhode Island 2004).

The estimated revenue figures from the Center's *Market Analysis for a West Warwick Resort Casino* were adjusted to a fiscal year basis for purposes of calculating state tax collections. It is assumed that retail and food and beverage outlets will open at 78% of capacity on January 1, 2007 and incrementally reach 100% of estimated sales in the calendar year beginning January 1, 2009. It is assumed that the hotel will open on July 1, 2007 with an occupancy rate of 65% in the first year of operation and 80% in all subsequent years. It is further assumed that the nightly charge for an average hotel room will be \$175, which is the rate charged at Foxwoods Resort Casino. Non-gaming revenues are also conservatively estimated to equal to 11% of GGR, which is comparable to Mohegan Sun's 2003 year.

It is estimated that non-gaming indirect tax revenues will be \$0.8 million in Fiscal Year 2007 and gradually increase to \$3.4 million in FY 2010 (see Table 15).

Table 15

Estimated Wagering, Sales, and Hotel Tax Revenues, FY 2005 to FY 2010 (millions)						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
			1/1/2007		1/1/2009	1/1/2010
	1/1/2005 to	1/1/2006 to	to	1/1/2008 to	to	to
	12/31/2005	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010
Gross Gaming Revenue			\$408.1	\$459.1	\$510.1	\$510.1
Hotel Room Revenue			\$10.4	\$23.0	\$25.5	\$25.5
Retail Sales			\$23.9	\$27.8	\$30.6	\$30.6
			FY 2007	FY 2008	FY 2009	FY 2010
Wagering Tax on GGR (25%)			\$51.0	\$108.4	\$121.2	\$127.5
Hotel Tax (5%)				\$1.1	\$1.3	\$1.3
Sales Tax (7%)			\$0.8	\$1.7	\$2.0	\$2.1

Source: Center for Policy Analysis (2004)

5.30 STATE PERSONAL INCOME TAXES

The construction and operation of a West Warwick Resort Casino will produce additional taxable personal income as a result of direct, indirect, and induced economic impacts. Rhode Island's personal income tax rate is twenty-five (25%) of federal taxable income. The Rhode Island tax is levied on personal income earned in the state of Rhode Island so the wages and salaries of construction and casino employees is taxable by Rhode Island regardless of the employees' place of residence.¹⁹ The *effective tax rate* on personal income is 2.9%, which is the percentage of personal income in Rhode Island actually collected as personal income taxes.²⁰

The employee compensation figures in Section 4.40 and Section 4.50 of this report were adjusted to a fiscal year basis for purposes of calculating state tax collections. Only income generated from direct employment by casino construction and casino operations is used for purposes of calculating state income tax payments.

It is estimated that income tax payments will be \$0.4 million when construction begins in FY 2007 and reach \$2.9 million annually when the casino reaches full capacity for an entire fiscal year in FY 2010 (see Table 16).

Total casino-related tax payments to the State of Rhode Island will be \$0.4 million when construction begins in FY 2007 and reach \$133.8 million annually when the casino reaches full capacity for an entire fiscal year in FY 2010 (see Table 16).

¹⁹ Any person who earns income from employment in Rhode Island must pay personal income tax on the income, regardless of place of residence. Consequently, there is no "income leakage" for purposes of state income tax payments, despite a small amount of employment leakage to residents of adjacent states.

²⁰ Calculated from personal income and tax data in U.S. Department of Commerce (2004, 229, 446).

Table 16

Estimated Wagering, Sales, and Hotel Tax Revenues, FY 2005 to FY 2010 (millions)						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
	1/1/2005 to 12/31/2005	1/1/2006 to 12/31/2006	1/1/2007 to 12/31/2007	1/1/2008 to 12/31/2008	1/1/2009 to 12/31/2009	1/1/2010 to 12/31/2010
Gross Gaming Revenue	-	-	\$408.1	\$459.1	\$510.1	\$510.1
Hotel Room Revenue	-	-	\$10.4	\$23.0	\$25.5	\$25.5
Retail Sales	-	-	\$23.9	\$27.8	\$30.6	\$30.6
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Wagering Tax on GGR (25%)	-	-	\$51.0	\$108.4	\$121.2	\$127.5
Hotel Tax (5%)	-	-	-	\$1.1	\$1.3	\$1.3
Sales Tax (7%)	-	-	\$0.8	\$1.7	\$2.0	\$2.1
Income Tax - Construction (2.9%)	\$0.4	\$1.4	\$1.1	\$0.1	-	-
Income Tax - Operations (2.9%)	-	-	1.2	2.5	2.8	2.9
Total Casino-Related Tax Revenue	\$0.4	\$1.4	\$54.1	\$113.8	\$127.3	\$133.8

Source: Center for Policy Analysis (2004)

5.40 IMPACT ON VIDEO LOTTERY REVENUE

The Center for Policy Analysis made a “worst case scenario” estimate of a West Warwick Casino’s short-term impact on visits by existing patrons to Lincoln Park and Newport Grand and a “probable scenario” of its impact of video lottery revenues. The worst case scenario estimate assumes that (1) a West Warwick Resort Casino has the capacity to absorb all of the Lincoln and Newport gamblers who would prefer to substitute trips to the new casino for visits to the existing venues, (2) that Lincoln and Newport make no substantial improvements to their facilities and do not offer new amenities that would make them more attractive to patrons, (3) does not allow for future growth in the region’s gaming market due to population and income growth.

The total net terminal income from Video Lottery Terminals at Lincoln Park and Newport Grand has increased from \$16.4 million in FY 1993 to an estimated \$359.8 million in FY 2004 (see Table 17).

Table 17

VLT Net Terminal Income, FY 1993 to FY 2004 (est.)			
	Lincoln	Newport	Total
Fiscal Year	NTI	NTI	NTI
1993	11,797,443	4,613,093	16,410,536
1994	20,990,906	6,584,622	27,575,528
1995	46,272,585	10,754,607	57,027,192
1996	71,492,829	15,135,206	86,628,035
1997	91,858,865	20,489,108	112,347,973
1998	107,015,206	25,149,492	132,164,698
1999	126,496,022	28,845,451	155,341,473
2000	157,917,113	36,799,846	194,716,959
2001	182,063,374	47,014,919	229,078,293
2002	221,325,049	59,712,256	281,037,305
2003	248,643,793	66,058,050	314,701,843
2004 est.	282,445,670	77,328,115	359,773,785
TOTALS	1,568,318,855	398,484,765	1,966,803,620
Source: Rhode Island Lottery Commission (2004).			

The net terminal income from the VLT's in Rhode Island is distributed among several entities with 59% retained by the State of Rhode Island and the rest paid out as commissions to dog kennel owners (4%), CSP (3%), technology providers (7%), and retailers (26%). One percent (1%) of the net terminal income is paid to the host communities (Lincoln and Newport) (see Table 18).²¹

²¹ These are the estimated percentages of actual NTI for Lincoln Park and Newport Grand combined. The statutory distribution of NTI for Lincoln Park is 27% to Lincoln Park, 3.4% to kennel owners, 7% to the technology provider, 1% to the Town of Lincoln, 61.6% to the state. The statutory distribution of NTI for Newport Grand is 27% to Newport Grand, 7% to the technology provider, 1% to the Town of Newport, 65.0% to the state.

