



ECONOMIC MARKET STUDY:

Casinos, Cardrooms and Other Forms of Gambling in Washington State

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Executive Summary

The Washington State Gambling Commission (“WSGC”) retained Spectrum Gaming Group (“Spectrum,” “we” or “our”) to conduct an economic market study of regulated gambling in the state other than lottery and horse racing. This study focuses on Indian gaming and cardrooms while also examining commercial pull tabs and amusement games and non-profit bingo, pull tabs and raffles.

Washington Casinos and Cardrooms

Washington has more casinos of some type – 80 – than all but three states: Nevada (271), California (149) and Oklahoma (124). The Washington casinos are classified as follows:

- Class III casinos – 26
- Class II casinos – 4
- House-banked cardrooms (often called casinos or mini-casinos) – 50

Washington’s Class III casinos have a remarkable breadth of size and quality, ranging from first-class destination resorts such as Northern Quest in suburban Spokane and Suquamish Clearwater across from Seattle, to regional casinos such as Mill Bay on the shores of Lake Chelan and Red Wind in Olympia, to smaller, no-frills casinos such as Coulee Dam and Shoalwater Bay on the coast. Spectrum found that the size, quality and offerings of the Washington Class III casinos is on par with casinos in other states that have large tribal gaming industries.

Spectrum identified six Indian casino expansion projects underway, including the under-construction Ilani casino near Vancouver, WA, and the planned (but unnamed) Spokane Tribe casino near Spokane.

Although it is beyond the scope of this project to assess the needs of each casino, we believe some properties have the opportunity to increase their volumes – or at least stem potential declines – by making carefully planned capital improvements. Such projects are critical on an industrywide basis for several reasons, including:

- Keeping the property fresh
- Expanding the market
- Defending market share
- Upgrading technology
- Upgrading amenities to reach more affluent customers

While Washington’s Indian casino industry continues to grow, the state’s \$220 million cardroom industry continues to decline. The number of cardrooms today has declined by more than half since 2001 – and could be halved again with the next few years. Its challenges include:

- Proposals to increase the minimum wage that do not take tip income into account
- Smoking bans that affect cardrooms but not Indian casinos
- Extremely low barriers to entry, which allow new cardrooms to spring up periodically that cut into already-thin profit margins

- Continuing expansion of the Indian casino industry – notably the scheduled 2017 opening of the Ilani casino in Ridgefield, which will directly impact five cardrooms operating in Clark and Cowlitz counties.

Cardrooms effectively have facility limitations because of the statutory cap of 15 gaming tables; i.e., they cannot expect to expand their gaming area or add amenities that would help to drive gaming revenue. Even in facilities that have a bowling center, for example, the crossover play between casino play and bowlers is small.

Of Washington’s 39 counties, 26 have at least one casino or cardroom, while eight have at least one of each. Moreover, 42.1 percent of the gaming facilities (equating to 32 properties) and 48.2 percent of the statewide gaming positions¹ are concentrated within the Seattle-Tacoma-Bellevue Metropolitan Statistical Area, where just over half of Washingtonians live.

Washington Gaming Revenues

WSGC-regulated gambling generated estimated net receipts of \$2.7 billion (after prizes are paid) in 2015. Class III Indian casinos are the dominant form of WSGC-regulated gambling in Washington, accounting for \$2.32 billion, or 86 percent of the total.

Spectrum projects the following gross gaming revenue for Washington casinos:

Projected casino gross gaming revenue by type, 2015-2020

	2015	2016	2017	2018	2019	2020
Class III Casinos	\$2,322.0	\$2,390.7	\$2,749.1	\$3,124.6	\$3,213.4	\$3,305.1
Class II Casinos	\$60.8	\$62.7	\$64.9	\$67.2	\$69.7	\$72.2
Cardrooms	\$225.9	\$216.8	\$216.2	\$212.7	\$201.4	\$189.3
Total Gaming	\$2,608.7	\$2,670.2	\$3,030.2	\$3,404.5	\$3,484.5	\$3,566.6

Source: Spectrum Gaming Group, Washington State Gambling Commission

In addition, casinos generate significant non-gaming revenue:

Projected casino non-gaming revenue by type, 2015-2020

	2015	2016	2017	2018	2019	2020
Class III casinos	\$580.50	\$597.68	\$687.28	\$781.15	\$803.35	\$826.28
Class II casinos	\$6.08	\$6.27	\$6.49	\$6.72	\$6.97	\$7.22
Cardrooms	\$69.95	\$67.14	\$66.95	\$65.87	\$62.37	\$58.62
Total	\$656.53	\$671.08	\$760.72	\$853.74	\$872.69	\$892.12

