

**FISCAL IMPACT ANALYSIS OF
A WEST WARWICK RESORT CASINO**



Prepared for

**HOUSE FINANCE COMMITTEE
RHODE ISLAND HOUSE OF REPRESENTATIVES**

By



May 2006

**UNIVERSITY OF MASSACHUSETTS DARTMOUTH
CENTER FOR POLICY ANALYSIS**

The University of Massachusetts Dartmouth Center for Policy Analysis is a multidisciplinary research unit that promotes economic, social, and political development by providing research and technical assistance to client organizations. The Center for Policy Analysis offers custom designed research and technical analysis in the areas of economic development, public management, program evaluation and polling research for government agencies, non-profit organizations, private businesses, and educational institutions. The Center for Policy Analysis strives to erode the walls between research and teaching by training students in the techniques of applied social science and by conducting university and community based educational programs. The Center for Policy Analysis does not pursue a predetermined research agenda, but is a flexible research organization responding on a timely basis to the problems and issues identified by client agencies.

Clyde W. Barrow, Ph.D., Political Science
Director

EXECUTIVE BOARD

Philip Melanson, Ph.D., Political Science
Chairman of the Board & Senior Research Associate

David Borges, M.P.A., Public Administration
Senior Research Associate

Chris Eisenhart, Ph.D., English
Senior Research Associate

John Fobanjong, Ph.D., Political Science
Senior Research Associate

William Hogan, Ph.D., Economics
Senior Research Associate

Toby Huff, Ph.D., Sociology
Senior Research Associate

Susan Krumholz, J.D., Ph.D., Sociology
Senior Research Associate

Spencer Ladd, Ph.D., M.F.A., Design
Senior Research Associate

Robin A. Robinson, Psy.D, Ph.D., Social Welfare
Senior Research Associate

Gail Russell, M.S., Ed.D., Nursing
Senior Research Associate

Shawna E. Sweeney, Ph.D., Political Science
Senior Research Associate

Jeffrey Robinson, M.P.A., Public Administration
Adjunct Research Associate

Paul Vigeant, M.A., Public Administration
Adjunct Research Associate

Luther Wallin, M.R.P., Regional Planning
Senior Research Associate

EXECUTIVE STAFF

David Borges, M.P.A., Public Administration
Senior Research Associate

Nina Galipeau, B.A., Sociology
Research Associate

Andrea Davis, Sociology
Assistant to the Director

ADJUNCT RESEARCH ASSOCIATES

Jeffrey Robinson, M.P.A., Public Administration
UMass Dartmouth Controller

Paul Vigeant, M.A., Public Administration
SouthCoast Development Partnership

Correspondence and inquiries should be addressed to: Center for Policy Analysis, University of Massachusetts Dartmouth, 285 Old Westport Road, North Dartmouth, Massachusetts 02747-2300 (telephone: 508-990-9660; fax: 508-999-8374).

Copyright © Center for Policy Analysis. All rights reserved.

Website URL: www.umassd.edu/cfpa

The information and analysis in this report does not represent an official statement or view of the University of Massachusetts.

WEST WARWICK RESORT CASINO

FISCAL IMPACT ANALYSIS

MAJOR FINDINGS

Project:

\$1 billion resort casino

Total Revenue:

\$620.3 million

Gross Gaming Revenue:

\$543.7 million

Non-Gaming Revenue:

\$76.6 million

Wagering Tax Revenue:

\$139.7 million

Other Casino-Related Tax Payments:

\$8.3 million

Maximum Impact on VLT Revenues:

-9.2% (\$56.2 million in Year 2)

Impact on State's Share of VLT Revenues:

-9.2% (\$33.8 million in Year 2)

Net Fiscal Impact:

+\$90.8 million (Year 2)

TABLE OF CONTENTS

	Page
1.00 PURPOSE OF THE STUDY	1
2.00 WEST WARWICK RESORT CASINO	3
2.10 Constitutional Amendment	
2.20 Description of the Resort Casino	
3.00 FISCAL IMPACTS	5
3.10 Gaming Tax	
3.20 Indirect Taxes	
3.30 State Personal Income Taxes	
3.40 Impact on Video Lottery Revenue	
3.41 Previous Analysis	
3.42 Revised Assumptions	
3.43 Estimated Impact	
3.44 GTECH Impact	
3.50 Net Fiscal Impact	
 SOURCES CONSULTED	 15