Table 18

VLT Commissions, FY 1993 to FY 2004 (est.)						
Fiscal Year	Technology			Dog Kennel		
	Retailers	Providers	CSP	Owners	City/Town	State
1993	4,862,881	2,160,663	492,323	1,061,998	164,108	7,668,563
1994	7,944,955	3,507,596	827,266	1,880,512	275,755	13,139,444
1995	17,666,288	7,925,339	1,710,816	4,408,680	570,272	24,745,797
1996	25,700,820	10,632,416	2,598,721	4,070,803	866,240	42,759,035
1997	33,677,876	13,978,377	3,370,758	5,293,565	1,123,586	54,903,811
1998	39,818,373	16,552,669	3,964,941	6,202,334	1,321,646	64,304,735
1999	47,003,082	19,565,973	4,660,236	7,371,240	1,553,413	75,187,529
2000	59,203,929	24,683,194	5,840,962	9,255,284	1,946,987	93,786,603
2001	69,867,771	18,844,614	5,727,456	10,706,090	2,290,982	121,641,380
2002	85,963,080	23,257,843	7,025,464	13,059,447	2,810,186	148,921,285
2003	94,822,916	26,116,843	7,867,363	13,454,866	3,146,716	169,293,139
2004 est.	94,187,370	24,555,428	8,994,345	15,381,887	3,597,738	213,057,018
TOTALS	580,719,341	191,780,955	53,080,651	92,146,706	19,667,629	1,029,408,339

5.41 Maximum Impact

The Center derived an estimated of a resort casino’s impact on VLT revenues from responses to its gaming behavior survey. Nearly eighty-eight percent (87.7%) of survey respondents who live in the designated market area and currently gamble at Lincoln Park report that if a Foxwoods-style casino opened in West Warwick, they would be more likely to visit that casino than Lincoln Park. Nearly eighty-nine percent (88.7%) of survey respondents who live in the designated market area and currently gamble at Newport Grand report that if a Foxwoods-style casino opened in West Warwick, they would be more likely to visit that casino than Newport Grand (see Table 19).

5.41a Capture Rate

Lincoln patrons in the DMA report that they would visit Lincoln 3.50 times less times per year to visit a West Warwick casino, while Newport patrons in the DMA report they would visit Newport 1.30 times less per year to visit a West Warwick casino. By

multiplying the annual number of visitors to Lincoln and Newport who live in the DMA by the percentage of respondents who say they would substitute trips to West Warwick for trips to those venues (i.e., “adjustment factor”) one can estimate the annual number of visits to West Warwick that would come from capturing traffic in the DMA. These visits are multiplied by the mean number of trips to West Warwick anticipated by respondents to generate a capture rate of 28.8% for Lincoln Park and 17.7% for Newport Grand (see Table 19).

Table 19

Capture Rate for West Warwick Casino		
	Lincoln	Newport
No. Annual Visitors (RI & MA)	185,627	109,886
Adjustment Factor	0.877	0.889
Annual Trip Reduction	3.5	1.3
Annual Substitution for WW	569,782	126,995
Current Annual Visitations	1,979,880	716,004
Capture Rate	28.8%	17.7%
Source: Center for Policy Analysis (2004)		

The capture rate for a West Warwick Resort casino indicates that under a worst case scenario, VLT revenues retained by the state would fall by \$56.3 million (2004 dollars) *compared to what they would have been* without a casino. However, the maximum impact would only be realized in a static market scenario and as the casino ramps up to full capacity (see Table 20).

Table 20

VLT Commissions, FY 1993 to FY 2004 (est.)						
Fiscal Year 2004	Technology			Dog Kennel		State
	Retailers	Providers	CSP	Owners	City/Town	
Total Commissions	94,187,370	24,555,428	8,994,345	15,381,887	3,597,738	213,057,018
Lincoln	\$73,937,085	\$19,276,011	\$7,060,561	\$12,074,781	\$2,824,224	\$167,249,759
Newport	\$20,250,285	\$5,279,417	\$1,933,784	\$3,307,106	\$773,514	\$45,807,259
Lincoln Capture (.288)	\$21,293,881	\$5,551,491	\$2,033,441	\$3,477,537	\$813,377	\$48,167,931
Newport Capture (.177)	\$3,584,300	\$934,457	\$342,280	\$585,358	\$136,912	\$8,107,885
Total Lost Revenue	\$24,878,181	\$6,485,948	\$2,375,721	\$4,062,895	\$950,288	\$56,275,815

5.41b GTECH Impact

The maximum impact on VLT revenues predicted in the worst case scenario would also impact the terms of a 20-year Master Contract between the Rhode Island Lottery Commission (RIL) and the GTECH Corporation, which receives a commission on VLT

revenues as the communications provider. GTECH paid the Rhode Island Lottery Commission \$12.5 million to purchase the right:

“(i) to be the Rhode Island Lottery Commission’s exclusive provider of information technology hardware, software and related services pertaining to (a) the design, development, implementation and/or operation of Video Lottery Central Communications Systems, (b) the design, development, implementation, operation, and/or sales of On-Line Games (expressly excluding instant ticket printing), and (c) the processing of On-Line Game wagers and Video Lottery wagers; and (ii) to supply Video Lottery Terminals and other gaming machines, pursuant to Section 10.”

Section 10.7 of the Master Contract states activates a release from obligations clause if competition to Video Lottery Games from “Other Gaming Machines” (e.g., slot machines) causes “the sum of the Net Terminal Incomes of all Video Lottery Machines deployed by the RIL over any twelve month period” to fall to 90% or less of the Net Terminal Income of the corresponding twelve month period one year prior (“Base Period”). Under this scenario, GTECH is released from its obligations concerning employment, investment, and lottery upgrades until such time as the Net Terminal Income returns to 90% or more of the base period. It is likely even under a worst case scenario that the release from obligations would be temporary and would not last for more than one or two years until NTI returned to 90% of the Base Period.

Section 7.5 of the Master Contract activates a refund clause that if Total Net Terminal Income for any two-month period is less than \$83,333,333 *and* is also more than ten per cent less than Total Net Terminal Income over the corresponding two-month period one year prior. The refund clauses establishes a daily pro rata formula for calculating the amount of the \$12.5 million that must be refunded to GTECH. Under the worst case scenario, Section 7.5 would be activated and a refund would be due. If a refund became due on July 1, 1998, one year after the casino opens, GTECH would receive a \$9,372,500 refund from the Rhode Island Lottery Commission.