Source: Spectrum Gaming Group

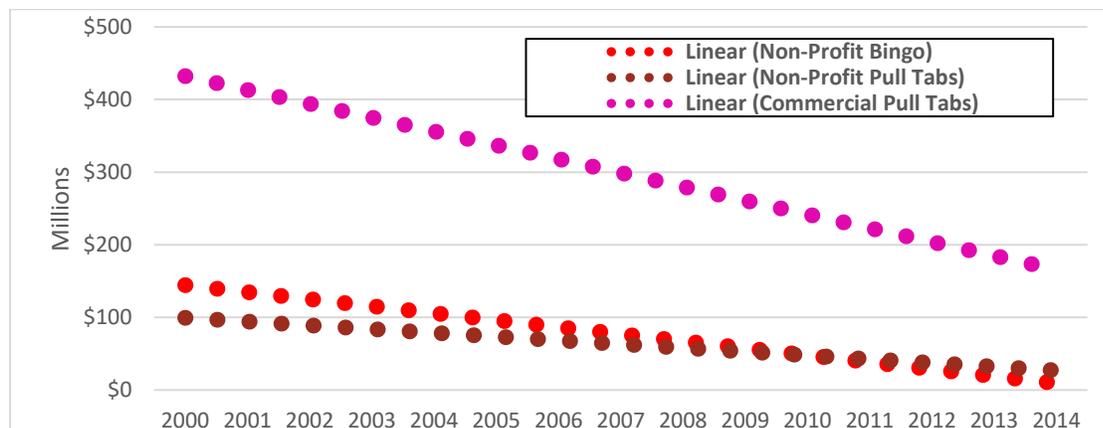
The gambling participation rate for Washington adults is significantly higher than the national average. Nationally, 32.5 percent of adults spent approximately \$950 per year at casinos. If Washington maintained that national average rate, total GGR at Indian casinos in Washington would be \$1.61 billion. By contrast, we estimate that Washington adults generated GGR of \$2.11 billion at the state’s Indian casinos, indicating a materially higher participation rate. Spectrum

¹ 1 gaming position = 1 slot machine or 1 gaming table seats; we assume the industry-standard 6 seats per table.

attributes that higher rate to the geographic distribution of gaming facilities throughout the state, as well as to the overall quality of the facilities.

The largest forms of other WSGC-regulated gambling – pull tabs (both commercial and non-profit) and bingo (which is non-profit only) – are in serious decline with no visible catalyst to halt the downward trends. They are antiquated, paper-based games whose mostly older customer bases are dying out and not being replaced by younger generations who prefer faster, more technologically advanced games.

Gross receipts trends for commercial and non-profit pull tabs, non-profit bingo, 2000-2014



Source: Washington State Gambling Commission

The amusement games (commercial) and raffle (non-profit) sectors have shown growth in recent years but represent only a tiny portion of regulated gambling in Washington.

Washington Casino Employment

Spectrum estimates current gaming employment is 17,098 at Indian casinos and 6,231 at cardrooms, for a total of 23,329 total jobs (or 16,515 full-time equivalents) with an estimated total payroll of \$514.5 million. This equates to an average FTE annual income of \$31,150, which is in line with other gaming properties across the nation.

Spectrum estimates that the casino expansion projections underway will add another 1,517 jobs and \$34.1 million in wages.

The employers in other WSGC-regulated sectors are primarily liquor-licensed establishments that offer pull tab games, non-profit organizations that offer bingo and pull tabs, and amusement-games centers. Some of these establishments have created gambling-specific jobs that, while important because they provide the livelihoods of numerous individuals, are comparatively small on a total, industrywide basis. We estimate that bingo and pull tabs are responsible for generating 300-500 gambling-specific jobs. The amusement games sector blends both non-gambling and gambling-type games and thus we did not estimate the number of gambling-specific jobs in this sector.

Economic Impacts of Washington Casinos

The most significant impact of Indian gaming in Washington is arguably its least visible: Gaming in many areas is a bulwark against extreme tribal poverty. By way of example, the

economic impact of both the Skokomish and Shoalwater Bay casinos would be miniscule as measured by their contribution to the gross state product or employment base of the entire state. Yet, within their regions, and particularly among their tribal members, the impacts can be justifiably viewed as profound. Many casinos, particularly in more remote markets, have become social gathering spots in areas that would otherwise be largely devoid of such centers. Further, they provide much-needed jobs for Native Americans and fund vital tribal government services, thus improving the quality of life on their reservations.

From a qualitative standpoint, Washington casinos and cardrooms (collectively) are a significant employment source and major contributor to the state’s professional services, retail, and tourism industries. From 2015 to 2020, the casinos are expected to have the following *average* annual economic contributions the state.

- **Employment:** The casinos are expected to employ 25,431 people (including construction jobs) and casino spending will support an additional 13,337 jobs, for a total employment contribution of 38,768 jobs.
- **Income:** Casino employees are estimated to collectively have an average of \$616 million in earned income, which supports an additional \$716 million of income in the state economy for a total income contribution of \$1,332 million.
- **Output:** The casinos’ direct spending of \$4,143 million is expected to support an additional \$2,177 million in spending in Washington supply chains, for a total economic contribution of \$6,320 million.
- **Value Added:** Casinos’ direct contribution of \$2,209 million to the gross state product supports an additional \$1,216 million, for a total contribution of \$3,424 million to net new economic activity in the state.
- **Taxes:** Casino employees are expected to pay a total of \$0.8 million in personal income taxes, and firms that sell goods and services to the casinos are expected to pay a total of \$0.5 million in corporate profits taxes. The total tax contribution of the casino industry, including taxes from other sources, is expected to be a total of \$894 million to the state.
- **Industries:** The major industries that casino spending in Washington supports include Accommodations and Food Services, Administrative and Support and Waste Management and Remediation, Retail Trade, Professional, Scientific and Technical Services, and Health Care and Social Assistance.