1.00 PURPOSE OF THE STUDY

The purpose of this report is to update the Video Lottery Terminal (VLT) “slippage” estimates contained in an earlier (2004) fiscal impact analysis of a resort casino proposed for West Warwick, Rhode Island. The results of the original fiscal impact analysis was presented in a report, *Economic and Fiscal Impact Analysis for a West Warwick Resort Casino*, that was submitted to the Rhode Island State Senate in May 2004 by the Center for Policy Analysis at the University of Massachusetts Dartmouth. The purpose of the updated estimate is to provide an independent fiscal impact analysis of the proposed resort casino that takes into account the following changes since 2004:

1. an expansion of the proposed casino space to accommodate an additional 500 slot machines (3,500 total) and 50 poker tables,
2. capital improvements at Lincoln Park and Newport Grand, including space for the introduction of 2,438 additional Video Lottery Terminals (VLTs),
3. a graduated tax rate on adjusted gaming revenues, rather than the flat tax originally proposed in 2004.

The scope of the updated analysis is confined to an estimate of the state fiscal impacts of a commercial casino and entertainment complex located at West Warwick, Rhode Island:

1. The fiscal impact analysis assumes a commercial casino and entertainment complex as stipulated in a joint resolution of the Rhode Island General Assembly: “To approve and publish and submit to the electors a proposition of amendment to the constitution of the State to permit a resort casino in West Warwick, Rhode Island, to be privately owned and operated in association with the Narragansett Indian Tribe,” (2006 - H.7935);
2. The fiscal impact analysis will:
 - a. estimate gaming taxes, licensing fees, state income, sales, and payroll taxes, based on the rates authorized in the joint resolution (2006 – H.7935) and as accepted by the General Assembly in the Rhode Island Gaming Control and Revenue Act (2004 - S.2338);
 - b. estimate the impact of a casino and entertainment complex on Rhode Island’s VLT revenues.

The report is intended for the use of the Rhode Island House of Representatives and other government officials reviewing a proposed constitutional amendment that, if placed on the November 2006 state ballot, and approved by a majority of voters statewide and in

the Town of West Warwick, would authorize a resort casino in the Town of West Warwick.

2.00 WEST WARWICK RESORT CASINO

2.10 CONSTITUTIONAL AMENDMENT

The constitutional amendment proposed in a joint resolution of the Rhode Island General Assembly (2006 – H.7935) would authorize “the establishment of a resort casino and games” in the Town of West Warwick. In response to legislation passed in June of 2004 (S. 2338), the Rhode Island Supreme Court issued an opinion that a resort casino cannot be privately owned and operated in Rhode Island without an amendment to the state constitution. The amendment proposed in the joint resolution would authorize a resort casino that is:

“...privately owned and privately operated by a business entity established pursuant to Rhode Island law by the Narragansett Indian Tribe and its chosen partner, which entity shall be legally distinct from the Narragansett Indian Tribe and shall be subject to regulation and taxation by the State of Rhode Island. The per annum tax rate shall be established by the general assembly with a minimum tax rate of twenty-five percent (25%), and a maximum tax rate of forty percent (40%) of net casino gaming income with all of such tax proceeds to be dedicated to property-tax relief, as prescribed by statute.”

For purposes of analysis, it is assumed that the proposed constitutional amendment will be approved in November of 2006 and that the General Assembly will pass gaming control and revenue legislation by June 30, 2007. It is assumed that a resort casino will begin operations on July 1, 2009, which is a time frame consistent with the opening of new casinos in other states that have adopted commercial casino legislation. It is also consistent with the construction schedule proposed in 2004.