5.42 Net Fiscal Impact (Worst Case Scenario)

The net fiscal impact on state revenues in a worst case scenario (casino-related tax payments minus maximum impact on VLT revenue) will be +32.1 million in FY 2007, the casino’s first year of operation. The net fiscal impact will increase to +\$77.5 million in FY 2010, the first full fiscal year of a casino’s operation at full capacity (see Table 21).

Table 21

Total Fiscal Impact: Maximum VLT Impact						
	Year 1 1/1/2005 to 12/31/2005	Year 2 1/1/2006 to 12/31/2006	Year 3 1/1/2007 to 12/31/2007	Year 4 1/1/2008 to 12/31/2008	Year 5 1/1/2009 to 12/31/2009	Year 6 1/1/2010 to 12/31/2010
Gross Gaming Revenue	-	-	\$408.1	\$459.1	\$510.1	\$510.1
Hotel Room Revenue	-	-	\$10.4	\$23.0	\$25.5	\$25.5
Retail Sales	-	-	\$23.9	\$27.8	\$30.6	\$30.6
	FY 2005	FY2006	FY 2007	FY 2008	FY 2009	FY 2010
Wagering Tax on GGR (25%)	-	-	\$51.0	\$108.4	\$121.2	\$127.5
Hotel Tax (5%)	-	-	-	\$1.1	\$1.3	\$1.3
Sales Tax (7%)	-	-	\$0.8	\$1.7	\$2.0	\$2.1
Income Tax - Construction (2.9%)	\$0.4	\$1.4	\$1.1	\$0.1	-	-
Income Tax - Operations (2.9%)	-	-	1.2	2.5	2.8	2.9
Total Casino-Related Tax Revenue	\$0.4	\$1.4	\$54.1	\$113.8	\$127.3	\$133.8
Reduction in VLT Revenue	-	-	-\$22.0	-\$47.6	-\$53.7	-\$56.3
GTECH Refund	-	-	-	-\$9.4	-	-
Total Net Casino-Related Revenue	\$0.4	\$1.4	\$32.1	\$56.8	\$73.6	\$77.5

Source: Center for Policy Analysis (2004)

5.43 Probable Impact

A West Warwick Resort Casino will probably have a much smaller impact on video lottery revenues than predicted in the worst case scenario because (1) the proposed West Warwick Resort Casino has position constraints that prevent it from absorbing all of the Lincoln and Newport gamblers who might prefer to substitute trips to the new casino for visits to the existing venues, (2) Lincoln and Newport have begun introducing new amenities (e.g., dining, live music, and dancing) that will make them more attractive to existing patrons and give them the capacity to attract new patrons,²² and (3) over the last decade population and income growth, as well as increases in the propensity to gamble, have allowed Lincoln and Newport to record real growth in net terminal income per VLT per year despite the simultaneous growth of Foxwoods Resort and Mohegan Sun.

²² Newport Grand has recently opened its Club Royale to live entertainment, and dancing. Lincoln Park now offers four dining venues, including the Queen of Clubs restaurant for fine dining. It offers Diamond Club for premium customers, group tours, group functions, and live entertainment.

5.43a Unmet Demand

The Center's *Market Analysis for a West Warwick Resort Casino* documents that there will still be \$287 million to \$483 million in unmet demand in the designated market area after the West Warwick casino reaches full capacity. There is ample room in the existing market for gaming devices to support a resort casino and two "racino" type facilities. As documented in the market analysis, the majority of the new casino's patrons will substitute trips to West Warwick for trips to Foxwoods and Mohegan Sun, while market growth will constitute another source of gross gaming revenues for the casino.

5.43b Investor Confidence

The level of substitution reported by respondents to the gaming behavior survey is a response to the existing facilities at Lincoln and Newport. However, the market environment for those facilities is already changing in ways that makes it likely that there will be substantial improvements to Lincoln Park by the time a resort casino would open in West Warwick. MGM Mirage, the Las Vegas casino operator, bid \$493 million earlier this year to purchase Wembley PLC, the parent company of Lincoln Park. According to press reports, MGM "wants to create a larger, more elaborate 'racino'" at Lincoln Park (Green 2004).

MGM plans two phases of investment that would dramatically upgrade the Lincoln Park facility. The first phase of improvements would cost \$50 to \$100 million to modernize and expand the facility so it could accommodate up to 3,002 VLTs as authorized by the Lottery Commission in January of 2004.²³ The second phase of improvements would require another \$150 to \$200 million of investment to add more VLT space, restaurants, and entertainment venues (Mayerowitz 2004). MGM raised its offer to \$555 million on April 8, 2004 after a competing bid from BLB Investors (see below; Voorhis 2004a).

BLB Investors, LLC initially bid \$525 million to purchase Wembley PLC. This investment group includes Kerzner International, the original Mohegan Sun manager, the Waterford Group, a Connecticut-based developer, and Starwood Capital, which owns the Starwood hotel chain. BLB is proposing a minimum of \$100 million in upgrades to Lincoln Park. BLB has not made their plans public beyond suggesting the addition of new "entertainment venues" to Lincoln Park. Len Wolman, the CEO of the Waterford Group, a partner in the BLB investment consortium, says that he "sees more than an old dog track on the Lincoln Park site...We think there is real potential here. We are looking at it for what it is and for what it could be" (quoted in Green 2004). While some have speculated that BLB will seek to transform Lincoln Park into a full-blown casino, Jeff Dishner, Starwood Capital's chief operating officer, has said publicly that he "doubted Lincoln Park

²³ The proposed expansion would allow Lincoln Park to increase its number of VLTs by approximately 661, which would generate more than \$77.5 million in additional revenue (\$45.8 million for the state) based on daily 2004 net terminal income per VLT.

has the makings of another Mohegan Sun and may in the end be better suited as a local gaming facility” (quoted in Voorhis 2004b). In a recent interview, Mr. Dishner said that “Lincoln Park draws on a very local customer base” and even though BLB plans to improve the existing facility, the company is not going to change the racino’s business plan anytime in the near future (quoted in Grace 2004). Wolman has also stated that Lincoln Park needs “\$100 million in upgrades” simply to realize its full potential as a local racino (quoted in Green 2004). While publicly situating Lincoln Park in the market niche for convenience gambling, BLB Investors still raised its bid to \$559 on April 20, 2004 in response to MGM’s earlier counter-offer.

Private investors are demonstrating a high level of confidence in Lincoln Park’s future even amidst discussions about authorizing a resort casino in West Warwick. Private investors with experience and proven success in the gaming market would not be prepared to commit hundreds of millions of dollars to purchase Lincoln Park and commit \$100 million or more to improve the facility, if they were not satisfied after due diligence that it has the capacity to expand revenues in the future and provide a reasonable return on investment.

5.43c Growth in Net Terminal Income

There is ample reason for private investors to show confidence in the local convenience gaming market based on unmet demand in the designated market area and long-term real growth in Net Terminal Income at Lincoln Park and Newport Grand. Real Net Terminal Income (i.e., NTI after adjusting for inflation) measures the strength of the market since it reflects the degree to which more people are spending more money at VLTs. The “Implicit Price Deflator” developed by the U.S. Bureau of Economic Analysis for use by state and local governments was applied to the annual Net Terminal Income per VLT from 1994 through 2004. The price deflator adjusts this NTI to constant 1994 dollars to provide a comparison of real growth in NTI across time.