Annual average economic contributions of casinos on the Washington State economy, 2015-2020 (in millions of \$2016)

Impact Type	Direct Effect	Indirect Effect	Induced Effect	Total Effect
Employment	25,431	8,009	5,328	38,768
Income	\$616	\$452	\$264	\$1,332
Output	\$4,143	\$1,349	\$828	\$6,320
Value Added	\$2,209	\$732	\$484	\$3,424

Source: Spectrum Gaming Group, UMDI, Washington State Gambling Commission.

Washington Population Trends

More than 83.5 percent of Washington adults reside within a reasonable one-hour drive of a Washington Class III casino; this figure will increase to more than 90 percent in the coming years with the opening of two new casinos. To this point, unlike in many other states where casinos may be out of reach or inconvenient, the bulk of the adult population – 99 percent – reside within a two-hour drive of a Washington Class III casino.

Our research demonstrates that a number of Washington regions are underserved by Class III casinos, meaning that adults have to drive more than an hour to visit the nearest casino. Cardrooms may fill the void in some of those under-penetrated counties, but cardrooms cannot offer slot machines, which means they cannot meet all of the potential demand.

When looking at casinos and cardrooms together, we found that only 42.1 percent of the gaming facilities and 48.2 percent of the statewide gaming positions are concentrated in the Seattle Seattle-Tacoma-Bellevue Metropolitan Statistical Area. Absent daily win per gaming position results for these gaming facilities, it is difficult to ascertain if the MSA is under-supplied or over-supplied with gaming positions to serve local market adults (or tourists and out-of-market visitors).

Washington Gaming & Tourism

Gaming is clearly interwoven into the state’s overall tourism fabric, as casinos are situated throughout the state, and prominent tourism organizations such as the Washington Tourism Alliance, Visit Seattle and Visit Spokane include casino gaming in their marketing messages. The WTA lists gaming as one of its 10 major categories. Seven casinos are Visit Seattle partners, and the WTA counts nine tribal operators among its members, including two (Squaxin Island and Tulalip) that serve on the Board of Directors.

Most Washington casino tourism in-state, but border properties do attract from outside and major destinations casino resorts draw visitors who may have had trip purpose other than gambling. Spectrum estimates that Washington’s Class III casinos this year will generate 11.1 percent of their gross gaming revenue, or \$265 million, from out of state. That percentage will double by 2018, reflecting primarily the opening of Ilani.

If Washington had no casinos, we project that its residents would export more than \$790 million in gross gaming revenue to out-of-state casinos annually, assuming the out-of-state casino landscape did not change.

National, Regional Casino Gaming Trends

Today, 42 states have casinos of some sort. National revenues continue to grow, albeit slowly, with Indian gaming revenues averaging 2.4 percent annual growth over the last five years, commercial casinos averaging 3.0 percent and combined Indian-commercial averaging 2.8 percent.

Washington’s Indian gaming revenues (Class III and Class II) have outpaced other western regions, as well as total Native American, as shown in the following table:

Washington and regional Indian GGR, 2005-2015

GGR in billions	Washington	Growth	Portland Region (AK, ID, OR, WA)	Growth	Sacramento Region (CA, N.NV)	Growth	Phoenix Region (AZ, CO, NM, S.NV)	Growth	Total Western US	Growth	Remainder of US	Growth	Total Native American	Growth
2010-15	CAGR	5.9%	CAGR	2.6%	CAGR	2.0%	CAGR	3.0%	CAGR	2.7%	CAGR	2.2%	CAGR	2.4%
2005-15	CAGR	8.5%	CAGR	5.1%	CAGR	1.1%	CAGR	1.2%	CAGR	1.9%	CAGR	3.7%	CAGR	2.8%

Source: Washington State Gaming Commission; National Indian Gaming Commission. Note: Western US is sum of the three indicated regions (Portland, Sacramento, Phoenix). CAGR = compound annual growth rate.

As the casino industry grows its patron base is changing. Casinos are tasked with attracting Millennials while at the same time not alienating 50-plus age group, a group long considered to be the bedrock of casinos patrons. However, there is a danger that bringing in large numbers of newer, more interactive skill-based games in order to attract Millennials will disaffect older gamblers who enjoy traditional slot machines and that is a demographic that operators can ill afford to alienate. The CEO of Penn National Gaming says the industry should wait another 15 years “before focusing a disproportionate amount of energy on Millennials.”

Meanwhile, casinos continue to seek to diversify their revenue streams by offering non-gaming amenities, essentially trying to replicate the Las Vegas Strip model. The rapid, widespread expansion of casinos across the country caused Las Vegas casino owners to give patrons other reasons to drive past or fly over their local casinos for new experiences – and often gambling has nothing to do with their trip. Last year, the Strip properties generated 73 percent of their total revenue from non-gaming sources. However, being “like Las Vegas” remains a quixotic dream for other states, as no jurisdiction could realistically challenge Las Vegas in terms of size, scale and mass of attractions.