2.20 DESCRIPTION OF THE RESORT CASINO

The fiscal impact analysis makes certain assumptions about the location and physical capacity of a West Warwick Resort Casino. The proposed casino will be located in the West Warwick Industrial Park directly adjacent to Interstate 95 with \$45 to \$50 million of the project’s \$1 billion cost is set aside for an I-95 interchange that will facilitate direct and easy access to the casino. Table 2 below provides a description of the casino that is now being proposed (2006) as compared to the gaming facility originally proposed in 2004:

Table 1

West Warwick Resort Casino: Description of Proposed Facilities, 2006 & 2004		
Item	2006	2004
Casino Space	140,000 sq. ft.	115,000 sq. ft.
VIP Lounge	Yes	Yes
Hotel	500 rooms	500 rooms
Slot Machines	3,500	3,000
Table Games	100	100
Poker Tables	50	0
Ballroom/Meeting space	55,000 sq. ft.	55,000 sq. ft.
Full Service Spa & Pool	Yes	Yes
Parking Garage	4,000 vehicles	3,500 vehicles
Surface Parking	1,900 vehicles	1,000 vehicles
Food & Beverage Outlets ¹	8	5
Retail space	Yes	Yes
Total Capital Investment	\$1 billion	\$600 million
Source: Harrah's Entertainment, Inc. (2004, 2006).		

The resort casino proposed for West Warwick would be roughly half the size of Mohegan Sun Casino in Uncasville, Connecticut casino's in terms of total casino space, number of slot stations, and number of hotel rooms.² It would be roughly comparable in size to Caesar's in Atlantic City.³ A West Warwick Resort Casino would be the third largest resort casino attraction in New England after Foxwoods Resort and Mohegan Sun Casinos.

The casino is expected to generate \$543.7 million in gross gaming revenues and \$622.4 million in total revenues when it reaches full capacity in the third year of operations.⁴

¹ The 2006 proposal includes a 700-seat buffet, a 200-seat 24-hour restaurant, several themed restaurants, a 1,500-seat theater/bar, a Club Cap, and several 1,000 square foot retail spaces.

² Atlantic City casinos have an average of 105,363 square feet of casino space, an average of 3,467 slot machines, and an average of 119 table games. The smallest casino is the Sands with 57,154 square feet of casino space, while Bally's Atlantic City is the largest with 179,108 square feet of casino space (New Jersey Casino Control Commission 2004, 22-23).

³ Caesar's Atlantic City has 118,424 square feet of casino space, 3,226 slot machines, 119 table games, 1,140 hotel rooms, 2,898 parking spaces, 4,220 employees, and \$496 million in FY 2004 gross gaming revenues (New Jersey Casino Control Commission 2004, 22-23).

⁴ All estimates in this report are in 2006 dollars.

3.00 FISCAL IMPACTS

The state fiscal impacts of operating a resort casino in West Warwick would consist of a gaming tax on adjusted gross receipts, a license fee, personal income tax payments by casino employees, and indirect tax payments by the casino’s non-gaming operations (e.g., room occupancy and retail sales tax) minus the substitution effects on current revenue from video lottery terminals. Estimates for gross gaming revenues and non-gaming revenues are based on an update of the CFPA’s *Market Analysis for a West Warwick Resort Casino* (2004) that takes into account the additional gaming space and gaming positions currently proposed for the West Warwick Resort Casino.

Table 2

Estimated Wagering, Sales, and Hotel Tax Revenues, FY 2010 to FY 2015 (Millions - 2006 dollars)						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
	7/1/2009 to 6/30/2010	7/1/2010 to 6/30/2011	7/1/2011 to 6/30/2012	7/1/2012 to 6/30/2013	7/1/2013 to 6/30/2014	7/1/2014 to 6/30/2015
Casino Revenues						
Gross Gaming Revenue	\$435.0	\$489.4	\$543.7	\$560.0	\$576.8	\$594.1
Hotel Room Revenue	\$12.6	\$14.7	\$16.8	\$17.3	\$17.8	\$18.4
Retail Sales, Food, & Beverage	\$47.9	\$53.8	\$59.8	\$61.6	\$63.4	\$65.4
Total	\$495.5	\$557.9	\$620.3	\$638.9	\$618.2	\$618.2
State Tax Revenues	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Tax on GGR (graduated from 25%)	\$109.5	\$124.1	\$139.7	\$144.4	\$149.3	\$154.3
Hotel Tax (5%)	\$0.6	\$0.7	\$0.8	\$0.9	\$0.9	\$1.0
Sales Tax (7%)	\$3.3	\$3.8	\$4.2	\$4.3	\$4.4	\$4.2
Employee Income Taxes	\$2.8	\$3.1	\$3.3	\$3.3	\$3.3	\$3.3
Total	\$116.3	\$131.7	\$148.0	\$152.9	\$157.9	\$162.8