From 1995 to 2004, annual net terminal income per VLT increased from \$58,217 to \$85,720 in real (1994) dollars at Lincoln Park. Real NTI per VLT at Lincoln Park increased by 47.2% or at an average compound annual rate of 4.0% per year over the last decade.²⁴ From 1995 to 2004, annual net terminal income per VLT increased from \$24,584 to \$52,974 in real (1994) dollars at Newport Grand. Real NTI per VLT at Newport Grand increased by 115.5% or at an average compound annual rate of 8.0% per year over the last decade.

The Center projected real Net Terminal Income in 2004 dollars based on average long-term growth of three percent (3%) per year, which is lower than the actual growth for Lincoln (4%) and Newport (8%) during the last decade. This allows one to adjust the

²⁴ The first year (1994) for VLTs at Lincoln Park and Newport Grand was excluded from the calculation of long-term term growth because as a start-up year it would exaggerate the rate of growth and gives an unrealistic prediction of future long-term growth.

substitution impact on VLT revenues compared to the 2004 base year in a way that incorporates market growth. The adjusted substitution impact of a West Warwick Resort Casino on the state's share of VLT revenues peaks at \$20.9 million in FY 2008, a year after the casino opens, and then steadily declines in future years (see Table 22). The maximum probable impact on Lincoln and Newport revenues would be 9.8% in the peak year of impact (FY 2008).

Table 22

Projected Real Growth in Net Terminal Income, FY 2004 to FY 2010							
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Real NTI (3% growth)	\$213.1	\$219.5	\$226.1	\$232.9	\$239.8	\$247.0	\$254.5
Substitution Impact				\$22.0	\$47.6	\$53.7	\$56.3
Real NTI w/Substitution Impact	\$213.1	\$219.5	\$226.1	\$210.9	\$192.2	\$193.3	\$198.2
Year-to-Year Change in NTI	\$213.1	\$6.4	\$6.6	-\$15.2	-\$18.6	\$1.1	\$4.8
Adjusted Substitution Impact	\$213.1	\$6.4	\$13.0	-\$2.2	-\$20.9	-\$19.8	-\$14.9
Source: Center for Policy Analysis (2004).							

5.43d Net Fiscal Impact (Probable Scenario)

The net fiscal impact on state revenues in the most probable scenario (casino-related tax payments minus probable impact on VLT revenue) will be +54.1 million in FY 2007, the casino’s first year of operation. This scenario assumes new investment in Lincoln Park and Newport Grant and real growth in net terminal income, but it does not assume any additional VLTs at either facility.

The net fiscal impact will increase to +\$118.9 million in FY 2010, the first full fiscal year of a casino’s operation at full capacity.

Table 23

Total Fiscal Impact: Probable VLT Impact						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
	1/1/05 to 12/31/05	1/1/06 to 12/31/06	1/1/07 to 12/31/07	1/1/08 to 12/31/08	1/1/09 to 12/31/09	1/1/10 to 12/31/10
Gross Gaming Revenue	-	-	\$408.1	\$459.1	\$510.1	\$510.1
Hotel Room Revenue	-	-	\$10.4	\$23.0	\$25.5	\$25.5
Retail Sales	-	-	\$23.9	\$27.8	\$30.6	\$30.6
			FY 2007	FY 2008	FY 2009	FY 2010
Wagering Tax on GGR (25%)	-	-	\$51.0	\$108.4	\$121.2	\$127.5
Hotel Tax (5%)	-	-	-	\$1.1	\$1.3	\$1.3
Sales Tax (7%)	-	-	\$0.8	\$1.7	\$2.0	\$2.1
Income Tax - Construction (2.9%)	\$0.4	\$1.4	\$1.1	\$0.1	-	-
Income Tax - Operations (2.9%)	-	-	1.2	2.5	2.8	2.9
Total Casino-Related Tax Revenue	\$0.4	\$1.4	\$54.1	\$113.8	\$127.3	\$133.8
Reduction in VLT Revenue	-	-	-\$2.2	-\$20.9	-\$19.8	-\$14.9
GTECH Refund	-	-	-	-	-	-
Total Net Casino-Related Revenue	\$0.4	\$1.4	\$51.9	\$92.9	\$107.5	\$118.9
Source: Center for Policy Analysis (2004)						

5.44 Net Fiscal Impact (Best Case Scenario)

The Rhode Island Lottery Commission has authorized Lincoln Park to install an additional 681 Video Lottery Terminals, while Newport Grand is authorized to install an additional 281 Video Lottery Terminals. The major obstacle to installing the authorized allotment of VLTs is space constraint at both facilities. New investment in the facilities would allow them to add more VLTs and to capture unmet demand in their market areas. This scenario would give both facilities the ability to generate additional visits from existing patrons and to attract new patrons excluded from the market by position constraints.

The addition of 942 additional VLTs at the two facilities would generate \$483.3 million in Net Terminal Income by 2010 if daily NTI per VLT continues to show real growth of at least 3% annually. The state share of NTI would reach \$265.7 million in the first year of a casino’s operation (FY 2007) and \$290.3 million in FY 2010. The additional revenue generated by another 942 VLTs plus real growth in the market would offset even the maximum impact anticipated in the worst case scenario.

Table 24

VLT Net Terminal Income, FY 1993 to FY 2010 (est.)				
Fiscal Year	Lincoln NTI	Newport NTI	Total NTI	State Share
1993	11,797,443	4,613,093	16,410,536	7,668,563
1994	20,990,906	6,584,622	27,575,528	13,139,444
1995	46,272,585	10,754,607	57,027,192	24,745,797
1996	71,492,829	15,135,206	86,628,035	42,759,035
1997	91,858,865	20,489,108	112,347,973	54,903,811
1998	107,015,206	25,149,492	132,164,698	64,304,735
1999	126,496,022	28,845,451	155,341,473	75,187,529
2000	157,917,113	36,799,846	194,716,959	93,786,603
2001	182,063,374	47,014,919	229,078,293	121,641,380
2002	221,325,049	59,712,256	281,037,305	148,921,285
2003	248,643,793	66,058,050	314,701,843	169,293,139
2004 est.	282,445,670	77,328,115	359,773,785	213,057,018
2005 est.	290,919,040	79,647,959	370,566,999	222,509,606
2006 est.	315,965,503	83,700,540	399,666,043	239,885,455
2007 est.	345,577,008	96,736,084	442,313,092	265,663,425
2008 est.	355,944,318	99,638,166	455,582,485	273,633,328
2009 est.	366,622,648	102,627,311	469,249,959	281,842,328
2010 est.	377,621,327	105,706,131	483,327,458	290,297,597

Source: Rhode Island Lottery Commission and Center for Policy Analysis. **Note:** The Rhode Island Lottery Commission has authorized Lincoln Park to install an additional 661 VLTs. It has authorized Newport Grand to install an additional 281 VLTs. It is assumed that (a) one-half of this allotment is installed by the beginning of FY 2006, (b) the second half of the new allotment is installed by the beginning of FY 2007, and (c) NTI has real growth of 3% per terminal through FY 2010.