As the Indian gaming sector continues to grow, the desired expansion by both existing gaming tribes and tribes that aspire to enter the gaming industry has caused complex issues regarding public policy, taxation and sovereignty in states that also have commercial casinos. Florida, Massachusetts and New York are among the states that have recent grappled with the collision of Indian and commercial gaming.

The widespread expansion of gaming invariably raises the issue of saturation, and whether the United States has reached the saturation point with respect to casinos. This certainly is true in some markets but, as any large casino operator will advise, attractive untapped markets remain throughout the country. In some jurisdictions operators – both tribal and commercial – are building smaller facilities to tap smaller markets, with examples being Iowa on a statewide basis and, on a micro basis, the Colville federation’s plan to build a small slots facility in Inchelium, WA.

New Forms of Gaming and Technology Impacts

The gaming industry is sharply focused on attracting Millennials, who now outnumber Baby Boomers in Washington by 24 percent to 23 percent. They are the only demographic segment that prefers table games over slot machines. The successful casino of the future will create open spaces that have an excitement not apparent to Millennials in the current casino layout, including games that are similar to those they now play via the Internet.

Casinos can use technology to attract Millennials by offering:

- Indoor location technology such as WiFi, iBeacon, near-field communications and GPS
- Relaxed restrictions on the use of mobile phones
- More places to charge mobile phones
- Increased access to digital pay
- In-property mobile wagering
- Improved mobile app

New and emerging forms of gaming are, or soon will be, taking hold in casinos or online, or in both spaces, across the country. These include:

- Internet gaming: Currently legal only in Delaware, Nevada and Jersey, Spectrum estimates the potential for Washington Internet gaming to be \$100 million in gross gaming revenue.
- Social/mobile gaming: Free-to-play social casinos, typically played on mobile devices, can be a valuable initiative for land-based casino operators by expanding the customer base and deepening the customer relationship. The social casino industry is legal in all 50 states, and in North America this year is estimated to reach \$1.7 billion in revenue, nearly 10 times larger than real-money online gaming. Numerous other casino operators have invested in or acquired social casino companies due to the large size of the industry, profit potential and ability to cross-market to the land-based casino. Moreover, by operating social gaming sites, casinos already have a system in place with a database of players that could, with minimum expense, be converted to real-money gaming.
- Online live dealer gaming: This hybrid activity combines the true-casino element of a human dealing cards on a felt-covered table with the security and convenience of an online transaction from a home computer or mobile device. As opposed to taking place on a casino's gaming floor, the games are dealt from a special studio. An Atlantic City casino debuted the online dealer gaming in August 2016. In North America, online live dealer gaming generated \$111.7 million in GGR in 2015.
- Skill-based gaming: Manufacturers are developing slot machines with a skill-based, arcade-style component. Whereas the current generation of slots is based on a random number generator to determine the winning outcome and are entirely games of chance, skill-based and arcade-style slots incorporate many of the attributes of the games that Millennials are already playing online. It's like playing Angry Birds for cash, as described by one expert.
- Daily fantasy sports: Of the estimated 57 million Americans who play fantasy sports, about 21 million play daily fantasy sports. Last year, DFS generated an estimated \$3 billion in entry fees (approximately \$143/person). DFS players tend to be younger and wealthier than typical casino players, and are more likely to be male. Spectrum estimates that DFS could generate between \$9 million and \$13 million in net receipts in Washington.

- Sports betting: Currently legal in only four states, if legalized in Washington sports betting via casinos and cardrooms could reduce seasonality and benefit other areas of the property, including increased volumes on other types of casino games and incremental revenue to restaurants and nightclubs. Based on Nevada’s results, direct net receipts from sports betting in Washington State could be in the range of \$50 million and \$60 million.
- eSports: The market for eSports – i.e., professional video gaming – is global and caters to a younger demographic. In North America, the eSports market is estimated at \$224 million, the vast majority of which is indirect revenue, meaning they are sponsorship and advertising dollars. The remainder is direct revenue to the industry, sourced from eSports betting and fantasy sites, prize pools, amateur and micro-tournaments, merchandise and ticket sales. Casino operators throughout the country express optimism about the long-term revenue potential of eSports and view it as an opportunity to increase gaming’s appeal for Millennials.

Technology is also emerging as a significant tool to help with problem gambling, as digital, or technologically-driven, formats of gaming are better capable of protecting against underage and problem gaming than land-based alternatives. Online gaming sites use complex computer algorithms to track player behavior that can be used to identify players at risk of problem gaming and suggest appropriate resources. There will be more data available in online formats than in the land-based casino environment because 100 percent of online players are tracked, whereas some customers of land-based casinos elect not to sign up for loyalty cards and their play is not tracked.

Massachusetts’ vanguard responsible-gaming program for its land-based casinos utilizes the “GameSense – The Smart Way to Track Your Play” program first used by the British Columbia Lottery Corporation. The Massachusetts program is a simple and entirely voluntary budgeting tool to personalize one’s gambling activity, in which upon enrollment in a casino’s loyalty program a patron selects spending limits on a daily, weekly or monthly basis. Once 50 percent, 75 percent and 100 percent of a patron’s voluntary spending limit is reached, a pop-up box appears on the slot machine screen. The patron can choose to continue play after receiving a notification, and notifications continue after the limits have been exceeded.