Source: Center for Policy Analysis (2006). Year 3 casino reaches full capacity in gaming & non-gaming operations.

3.10 GAMING TAX

The constitutional amendment specifies a minimum and maximum allowable tax rate on net casino gaming income, but the actual tax rate within this range will be set by statute. In 2004, the Rhode Island Gaming Control and Revenue Act (S.2338) initially established a 25% wagering tax on adjusted gross receipts (AGR). However, as finally passed by the State Senate and House of Representatives, the bill was amended to include a \$100 million licensing fee to be paid over three years and the tax on AGR was changed from a flat tax to a graduated tax as follows (see Table 3):

Table 3

Gross Gaming Revenues (Millions)	Tax Rate (Percent)
Up to \$400	25
\$400 - \$500	27
\$500 - \$600	29
\$600 - \$750	31
Note: Rates as proposed in Gaming Control & Revenue Act of 2004.	

In the 2004 legislation, adjusted gross receipts (AGR) was 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” (2004, S. 2338 41-9.1-3(25)).⁵ Under the proposed constitutional amendment, a West Warwick resort casino would be a commercial casino, which means that its non-gaming revenues are also subject to the retail sales tax, meals tax, and room occupancy tax, while all casino employees must pay the state’s personal income tax on wages and salaries.

3.20 INDIRECT TAXES

The casino proposed for West Warwick will be a commercial casino so its non-gaming revenues are automatically subject to the state’s retail sales tax, meals tax, and hotel tax.

Rhode Island’s sales tax rate is collected by retailers at the rate of seven percent (7%) of 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 drinking establishments are required to collect a one percent (1%) local tax on the sale of meals and beverages (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).

It is assumed that retail establishments and food and beverage outlets will open at 80% of capacity on July 1, 2009 and incrementally reach 100% of estimated sales in fiscal year 2012. It is assumed that the hotel will open by January 1, 2010 with an average occupancy rate of 60% in the first year of operation, 70% in Year 2, 80% in Year 3, and

⁵ Adjusted gross receipts is essentially Gross Gaming Revenues minus bad debt. Uncollectibles at the 11 Atlantic City casinos totaled 0.26% of casino win (GGR) in FY 2004 (New Jersey Casino Control Commission 2004, 3). Thus, adjusted gross receipts equaled 99.74% of GGR.

90% in all subsequent years.⁶ It is further assumed that the nightly charge for an average hotel room will be \$115, which is the average nightly rate (2005) at Mohegan Sun Casino. Non-gaming revenues are conservatively estimated to equal to 12.6% of total establishment revenues.⁷

3.30 STATE PERSONAL INCOME TAXES

The operation of a West Warwick Resort Casino will produce additional taxable personal income as a result of direct, indirect, and induced economic impacts. Only income generated from direct employment by casino construction and casino operations is used for purposes of calculating state income tax payments.

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 casino employees is taxable by Rhode Island regardless of the employees' place of residence.⁸ 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.⁹

3.40 IMPACT ON VIDEO LOTTERY REVENUE

In its May 2004 fiscal impact analysis, the Center for Policy Analysis made a "worst case scenario" and "probable case scenario" estimates of a West Warwick Resort Casino's short-term impact on VLT revenues at Lincoln Park and Newport Grand. The worst case scenario estimate is no longer a realistic one, because it assumed that (1) a West Warwick Resort Casino would have the capacity to absorb all Lincoln and Newport gamblers preferring to substitute trips to the new casino for visits to the existing venues, (2) that Lincoln and Newport would make no substantial improvements to their facilities, nor offer any new amenities to make them more attractive to patrons, and (3) that there was no unmet demand in the designated market area and that population and income growth would not support growth in the region's gaming market.