The net fiscal impact on state revenues in the best case scenario (casino-related tax payments minus maximum impact on VLT revenue) will be +54.1 million in FY 2007, the casino's first year of operation. The net fiscal impact will increase to +\$133.8 million in FY 2010, the first full fiscal year of a casino's operation at full capacity. The state's share of VLT revenue would continue to increase each year, although the rate of growth would slow as the casino reaches full capacity.

Table 25

Total Fiscal Impact: Best Case Scenario						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
	1/1/2005		1/1/2007		1/1/2009	1/1/2010
	to	1/1/2006 to	to	1/1/2008 to	to	to
	12/31/2005	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010
Gross Gaming Revenue	-	-	\$408.1	\$459.1	\$510.1	\$510.1
Hotel Room Revenue	-	-	\$10.4	\$23.0	\$25.5	\$25.5
Retail Sales	-	-	\$23.9	\$27.8	\$30.6	\$30.6
			FY 2007	FY 2008	FY 2009	FY 2010
Wagering Tax on GGR (25%)	-	-	\$51.0	\$108.4	\$121.2	\$127.5
Hotel Tax (5%)	-	-	-	\$1.1	\$1.3	\$1.3
Sales Tax (7%)	-	-	\$0.8	\$1.7	\$2.0	\$2.1
Income Tax - Construction (2.9%)	\$0.4	\$1.4	\$1.1	\$0.1	-	-
Income Tax - Operations (2.9%)	-	-	1.2	2.5	2.8	2.9
Total Casino-Related Tax Revenue	\$0.4	\$1.4	\$54.1	\$113.8	\$127.3	\$133.8
Reduction in VLT Revenue	\$9.4	\$17.4	\$25.8	\$7.9	\$8.2	\$8.5
GTECH Refund	-	-	-	-	-	-
Total Net Casino-Related Revenue	\$0.4	\$1.4	\$54.1	\$113.8	\$127.3	\$133.8

Source: Center for Policy Analysis (2004)

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6.00 SOCIAL SAVINGS: IMPACT ON UNEMPLOYMENT RATE & WELFARE DEPENDENCY

The proposed casinos' impact on unemployment rates in Rhode Island was estimated using the March 2004 Local Area Unemployment Statistics (LAUS) labor force and unemployment data. In estimating the impact on the statewide unemployment rate, the size of the active labor force was adjusted upwards to account for new labor market participation by persons previously not included in the labor force. New additions to the labor force include individuals receiving Transitional Assistance to Needy Families (10.2%), retirees and homemakers (15%) attracted to the labor force by new full-time and part-time job opportunities

In 1997, Coopers & Lybrand completed the first comprehensive national survey of casino employees in the United States. The firm surveyed 178,000 casino employees nationwide – 54% of the total industry employment base – to measure the direct impact of the casino industry on its employees. The Coopers & Lybrand (1997, 2, 4) casino employee survey found that 8.5% of employees report leaving welfare as a result of their employment at a casino. Approximately 15.7% of casino employees replaced unemployment insurance benefits with casino employment.

The Cooper & Lybrand survey finds that casino employment's impact in transitioning individuals from welfare is particularly notable where casino development has been targeted at less developed regions of a state. Casinos located in areas with low income and high unemployment rates have resulted in 8.9% of the Mississippi casino's employees leaving welfare as a result of their employment at the new establishments, while even higher rates of transition have been achieved in Indiana (9.5%), Louisiana (11.2%), and Iowa (12.0%) (Coopers & Lybrand 1997, 14).

Other studies have applied regression analysis to time series data (1960-1987) to estimate the relationship between national employment growth and welfare rolls. The estimated coefficient derived from such analyses indicates that the addition of 1,000 new jobs in the United States reduces AFDC/TANF rolls by 154 persons (Arthur W. Wright 1993, 9-10).

Consequently, it is expected that approximately 10.0% of the total employment generated by a West Warwick Resort Casino will consist of individuals leaving TANF rolls. This estimate is derived by applying the regression coefficient by applying the national coefficient (154 per 1,000 jobs) to the estimates of casino-related direct job creation. The estimate that another 15% of casino employees will consist of individuals who were also not in the labor force previously (e.g., homemakers, retirees) is based on a University of Wisconsin survey of casino employees in that state (Deller et al. 1996, 14).

Thus, after the appropriate labor force adjustments, it is estimated that the total employment gains generated by a West Warwick Resort Casino will reduce the current

(March 2004) Rhode Island unemployment rate from 5.9% to 5.3%. In addition, the new jobs created by a West Warwick casino will reduce TANF rolls by 825 persons (adults and children) and reduce the unemployment insurance rolls by 535 persons (see Table 24).

Table 26

Casino Impact on Unemployment and Welfare Dependency							
Labor Force	Employment	Unemployment	Unemployment Rate	Adjusted Labor Force*	Unemployment w/Casino	TANF Savings	UI Savings
563,374	529,907	33,467	5.9%	564,464	5.3%	\$1,323,756	\$1,951,680
<p>Note: *Labor force adjusted to account for new labor market participation by former recipients of Temporary Assistance to Needy Families. The Coopers & Lybrand (1997, 14) national survey of casino employees finds that 8.5% received AFDC/TANF prior to their casino job. Other economic studies suggest that 154 person are removed from TANF for every 1,000 new jobs created in New England (Arthur W. Wright & Associates 1993, 3). The Wright ratio is applied to Rhode Island. The average TANF payment per person was \$206 (2000) in Rhode Island. The average monthly unemployment benefit for Rhode Island (2002) was \$304 (US Department of Commerce (2003, 372, 368).</p>							

7.00 LOCAL FISCAL IMPACT

A municipal fiscal impact analysis compares the revenues and expenses resulting from new development for the purpose of determining how municipal finances are affected by that development. A fiscal impact analysis is essentially a specialized form of benefit-cost analysis designed to examine whether new industrial, commercial or residential development generates a net fiscal benefit or net fiscal cost to a municipal government (Gramlich 1998; Burchell et al. 1985).

It is not possible to conduct a complete fiscal impact analysis for the Town of Warwick, since many of the costs and benefits are still being negotiated between the town and the casino developer. The Rhode Island Gaming Control and Revenue Act requires the town and the developer to conclude a development agreement and to submit it to the Rhode Island Lottery Commission no later than 60 days after passage of the Act. The development agreement will likely include items such as zoning, land use, utilities, roads, signage, and other municipal impacts, including fire and police.