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Introduction

The Washington State Gambling Commission (“WSGC”) on April 15, 2016, formally retained Spectrum Gaming Group (“Spectrum,” “we” or “our”) for the purpose of

... conducting an Economic Market Study (Study) on Gambling (other than lottery and horse racing) for the Washington State Gambling Commission (WSGC). In an effort to be proactive in its regulatory authority/role, WSGC believes that a Study would assist the Legislature and the Commission as they consider potential changes in gambling policy and in preparing for future industry changes. The Study is expected to provide an accurate picture of the existing gaming market (other than lottery and horse racing) in Washington State as well as a forecast for potential growth. [WSGC Request For Proposal No. 17-003]

In responding to the WSGC’s Request for Proposal, Spectrum outlined nine specific tasks, which collectively form the accepted study areas that comprise this report. (See Appendix 1 for the contracted scope of services.)

Notably, the WSGC tasked the successful respondent with studying legalized gambling “other than lottery and horse racing.” Accordingly, this report focuses on the economic impacts of, principally, Washington’s \$2.3 billion Class III Indian casino industry and the \$220 million cardroom industry. Additionally, we examine trends in the other forms of gambling regulated by the WSGC, including bingo, pull tabs (commercial and non-profit), raffles and amusement games.² We also provide critical insights into emerging vehicles for gambling, such as Internet gaming, daily fantasy sports, and skill-based gaming.

A. Methodology

Spectrum relied on five primary methods for our research and analysis:

1. **Data collection:** Casino gambling is a highly regulated industry and state governments, in their effort to assure public confidence in an activity that would otherwise be deemed illegal, make troves of data available to the public. The WSGC is no exception and, in our experience, makes more data available than most state gaming agencies. Commission data were exceptionally helpful for this study; however, the agency stopped posting data after Fiscal Year 2014 and does not expect to resume until late 2016 – after the research and analysis for this report had been completed.

² The WSGC is, to Spectrum’s knowledge, the only state casino commission that oversees amusement games, which are not considered gambling in the usual sense. These are games played by both children and adults, typically at grocery stores, arcades, etc., that involve elements of skill and luck and which reward winners with merchandise or tickets redeemable for merchandise.

As is the case in most states, Indian gaming operational and performance data are not in the public domain (whereas they typically are for commercial casinos). Spectrum obtained non-public data upon request from various sources that also proved helpful for this study. Data used in this study were the latest available through July 31, 2016.

2. **Financial modeling:** Spectrum used a number of forecasting techniques and models, including our proprietary gravity model, to forecast gaming revenues for the existing and known future operations on a statewide basis. We further used these outputs, along with employment data, as inputs for the widely recognized IMPLAN model used to measure the economic impacts of Washington’s gaming industry.
3. **Interviews:** Spectrum interviewed more than 50 people in person, by telephone and by email. In addition to WSGC staff, interview subjects included state and tribal government officials, casino and cardroom operators, gaming suppliers, and tourism officials. (See Appendix 2 for complete interview list.)
4. **Site visits:** From June 5-21, Spectrum visited all 26³ Class III tribal casinos and 16 house-banked cardrooms throughout Washington. (See Appendix 3 for list.) We evaluated the facilities, talked with executives or managers who had agreed to be interviewed, observed gaming operations, talked with patrons and employees on a casual basis, stayed overnight in several of the casino hotels, and gained an understanding of their relevant marketplaces. Spectrum introduced itself, and stated its purpose, to casino staff at every visit.
5. **Our experience:** Spectrum has been providing independent research and professional services related to the gaming industry since 1993 and many of our executives and associates have been gaming regulators, operators or analysts for decades. We have conducted studies or consultations in 36 US states and territories and in 45 countries, including for numerous state, tribal and national governments. Spectrum professionals participating in this project included experts in financial analysis, economics, gaming law and regulation, casino operations, human resources, construction, and public policy. A total of 12 Spectrum professionals and associates contributed to this report, including members of our Spectrum Gaming Capital affiliate.

³ There are officially 27 Class III casinos in Washington, per State compacts and as indicated in WSGC data. However, from an operational, patron and practical standpoint, the officially listed “Muckleshoot Casino” and “Muckleshoot Casino II” that comprise what is widely recognized simply as the Muckleshoot Casino in Auburn are a single entity. The Muckleshoot Indian Tribe and the Muckleshoot Casino make no distinction between the two legally separate entities in their public information. For those reasons, Spectrum also treats Muckleshoot Casino as a single entity in all respects in this report.

Many entities cooperated with Spectrum during the course of this study, starting with the Washington State Gaming Commission, whose staff were invaluable in directing us to certain data sources and answering questions along the way. Most cardroom operators, and their trade organization, the Recreational Gaming Association of Washington, were helpful in providing data and information that helped us to develop economic impact projections. Several Washington gaming tribes cooperated with the study but most chose not to do so, either by declining to participate or by not responding to our outreach efforts. Spectrum drew no inferences from any entity that did not participate, nor did non-participation impact the course of our study or our deliverables.