⁶ The occupancy rate at Mohegan Sun's 1,200 room hotel was 93% in FY 2005 (see, Mohegan Tribal Gaming Authority 2005). The average hotel occupancy rate for Atlantic City casinos is 91.3% (see, New Jersey Casino Control Commission 2004).

⁷ Hotel receipts for a West Warwick casino are estimated to be 3% of total revenues, while retail establishment, food, beverage, and other revenues are estimated to be 9.6% of total revenues. The figures for non-gaming revenues are comparable to Mohegan Sun in 2003 after it first opened a hotel (see, Mohegan Tribal Gaming Authority 2003). In FY 2005, non-gaming revenues were 17.5% of total revenues at Mohegan Sun with hotel receipts constituting 3.5% of total revenues and all other non-gaming establishments providing 14.0% of total revenue (see, Mohegan Tribal Gaming Authority 2005).

⁸ 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 the likelihood of some employment leakage to residents of adjacent states.

⁹ Calculated from personal income and tax data in U.S. Department of Commerce (2004, 229, 446).

3.41 Previous Analysis (2004)

The static market scenario that formed the basis of the Center's worst case projections has already been superseded by a dynamic market response that actually exceeds the expectations that formed the basis of the CFPA's 2004 probable case scenario for revenue slippage at the VLT facilities. On the other hand, the CFPA's best case scenario has also been superseded by events since 2004. The best case scenario assumed that win per unit (i.e., NTI per VLT per day) would continue to increase from year to year, even with the addition of new VLTS, but at a lower growth rate (+3%) than during the previous decade. The downturn in win per unit at both Lincoln Park and Newport Grand over the last two years has moderated this assumption.

Finally, the 2004 probable case scenario was that a resort casino would negatively impact VLT revenues in its first year of operations and would have its maximum negative impact in the second year – a 9.8% slippage in VLT revenues -- for a \$20.9 million reduction in the state's share of VLT revenues. The 2004 estimates projected that VLT revenues would start to recover in the third year of casino operations and gradually return to a growth scenario in the fifth or subsequent years. This scenario assumed the addition of 942 VLTs at the two facilities to capture a greater share of the convenience gaming market.

The 2004 CFPA fiscal impact analysis recommended a pro-active strategy to insure that the probable case scenario would be realized by the time a casino opened in West Warwick. These recommendations included new capital investment in the two VLT facilities that would:

- (a) make them more attractive to existing and new patrons,
- (b) allow them to add additional non-gaming amenities, and
- (c) provide space for the placement of 942 additional VLTs that had been authorized by the state.

The CFPA's 2004 *Market Analysis for a West Warwick Casino* estimated that even after the opening of a resort casino at full capacity (then estimated to be \$510 GGR), there would still be \$287 million to \$483 million in unmet gaming demand within the casino's designated market area (DMA). The report concluded that "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." This unmet demand provides room for all three facilities to expand their gaming operations in the future by deepening their penetration of the existing markets. By bringing additional VLTs online, Lincoln Park and Newport Grand would have the gaming positions to capture a share of this unsatisfied market demand.

The CFPA's 2004 *Gaming Behavior Survey* of Rhode Island and Massachusetts residents also found that one of the main attractions of a resort casino as opposed to the VLT facilities was the "general atmosphere." It was recommended that the two VLT facilities could cushion the potential impact of a casino on their patron base and revenues by adding new non-gaming amenities that made them more attractive to gamblers in their more limited market areas.