6.10 PROPERTY TAXES

Rhode Island assesses real property with adjustments on residential property for median family income. West Warwick's current ratio of assessed value to full value is 97.09% so a \$600,000,000 commercial facility would be assessed for tax purposes at \$582.5 million. The casino would be expected to pay \$18.2 million annually in property taxes at the current commercial tax rate of \$31.24 per \$1,000 of assessed value.

West Warwick has the 2nd highest residential property tax rates in Rhode Island and the 6th highest commercial tax rates in the state. The current tax base in West Warwick is \$1.2 billion so the construction of a West Warwick Resort Casino would effectively increase the town's base by approximately 45% (State of Rhode Island). It is entirely possible that such a large addition to the town's tax base would provide town officials with an opportunity to lower existing property tax rates, while raising additional net revenue.

6.20 MEALS TAX

The State of Rhode Island levies a 1% tax on meals (in addition to the 7% state sales tax), which is distributed to the town where the food and beverages were purchased. If one-half of the casino's annual retail sales (see Table 15) are food and beverage purchases, then the Town of West Warwick will collect \$119,500 in FY 2007, \$139,000 in FY 2008, and \$153,000 in FY 2009 and FY 2010.

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APPENDIX A

SUBSTITUTION EFFECTS

The modeling system used to estimate the economic impacts of a West Warwick Resort Casino predicts that the proposed facility will generate positive indirect and induced impacts on off-site retail sales and non-casino eating and drinking establishments. In discussions of casino gaming throughout the country those unfamiliar with the facts in other states have argued that casinos merely “redirect” hundreds of millions of dollars in consumer spending from existing businesses. This argument relies on the assumption that spending on casino gaming merely diverts spending from other “more productive activities.” The alleged “substitution effect” of casino spending is often the basis for assertions that casinos cannibalize other local businesses, particularly small establishments in the retail, entertainment, and restaurant business.

There are numerous theoretical flaws with this argument starting with the assumption that local, state, or regional economies are a zero sum game in which no business can expand or grow except at the expense of other businesses. Amusement, recreation, leisure, and entertainment businesses are among the fastest growing sectors in the United States economy. The growth of this industry, including casino entertainment, is made possible by increases in disposable personal income and, consequently, these sectors can continue to grow without displacing other spending so long as disposable personal income continues to increase from year to year as it does regularly in the United States.

Second, the argument about substitution effects ignores the fact that the U.S. economy is a service-based economy in which 2/3 of all economic activity is the result of consumer spending (Frumkin 1992). More than half of U.S. gross domestic product is generated by service industries, which include amusement, recreation, leisure and entertainment businesses as an increasingly important element of this “post-industrial” economy. Hence, the concept of substitution effects remains controversial, because all consumer spending beyond basic necessities in some sense “substitutes” for other possible spending.

The IMPLAN modeling system accounts for substitution effects by applying local and regional multipliers to *disposal* personal income only. The modeling system’s balanced accounts matrix insures that disposable income which is spent on one type of good or service cannot be spent simultaneously on some other good or service. The application of multipliers to disposable personal income and the imposition of a balanced accounts matrix results in multiplier effects that are substantially less than those recommended in the U.S. Bureau of Economic Analysis Regional Input-Output Modeling System II (RIMS II).

The IMPLAN employment and income multipliers used to generate indirect and induced impacts is 1.37 compared to an average 1.82 multiplier for comparable sectors in the RIMS II multipliers recommended by the U.S. Bureau of Economic Analysis.²⁵ The difference in multipliers is sufficient to account for a 35% to 45% total substitution effect, which is consistent with the highest estimates of substitution effect suggested by economists or consultants familiar with the gaming industry. Thus, the indirect and induced impacts represent *net* new job creation and not merely a transfer of jobs from one sector to another.

The argument that casinos cannibalize existing businesses is simply not supported by micro-level analyses of the gaming industry (see Appendix B). For example, there was a net increase of eight restaurants in Bossier City, Louisiana following the introduction of riverboat casinos. The city's taxable restaurant sales, excluding restaurants in the hotels and casinos, increased by 5% in 1994 and by 7% in 1995 *after* the introduction of riverboat casinos. In Biloxi/Gulfport, Mississippi, the rate of non-casino retail sales growth increased from an average of 3% annually (1990-1992) in the years prior to riverboat gambling to 12% annually in the years after riverboat gaming began in the locality. Restaurant sales in Biloxi/Gulfport have increased overall, although increased competition from national chains, and a migration of clients toward higher quality has forced some local restaurants to close. Nevertheless, the net economic welfare benefit is better quality, wider selection, increased overall sales and employment in eating and drinking establishments. Finally, along the Mississippi Gulf Coast overall hotel occupancy has increased from 55% in 1992 to 70% following the introduction of riverboat gaming.

In 1995, two University of Minnesota economists conducted a study of the effects of Indian-owned casinos on self-generating economic development in non-urban areas of Minnesota. This unique study used the number of new business establishments in a town or city that can be attributed specifically to their proximity to a casino as the exclusive measure of economic impacts. The study's statistical methodology makes it possible to control for the effects of factors other than casinos on the number of new business establishments in a town or city. The study shows that since the introduction of casino gaming in Minnesota, most towns and cities within a 30-mile radius of a non-urban casino experienced marked growth in the number of local consumer and service business establishments that can be specifically attributed to the nearby casino. Communities located closest to the casinos enjoy the greatest growth in new businesses (Hoenack and Renz 1995). The study also found that casinos have succeeded in stimulating self-generating and sustained economic development in areas "where government economic development grants and intergovernmental transfers have failed" (Hoenack and Renz 1995).

The Mystic Lakes Casino & Hotel in Scott County, Minnesota, which is included in the Twin Cities MSA, opened in May of 1992 and its hotel opened in July of 1996. The

²⁵ The average is calculated from the multipliers for retail trade, hotels, advertising, accounting, eating and drinking establishments, and other amusement and recreation.

study finds that non-casino retail sales increased by 54% from 1990 to 1996. Hotel performance in the county was at a ten year low in 1990 before doubling in 1991 and continuing to increase from 1993 through 1995, even with the addition of new hotels. Retail sales in Scott County increased from approximately \$30 million in 1992, when casino gaming was introduced, to more than \$42 million in 1995 (excluding casino mall sales). Hotel gross sales in Scott County increased from \$4 million to \$5.7 million during the same period.

The most extensive research on this subject has been conducted by Professors George G. Fenich and Kathryn Hashimoto of the Lester E. Kabacoff School of Hotel, Restaurant, and Tourism Administration at the University of New Orleans. Drs. Fenich and Hashimoto have examined the retail and hotel sectors in 20 jurisdictions, including southeastern Connecticut, Atlantic City, the Mississippi Gulf Coast, Illinois, Iowa, Missouri, Louisiana, Indiana, South Dakota, and Colorado. Despite all the different locales, Dr. Fenich reports that “one finding was surprisingly consistent: in jurisdictions from the seashore to the riverfront to rural areas, north and south, east and west, local restaurants tended to thrive after a casino opened nearby...More restaurants opened; more employees were hired; and restaurant payrolls increased after a casino opened in the region” (Fenich 2004; see also Fenich and Hashimoto 2003, 2000a, 2000b, 1997).