Washington also has four Class II Indian casinos,⁴ which by definition are not subject to state compacts or regulation/oversight by the WSGC. While the focus of this report is on the forms of gambling regulated by the WSGC, we have included the Class II casinos in all of our employment, revenue and economic-impact modeling; to do otherwise would be to provide an incomplete economic picture of Washington’s gaming industry. We further provide a summary of the state’s Class II casino landscape in Chapter I.

About Washington Gaming Devices

Traditional, Las Vegas-style slot machines are statutorily prohibited in Washington State. Class III machine gaming in the state is instead offered through Tribal Lottery System (“TLS”) terminals. Whereas slot machines use a random number generator to determine the outcome at each device, TLS terminals are linked to an internal lottery system that effectively dispenses electronic scratch tickets whose outcomes are displayed on electronic monitors similar to those on slot machines. From a player’s perspective, there is no distinguishable difference between slot machines and TLS terminals. We note that almost all Washington Class III casino operators commonly refer to their TLS terminals as “slots.”

Some Washington casinos have a mix of TLS terminals and Class II (i.e., bingo-based) electronic gaming machines, and the state’s Class II casinos have only Class II machines.

From a legal and regulatory standpoint, the distinction between Las Vegas-style slot machines, TLS terminals and Class II machines is important. From Spectrum’s standpoint in analyzing and projecting the performance of the Washington State casino industry – and from the standpoint of casino players – the distinctions among the types of devices gaming devices is

⁴ Per the Indian Gaming Regulatory Act, and as described by the National Indian Gaming Commission: “Congress included the definition of Class II gaming as follows: bingo; when played in the same location as bingo – pull tabs, lotto, punch boards, tip jars, instant bingo, other games similar to bingo, and non-house banked card games authorized or not explicitly prohibited by the state in which the tribal operation is located. All other games are Class III, except for certain social or traditional forms of gaming. Class III games include, but are not limited to the following: baccarat, chemin de fer, blackjack, slot machines, and electronic or electromechanical facsimiles of any game of chance.” See <http://www.nigc.gov/commission/faqs>.

not important. Accordingly, for the purposes of this report we use the generic term “slot machine” or “slots” to cover both TLS terminals and Class II gaming machines.

Disclaimer

Spectrum has made every reasonable effort to ensure that the data and information contained in this study reflect the most accurate and timely information possible. The data are believed to be generally reliable. This study is based on estimates, assumptions, and other information developed by Spectrum from its independent research effort, general knowledge of the gaming industry, and consultations with the WSGC and its representatives. Spectrum shall not be responsible for any inaccuracies in reporting by the WSGC or its agents and representatives, or any other data source used in preparing or presenting this study. The data presented in this study were collected through July 31, 2016. Spectrum has not undertaken any effort to update this information since this time.

Some significant factors that are unquantifiable and unpredictable – including, but not limited to, economic, governmental, managerial and regulatory changes; and acts of nature – are qualitative by nature, and cannot be readily used in any quantitative projections. No warranty or representation is made by Spectrum that any of the projected values or results contained in this study will actually be achieved. We shall not be responsible for any deviations in the project’s actual performance from any predictions, estimates, or conclusions contained in this study.

This study is qualified in its entirety by, and should be considered in light of, these limitations, conditions and considerations.

B. About Spectrum Gaming Group

Spectrum Gaming Group LLC, founded in 1993, is an independent research and professional services firm serving public- and private-sector clients worldwide. Our principals have backgrounds in gaming operations, financial and economic analysis, law enforcement, due diligence, gaming regulation, compliance and journalism.

Independence and integrity are our hallmarks. We assiduously avoid conflicts of interest, and we hold no beneficial interest in any casino operating companies or gaming equipment manufacturers or suppliers. We employ only senior-level executives and associates who have earned reputations for honesty, integrity and the highest standards of professional conduct. Our findings, conclusions and recommendations are based solely on our research, analysis and experience. We do not tell clients necessarily what they want to hear; we tell them what they need to know. We will not accept, and have never accepted, engagements that seek a preferred result.

Spectrum clients have included state, tribal and national governments; commercial and tribal casino operators; investment firms; law firms; developers; and other gaming-related entities. Our reports have been used by clients to shape public policy, secure financing, formulate marketing plans, determine scope and size of development, establish gaming regulations, and make licensing decisions, among other purposes.

Governments regularly call on Spectrum to share our expertise when considering public-policy, regulatory and legal issues. Our principals have testified or presented before the following government bodies:

- British Columbia Lottery Corporation
- California Assembly Governmental Organization Committee
- Florida House Select Committee on Gaming
- Florida Senate Gaming Committee
- Georgia House Study Committee on the Preservation of the HOPE Scholarship Program
- Georgia Joint Committee on Economic Development and Tourism
- Illinois Gaming Board
- Illinois House Executive Committee
- Indiana Gaming Study Commission
- Indiana Horse Racing Commission
- Iowa Racing and Gaming Commission
- Louisiana House and Senate Joint Criminal Justice Committee
- Massachusetts Gaming Commission
- Massachusetts Joint Committee on Bonding, Capital Expenditures, and State Assets
- Michigan Senate Regulatory Reform Committee
- National Gambling Impact Study Commission
- New Hampshire Gaming Study Commission
- New Jersey Assembly Regulatory Oversight and Gaming Committee
- New Jersey Assembly Tourism and Gaming Committee
- New Jersey Senate Legislative Oversight Committee
- New Jersey Senate Wagering, Tourism & Historic Preservation Committee
- New York Senate Racing, Gaming and Wagering Committee
- Ohio House Economic Development Committee
- Ohio Senate Oversight Committee
- Pennsylvania Gaming Control Board
- Pennsylvania House Gaming Oversight Committee
- Puerto Rico Racing Board
- US House Congressional Gaming Caucus
- US Senate Indian Affairs Committee
- US Senate Permanent Subcommittee on Investigations
- US Senate Select Committee on Indian Gaming
- US Senate Subcommittee on Organized Crime
- West Virginia Joint Standing Committee on Finance
- World Bank, Washington, DC

For more information about Spectrum, including a client list and links to our public reports and presentations, visit www.spectrumgaming.com.

I. Washington Casinos and Cardrooms

Washington State has more casinos of some type – 80 – than all but three states: Nevada (271), California (149) and Oklahoma (124).⁵ The Washington casinos are classified as follows:

- Class III casinos – 26
- Class II casinos⁶ – 4
- House-banked cardrooms (often called casinos or mini-casinos) – 50

Spectrum in June 2016 visited all Class III casinos and 16 cardrooms in the state to evaluate how, generally, they compare to facilities in other states; examine the breadth and quality of non-gaming amenities; assess the modernity and offerings on the gaming floor; and observe the operations. Class III facilities dominate the casino landscape in Washington, generating more than 11 times the gross gaming revenue of the cardrooms.

A. Class III Casinos

Washington’s Class III casinos have a remarkable breadth of size and quality, ranging from first-class destination resorts such as Northern Quest in suburban Spokane and Suquamish Clearwater across from Seattle, to regional casinos such as Mill Bay on the shores of Lake Chelan and Red Wind in Olympia, to smaller, no-frills casinos such as Coulee Dam and Shoalwater Bay on the coast.

The following table catalogs the Class III casinos in Washington. In addition to listing the size and primary non-gaming amenities at each casino, Spectrum classified each of the casinos into one of four types, as follows, based on our observations and experience analyzing the casino industry throughout North America:

- **Major destination casino resort (MDR):** A property with wide range of non-gaming amenities, hotel, entertainment options, dining experiences; capable of drawing tourists from beyond the regional market for a multi-night stay.

⁵ Nevada is for all non-restricted locations generating at least \$1 million in revenue (Nevada Gaming Abstract 2015). California includes 60 Indian casinos (as of January 31, 2016) and 89 cardrooms (California Gambling Control Commission reports accessed July 27, 2016). Oklahoma includes all Class III and Class II Indian casinos (Oklahoma Indian Gaming Association, via *Indian Country Today*, July 27, 2016). Note: Montana has 179 cardrooms (Montana Gambling Control Division interview July 27, 2016) that offer only poker or other non-banked games and thus are not considered here (nor does the WSGC list non-banked cardrooms).

⁶ As noted in the Introduction, Spectrum did not visit Class II casinos, as they are not regulated by the WSGC and thus not a focus of this report.

- **Regional destination casino resort (RDR):** Smaller than a destination resort, with non-gaming amenities, hotel, entertainment, and dining options; capable of drawing overnight guests from the region it serves.
- **Regional casino (RC):** A full-service casino with non-gaming amenities but without a hotel; capable of drawing patrons from an extended drive-in market or day-trip tourists.
- **Locals casino (LC):** A smaller gaming floor with amenities limited to food and beverage service; patron base is primarily the local market.

The data in the table below are based on the latest available information sourced from Spectrum site visits, interviews with gaming operators from June through August, and from the casinos' websites. The numbers of Tribal Lottery System terminals/slot machines,⁷ table games and amenities (particularly food and beverage outlets) are subject to continual change based on the operators' business needs. Note that bars, lounges, restaurants and entertainment venues can have multiple purposes and thus quantifying and classifying such venues is subject to change, double-counting and subjectivity.

⁷ As noted in the Introduction, traditional, Las Vegas-style slot machines are statutorily prohibited in Washington State. Class III machine gaming in the state is instead offered through Tribal Lottery System ("TLS") terminals. Whereas slot machines use a random number generator to determine the outcome at each device, TLS terminals are linked to an internal lottery system that effectively dispenses electronic scratch tickets whose outcomes are displayed on electronic monitors similar to those on slot machines. From a player's perspective, there is no distinguishable difference between slot machines and TLS terminals. We note that almost all Washington Class III casino operators commonly refer to their TLS terminals as "slots."

In this report, the term "slot" or "slot machine" is used generically for all forms of TLS terminals and Class II (i.e., bingo-based) gaming machines.