3.42 Revised Assumptions

The probable case scenario of a resort casino's impact on Rhode Island's VLT revenues is even more probable today than it was in 2004. The basic assumptions that guide a fiscal impact analysis have changed since 2004 in two important ways:

1. Lincoln Park and Newport Grand have both introduced new non-gaming amenities (e.g., dining, live music, and dancing) that make them more attractive to existing patrons and give them the ability to attract new patrons. Newport Grand opened its Club Royale to live entertainment and dancing. Newport Grand is scheduled to invest \$20 million to construct a 90-room hotel. Lincoln Park now offers four dining venues, including the Queen of Clubs restaurant for fine dining. It offers a Diamond Club for premium customers, group tours, group functions, and live entertainment. Lincoln Park's new owner is spending \$125 million to upgrade the aging facility with the initial phase of the project designed to add gaming space for an additional 600 VLTs, while relocating and consolidating the live racing and simulcast facilities. The next phases of the planned development will add 160,000 square feet to the existing complex, including more gaming space, bars and restaurants, and a 2,000-seat multi-purpose room emphasizing live entertainment.
2. The long-term agreements signed with the RI Lottery Commission authorize far more VLTS than in 2004. In 2004, Lincoln Park (+681) and Newport Grand (+261) had the legal authority to operate 942 more VLTs. Even after increasing the number of VLTs at each facility since 2004, Lincoln Park (+1,407) and Newport Grand (+1031) are currently authorized to operate an additional 2,438 VLTs.
3. In 2004, it was projected that win per unit (i.e., NTI per VLT per day) would continue to increase from year to year, despite the addition of new VLTS, but at a lower growth rate (+3%) than during the previous decade.¹⁰ Since 2004, the win per unit has been declining at both VLT facilities, which signals that the state's convenience gaming market is reaching

¹⁰ In 2004, the average annual growth rate in net terminal income was 4% at Lincoln Park and 8% at Newport Grand. Since 2004, the average annual growth rate in net terminal income has been -2.7% at Lincoln Park and -0.75% at Newport Grand.

maturity and demand for this type of gaming may be fully satisfied once Lincoln Park and Newport Grand are operating the full allotment of VLTs now authorized by the Rhode Island Lottery.

Finally, a key strategic consideration in estimating a casino's impact on VLT revenue is the timing of when new VLTs are brought on line by Lincoln Park and Newport Grand. While the timing of new VLTs is controlled by those facilities' owners, it is assumed that Lincoln Park will introduce another 600 VLTs by the middle of FY 2007 and achieve full ramp up to 4,752 VLTs in FY 2009. It is assumed that Newport Grand will implement its full allotment of 2,101 VLTs in FY 2008.

3.43 Estimated Impact

The revised assumptions were incorporated into a model that used a linear regression to project NTI per day based on the last three year's average change in NTI.¹¹ This model predicts that total NTI will continue increasing through FY 2009 and reach a peak of \$609 million in that year. In the first full year of the casino's operation (FY 2010), total NTI will fall to \$578.3 million and reach maximum slippage in FY 2011 at \$552.8 million (i.e., the year the casino reaches full capacity). VLT revenues are projected to bounce back in FY 2012, but to not reach or exceed their previous peak until FY 2015 (see Table 4).

¹¹ The CFPA ran a second model that used a linear regression to project NTI based on the last five-year's average change in NTI. This model's NTI projections are within 3.1% of those presented by Harrah's Entertainment in its May 4, 2006 testimony to the House Finance Committee. The three-year basis model was selected for the present analysis because the five-year average fails to sufficiently capture the recent downturn in NTI.