For example, the number of restaurants in the area surrounding Foxwoods and Mohegan Sun increased from 472 to 506 following the casino’s opening, while restaurant employment increased from 5,911 to 6,628 during the same period. In the seventeen years since casinos were introduced to Atlantic City, the number of eating and drinking establishments in Atlantic County has grown from 415 to 580, while employment in this sector has grown from 4,439 to 7,176. In Gilpin County Colorado, the number of restaurants increased from 31 to 40 after the introduction of casino gaming. In Tunica County, Mississippi, the number of restaurants increased by 13% and restaurant employment grew by 9% after the introduction of casino gaming in the county (Fenich 2004).

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APPENDIX B

MICRO-STUDIES OF CASINOS IN NON-TRADITIONAL VENUES

During the last fifteen years, a number of economic “micro-studies” have been conducted of casinos in non-traditional venues. The studies have been conducted by state government agencies, private consulting firms, and university research institutes. The studies rarely receive any wide circulation, but they represent an ever expanding body of research which supports the general conclusions of more widely publicized national surveys such as those by Harrah’s (1997), Arthur Andersen (1996, 1997), and Coopers & Lybrand (1997). This section is a partial survey of studies conducted in non-traditional jurisdictions with casino gaming.

B.1 Demographics and Income

The University of Oregon conducted a survey of 5,100 Oregon residents in 1994 and found a strong correlation between income levels and casino gambling. The survey found that people with higher incomes spend more money and gamble more often than those with lower incomes (Oregon Survey Research Laboratory 1994). The survey, which was conducted prior to the operation of Native American casinos in Oregon, found that 16% of the state’s residents had gambled at a casino during the last twelve months. However, only 10% of those earning \$17,500 or less had gambled at a casino, while 25% of those earning \$90,000 or more had gambled at a casino.

In 1996, the Oregon Lottery commissioned a state economist to conduct a study of the state’s seven Native American casinos, which found that even though all of Oregon’s casinos are located in counties where household incomes are well below the state median (\$35,464), fifty percent (50%) of all casino visitors had 1989 household incomes between \$31,000 and \$36,000 per year (i.e., middle-income), while most other patrons had above average incomes. The study concludes that “compared to the whole state, very few visitors come from the low end of the income scale” (Whelan 1996, 46).

University of Wisconsin economists conducted a survey of patrons at St. Croix Casino in 1996, which found that 46% of casino patrons are middle-aged (between 46 and 65) or senior (23% are over age 65). The average household income of St. Croix Casino’s patrons was \$40,000 (1995 dollars), which means that most patrons had incomes at or above the state’s 1996 median household income of \$40,001. Only 14% of the casino’s patrons had a household income of less than \$20,000 (Deller et al. 1996, 51).

B.2 Employment

The existing studies of casinos in non-traditional gaming venues suggest that most casinos employ between 11.1 to 15.6 persons for each \$1 million in gross gaming revenues:

Riverboat casinos in Tunica County, Mississippi had 1998 gross gaming revenues of \$1 billion and draw 40,000 to 60,000 patrons per day. The county's casinos have 13,535 slot machines and 522 gaming tables. Tunica County's riverboat casinos employ more than 15,000 people and generate approximately 15 employees per \$1 million GGR (Langford 1999).

Coopers & Lybrand (1996, 3-5) conducted an economic analysis of Hollywood Casinos' two riverboat casinos in Aurora, Illinois in 1996. The study found that the two casinos employed 1,722 persons in 1995 with gross gaming revenues of \$146.3 million. The casinos generate approximately 11.8 employees per \$1 million in GGR. In the previous year (1994), the same casinos employed 1,547 persons with GGR of \$139.4 million or 11.1 employees per \$1 million GGR.

Foxwoods Casino Resort employed 15,590 in 1996 in all phases of its operation (WEFA Group 1997, 2-22) with gross gaming revenues of \$1 billion. The casino generates approximately 15.6 employees per \$1 million in GGR.

In 1995, New Mexico's eight Native American casinos employed 2,924 persons with gross gaming revenues of \$231 million, or 12.7 employees per \$1 million in GGR (Center for Applied Research 1996, 6).

In 1993, Michigan's Native American casinos reported gross gaming revenues of \$214.1 million and directly employed 2,681 people (University Associates 1994, 1). The casinos generate 12.5 employees per \$1 million in GGR.

In 1992, Native American gaming facilities in Minnesota provided direct employment to 9,975 with \$390 million in gross gaming revenues (KPMG Peat Marwick 1992, 1-2). The casinos generated 26.6 jobs per \$1 million GGR.

In 1992, Wisconsin's Native American casinos had gross gaming revenues of \$400 million and directly employed 4,500 persons. The casinos generated 11.3 employees per \$1 million in GGR (Murray 1993a; 1993b, 1-3).

In 1997, Minnesota's Indian casinos employed 11,465 persons with 95% of those persons employed on a full-time basis (Marquette Advisors 1997, 1). Total employment in Minnesota's gaming counties has increased nearly 67% faster than in non-gaming counties.

In 1996, Fantasy Springs Casino in Indio, California employed 518 persons with only 34 table games, 850 VLTs, and a bingo hall (Eyrich 1996).

In 1996, the St. Croix Native American Casino in Wisconsin employed 991 persons (Deller et al. 1996, 57).

In 1996, the Mytic Lake Casino and Little Six Casino in Scott County, Minnesota, together employed 3,900 persons. An employee impact survey found that 60% of the two casinos' employees were full-time employees and 40% were part-time employees (Arthur Andersen 1998, 9).

B.3 Unemployment and Social Welfare Dependency

A variety of employee impact surveys and government statistics indicate that casinos have a significant positive impact on local and regional unemployment rates and on rates of welfare dependency:

University Associates (1994) conducted an employee impact survey of Indian gaming enterprises owned by seven of Michigan's Indian tribes. The survey found that 34% of current workers (1993) had been welfare recipients and 38% had been unemployed just prior to their employment at the casino. An average of 70% of the employees are full-time and 34% receive health care benefits.

In Minnesota, an analysis of the state's non-urban counties with Native American gaming operations found a strong correlation between an increase in jobs in the non-urban counties and a decrease in AFDC recipients that occurred soon after the introduction of land-based casinos. The number of AFDC recipients decreased by 14% between 1987 and 1992 in the state's eight non-urban counties with Native American gaming facilities, while the statewide number of AFDC recipients increased 17% during the same period (KPMG Peat Marwick 1992, 2, 18).