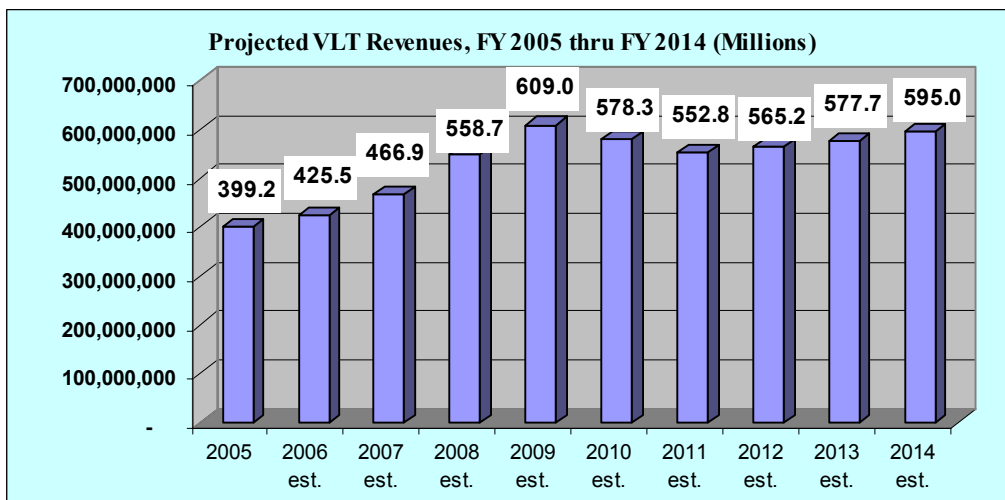
Table 4

VLT Net Terminal Income, FY 1993 to FY 2010 (est.)								
Fiscal Year	Lincoln NTI			Newport NTI			Total NTI	State Share
	Lincoln NTI	per VLT per Day	Lincoln No. VLTs	Newport NTI	per VLT per Day	Newport No. VLTs		
1994	20,990,906	74	774	6,584,622	42	426	27,575,528	13,139,444
1995	46,272,585	164	774	10,754,607	69	426	57,027,192	24,745,797
1996	71,492,829	184	1,059	15,135,206	97	426	86,628,035	42,759,035
1997	91,858,865	209	1,202	20,489,108	132	426	112,347,973	54,903,811
1998	107,015,206	244	1,202	25,149,492	162	426	132,164,698	64,304,735
1999	126,496,022	288	1,202	28,845,451	186	426	155,341,473	75,187,529
2000	157,917,113	300	1,439	36,799,846	190	530	194,716,959	93,786,603
2001	182,063,374	293	1,702	47,014,919	167	770	229,078,293	121,641,380
2002	221,325,049	356	1,702	59,712,256	211	776	281,037,305	148,921,285
2003	248,643,793	367	1,870	66,058,050	231	784	314,701,843	169,293,139
2004	283,316,688	330	2,348	75,553,114	203	1,016	358,869,802	213,057,018
2005	319,778,456	334	2,621	79,408,210	213	1,021	399,186,666	239,413,281
2006 est.	347,355,978	312	3,345	78,110,000	200	1,070	425,465,978	254,887,233
2007 est.	391,572,000	298	3,600	75,376,150	193	1,070	466,948,150	279,282,907
2008 est.	405,697,500	285	3,900	142,636,890	186	2,101	548,334,390	330,341,648
2009 est.	471,778,560	272	4,752	137,268,835	179	2,101	609,047,395	365,986,839
2010 est.	450,964,800	260	4,752	127,299,590	166	2,101	578,264,390	347,355,436
2011 est.	430,151,040	248	4,752	122,698,400	160	2,101	552,849,440	332,132,749
2012 est.	438,823,440	253	4,752	126,379,352	165	2,101	565,202,792	339,595,542
2013 est.	447,495,840	258	4,752	130,170,733	170	2,101	577,666,573	347,128,457
2014 est.	460,920,715	266	4,752	134,075,855	175	2,101	594,996,570	357,542,310
2015 est.	474,748,337	274	4,752	138,098,130	180	2,101	612,846,467	368,268,580
2016 est.	488,990,787	282	4,752	142,241,074	185	2,101	631,231,861	379,316,637

The maximum slippage in total VLT revenues is estimated to be 9.2%, or \$56.2 million, with a maximum slippage of 8.8% at Lincoln Park and 13.9% at Newport Grand (FY 2009 to FY 2011).

The state’s share of VLT revenues will fall by 9.2% from FY 2009 to FY 2011 or by \$33.8 million. The state’s share of VLT revenues is projected to begin to recover in FY 2012, and is projected to exceed its earlier peak in FY 2015 (see Table 4).

Figure 1



3.44 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.

Section 7.5 of the Master Contract activates a refund clause 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.

The projected impact of a resort casino on VLT revenues is not sufficient to activate the pertinent clauses of the GTECH contract.