The Minnesota findings were replicated for the period between 1990 and 1995 in a second study conducted by Marquette Associates. The study found that between fiscal years 1990 and 1995, AFDC payments in counties in the Twin Cities metro area increased by 3% and the number of recipients increased by 11.4%. By contrast, rural counties with Indian gaming facilities reported a 17.8% decline in AFDC payments and a 15.1% decline in the total number of recipients. Rural counties without Indian gaming facilities also reported declines in annual AFDC payments (-14.3%) and in the total number of recipients (-5.6%), although not as great as in rural counties with Indian casinos.

A University of Wisconsin 1996 employee impact survey of the St. Croix Casino found that 36% of the casino's employees had been unemployed prior to their casino job and that 13% had been receiving some type of public assistance (AFDC, food stamps) before obtaining jobs at the casino (Deller et al. 1996, 14). A county-wide drop in

unemployment levels and welfare rolls was “partially linked to the casino” according to the University of Wisconsin economists who conducted the survey.

A study by the University of Wisconsin Cooperative Extension found that in 1992 nearly 52% of gaming employees in the state’s Indian-owned casinos had been unemployed just prior to their casino job, with many of them receiving unemployment insurance or public assistance. A large percentage of casino employees (18.2%) in Wisconsin had been receiving public assistance, mostly AFDC, before obtaining employment at a casino (Murray 1993a, 1993b). The same study found that between 1989 and 1992, AFDC benefit payments decreased by 14% in counties with casinos, decreased by 8.7% non-metropolitan counties without casinos, and increased by 4.3% in the state’s metropolitan area (Murray 1993b, 1).

A survey of 2,700 employees at six Minnesota Native American casinos found that 11.5% of casino employees had been receiving unemployment assistance and 5.7% had been receiving some form of public assistance just prior to casino employment. Fifteen percent (15%) of the employees had been out of work for 6 months or more (Marquette Advisors 1997, 13). Between 1992 and 1995, rural counties with Indian gaming facilities reported a 2.1% decline in total unemployment insurance payments and a 10.9% decline in the number of claimants. During the same period, rural counties without Indian gaming facilities reported only a 1.5% decline in total benefit payments and a 9.1% decline in claimants.

Arthur Andersen (1997) finds that in the Shreveport/Bossier City, Louisiana area, AFDC payments dropped 14% in 1995 and by another 15% in 1996 after the introduction of riverboat gambling. The number of food stamp recipients in those same communities dropped by 15% in 1996.

After the introduction of riverboat gambling in Joliet, Illinois, the unemployment rate dropped in Will County from 12% in 1992 to 9% in 1994, while the number of food stamp recipients dropped by 15% between 1993 and 1995 (Arthur Andersen 1997, 10-11).

The number of food stamp recipients has dropped each year since 1993 in Biloxi/Gulfport, Mississippi since the introduction of riverboat gambling, which contrasts sharply to a steady increase in food stamp recipients in the years prior to riverboat casinos (Arthur Andersen 1997, 33).

The unemployment rate in Tunica County, Mississippi has dropped from 26.2% (January 1992) to 5.6% (February 1999) since casino gambling was legalized in Mississippi and casinos began operations in that county. The number of people receiving food stamps in Tunica County has declined 56% between 1992 and 1997 (Langford 1999).

APPENDIX C STATUTORY GAMING TAX RATES BY STATE

<i>State</i>	<i>Tax Rate</i>	<i>Admission Tax</i>	<i>Wager Tax</i>
Colorado	Graduated	None	0.25% tax on \$0-\$2 million in AGP*; 2% tax on \$2-\$4 million in AGP; 11% tax on \$5-\$10 million in AGP; 16% tax on \$10-\$15 million in AGP; 20% tax on AGP above \$15 million.
Illinois	Graduated	1 million persons or fewer admitted: \$3 per person admitted; 1 to 2.3 million persons: \$4 per person admitted; more than 2.3 million: \$5 per person admitted	15% tax on \$25 million or less in AGR**; 27.5% tax on \$25-\$37.5 million in AGR; 32.5% tax on \$37.5-\$50 million in AGR; 45% tax on \$75-\$100 million in AGR; 50% tax on \$100-\$250 million in AGR; 70% tax above \$250 million in AGR.
Indiana	Graduated	\$3 - \$4 per person admitted depending on the county in which the riverboat docks	15% tax on \$25 million or less in AGR; 20% tax on \$25-\$50 million in AGR; 25% tax on \$50-\$75 million in AGR; 30% tax on \$75-\$150 million in AGR; 35% tax above \$150 million in AGR.
Iowa	Graduated	Riverboats pay an admission fee for each person admitted on the boat to pay for the cost of no more than 2 special agents and 4 gaming enforcement officers, depending on the number of people embarking on an excursion.	5% tax on first \$1 million in AGR; 10% tax on next \$2 million in AGR; 20% tax above \$3 million in AGR; an annual fee of \$5.00 per person capacity for riverboats, and an annual fee of \$1,000 for a pari-mutuel racetrack.
Louisiana	Fixed and Graduated, depending on location and casino operator	A few cities assess an admission tax based on headcount on riverboats; there is no admission tax for land-based casinos	21.5% tax on AGR for casinos operating in Shreveport; Bally's casino gaming tax based on monthly AGR of 18.5% tax on less than \$6 million in AGR, 20.5% tax on \$6-\$8 million in AGR, and 21.5% tax on more than \$8 million in AGR; Harrah's New Orleans pay \$60 million per year; Racetracks w/ slots pay 18.5% of AGR; all other casinos in the state pay 21.5% of AGR.

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Michigan	Fixed	None	18% tax on AGR; a yearly state services fee based on an annual assessment and the Detroit consumer price index, not to exceed 1/3 of the total annual assessment; a municipal services fee of 1.25% of AGR or \$4 million in advance may be imposed by local governments.
Mississippi	Graduated	None	<i>All tax rates based on the monthly gross gaming revenue.</i> 4% tax on first \$50,000, 6% tax on next \$84,000, and 8% tax on over \$134,000; plus local taxes of 0.4% on first \$50,000, 0.6% on next \$84,000, and 0.8% on over \$134,000; in addition, some cities and counties also assess a 3.2% tax on monthly gross gaming revenues.
Missouri	Fixed	\$2 per person admitted, split between the home dock community and the state	20% tax on monthly adjusted gross revenues. The home dock community receives 2% of this tax.
Nevada	Graduated	None	<i>All tax rates based on the monthly gross gaming revenue.</i> 3% tax on first \$50,000, 4% tax on next \$84,000, and 6.25% tax on over \$134,000; an annual tax of \$250.00 per slot machine; plus annual and quarterly license fees based on the number of slot machines and table games on the premise (adds up to approximately 1% of the tax burden).
New Jersey	Fixed	None	8% annual tax on gross revenues; plus a community investment alternative tax of 1.25% quarterly tax on gross revenues for a three month period, or 2.5% annual tax on gross revenues.
South Dakota	Fixed	None	8% tax on gross gaming revenue; plus an annual device fee of \$2,000 for each game or slot machine on the premise.

* AGP – adjusted gross proceeds

** AGR – adjusted gross receipts

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