3.50 NET FISCAL IMPACT

Table 5 shows the net fiscal impact of a West Warwick resort casino. After accounting for the impact on VLT revenues, the state’s total gaming revenues will increase by approximately \$90.8 million in FY 2010 (Year 1) and by \$90.2 in FY 2011 (Year 2) compared to the last year before a casino was operating in Rhode Island. Total gaming revenues are projected to increase by approximately 3% annually in the following years (see Table 5).

Table 5

Net Fiscal Impact, FY 2010 thru FY 2015							
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Gaming Revenue	7/1/2008 to 6/30/2009	7/1/2009 to 6/30/2010	7/1/2010 to 6/30/2011	7/1/2011 to 6/30/2012	7/1/2012 to 6/30/2013	7/1/2013 to 6/30/2014	7/1/2014 to 6/30/2015
Narragansett	-	\$435.0	\$489.4	\$543.7	\$560.0	\$576.8	\$594.1
Lincoln Park	\$471.8	\$451.0	\$430.2	\$438.8	\$447.5	\$460.9	\$474.7
Newport Grand	\$137.3	\$127.3	\$122.7	\$126.4	\$130.2	\$134.1	\$138.1
Total	\$609.1	\$1,013.3	\$1,042.3	\$1,108.9	\$1,137.7	\$1,171.8	\$1,206.9
State Revenue	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
West Warwick	-	\$109.5	\$124.1	\$139.7	\$144.4	\$149.3	\$154.3
Lincoln Park	\$278.8	\$266.5	\$254.2	\$259.3	\$264.5	\$272.4	\$280.6
Newport Grand	\$87.2	\$80.8	\$77.9	\$80.2	\$82.7	\$85.1	\$87.7
Total	\$366.0	\$456.8	\$456.2	\$479.2	\$491.6	\$506.8	\$522.6

Source: Center for Policy Analysis (2006).

SOURCES CONSULTED

- Connecticut Division of Special Revenue, “Statistics for Tribal Casinos,”
<http://dosr.state.ct.us/WAGERING.htm>
- Harrah’s Entertainment, Inc. 2004. “Presentation to the Rhode Island Senate Constitutional and Gaming Issues Committee by Gary Loveman, Chief Executive Officer (May 24).”
- Harrah’s Entertainment, Inc. 2006. “Presentation to the House Committee on Finance, Rhode Island General Assembly by Charles Atwood,, Chief Financial Officer and David J. Satz, Vice-President, Government Relations (May 4).”
- Mohegan Tribal Gaming Authority. 2003. *Annual Report (Form 10-K) for the Fiscal Year Ended September 20, 2003*. Washington, D.C.: Securities & Exchange Commission.
- Mohegan Tribal Gaming Authority. 2004. *Annual Report (Form 10-K) for the Fiscal Year Ended September 20, 2004*. Washington, D.C.: Securities & Exchange Commission.
- Mohegan Tribal Gaming Authority. 2005. *Annual Report (Form 10-K) for the Fiscal Year Ended September 20, 2005*. Washington, D.C.: Securities & Exchange Commission.
- New Jersey Casino Control Commission. 2005. “Economic Impact Report: Atlantic City Gaming Industry, 2004 Year End Report.” Atlantic City, NJ.
- New Jersey Casino Control Commission. 2006. “New Jersey Casino Industry Quarterly Financial Report, December 31, 2005.” Atlantic City, NJ.
- Rhode Island General Assembly. 2004. “An Act Relating to Sports, Racing and Athletics – And Extension of Gambling Activities and Other Facilities.” S.2338.
- Rhode Island Lottery Commission. 2003. “Master Contract By and Between the Rhode Island Lottery Commission and GTECH Corporation.” Providence, RI.
- State of Rhode Island. 2004a. “Synopsis of Rhode Island Tax System, January 1, 2004.” Providence, RI: Department of Administration, Division of Taxation.
- State of Rhode Island. 2006. “VLT NTI by Facility by Month, FY 1994 through FY 2006 (April).” Providence, RI.
- State of Rhode Island. 2006. “Joint Resolution, 2006 – H 7935.” Providence, RI.