Figure 1: Washington State Class III casinos

Casino	Location	Spectrum Classification*	TLS Terminals/Slots	Table Games	Hotel Rooms	Table-Service Rest/Bufetts	No. Bars/Lounges	Meeting Space S.F.	Spa	Nightclubs	Live Entertainment venues	Other
7 Cedars	Sequim	RC	581	12		3	2			1		Golf course, deli
12 Tribes	Omak	RDR	560	8	80	2	1	300	1	1		Sweet shop
Angel of the Winds	Arlington	RDR	1,150	12	125	3	2	1,200				RV park
Chewelah	Chewelah	LC	320	5		1	1					
Coulee Dam	Coulee Dam	LC	164	-			1					Deli
Emerald Queen I-5	Tacoma	RC	2,060	56		3	1	20,000		1	1	
EQC at Fife	Fife	RDR	1,630	-	100	3		5,600				
Legends	Toppenish	RC	1,400	24		1						Two delis, espresso bar
Little Creek	Shelton	RDR	1,200	28	191	5		22,500				
Lucky Dog	Shelton	LC	260			1	1					
Lucky Eagle	Rochester	MDR	1,100	26	170	4	2		2	1	1	RV parking, 18-hole golf course
Mill Bay	Manson	RC	640	14		1				1	1	
Muckleshoot/ Muckleshoot II	Auburn	RC	3,100	100		7	5	8,000		1		Hot dog cart, coffee shop
Northern Quest	Airway Heights	MDR	1,653	46	200	4	4	22,000	1	1	1	Food court
Quil Ceda Creek	Tulalip	RC	1,000	8		2	1			1		Coffee stand, grab and go
Quinault Beach	Ocean Shores	RDR	700	12	159	3	1	10,000	1			
Red Wind	Olympia	RC	1,400	20		4	1			1		
Shoalwater Bay	Tokeland	LC	268	-	-	2	1					
Silver Reef	Ferndale	MDR	1,200	20	206	5	3	27,135	1		1	Coffee stands
Skagit Valley	Bow	RDR	910	9	144	3	1	14,000			1	
Snoqualmie	Snoqualmie	RC	1,700	54		6	1				1	
Suquamish Clearwater	Suquamish	MDR	1,158	32	183	6	1	12,000	1			Outdoor events, golf course
Swinomish	Anacortes	RDR	820	15	98	3	1	9,000				RV park, golf course
The Point	Kingston	RC	495	10		3	1			1	1	Cigar room
Tulalip	Tulalip	MDR	2,500	37	370	6	3	25,000	1	1	1	Seasonal outdoor concerts
Two Rivers	Davenport	LC	230	3								RV Park, Marina, Grill
Totals			28,199	551	2,026	81	35	176,735	8	11	9	

Source: Spectrum Gaming Group site visits and interviews, casino websites through June 30, 2016. Amenities shown are not necessarily a complete listing. * Classifications: MDR = major destination resort; RDR = regional destination resort; RC = regional casino; LC = locals casino.

Spectrum found that Washington casinos are geographically well distributed with respect to the population. In this sense, they are somewhat akin to franchises. They have certain, differing levels of geographic protection and this protection can work in their favor – or against

them – depending on the population density and overall economic health of their respective regions.

The casinos are largely reflective of the regions in which they operate. Casinos near population centers can, by definition, draw more visits, and thus can justify greater capital investment. Casinos in remote areas, by contrast, cannot justify such investments simply because they cannot expect to draw from beyond their core catchment areas.

One laudable exception to this observation is the 12 Tribes gaming resort. Situated on the Colville reservation in Omak in lightly populated north central Washington, 12 Tribes is located almost three driving hours from Spokane and four driving hours from Seattle. Opened in 2015 at a cost of \$48 million, the property includes an 80-room, four-star hotel with spa, two restaurants, nightclub, and pool with indoor-outdoor hot tub. It replaced the tribe's smaller, simpler Okanogan Casino that was 3.5 miles down the road. Clearly, the Colville federation is attempting to expand its market. 12 Tribes draws players principally from a 50-mile radius as well as Canadian tourists. Although initially hurt by area wildfires, a harsh winter and devalued Canadian currency, the property is hitting its stride in Year 2 and has proven to be an attractive regional getaway, said John MacClain, chief operating officer for the Colville casinos. We believe 12 Tribes could be a model for other casinos looking to evolve beyond a simple gaming operation while making what by industry standards is a modest capital investment.

A notable common aspect to Washington's Indian casinos – particularly those in areas with limited entertainment options – is that they have evolved to function as entertainment and cultural centers in their respective regions. Even the smallest casinos we visited – such as Lucky Dog Casino and Shoalwater Bay Casino – had limited entertainment options but were clearly able to attract and service their home communities, creating a relaxed atmosphere where players and staff enjoyed personal relationships.

By contrast, major properties such as Snoqualmie, Suquamish Clearwater and Northern Quest can leverage their access to the populous areas by offering dining and entertainment options that are beyond the economic reach of smaller operators.

As noted in more detail in Chapter VIII of this report, some casinos in less-populous areas of the state – such as the Quinault Beach Resort and the Lucky Eagle Casino – include attractive hotel offerings and have become central to the tourism industries in their respective regions.

Facility Assessments

Spectrum found that the size, quality and offerings of the Washington Class III casinos is on par with casinos in other states that have large tribal gaming industries. Washington, like California, Arizona and Oklahoma, includes casinos ranging from first-class destination resorts on a par those on the Las Vegas Strip (in quality, not size) to small, no-frills casinos. In general, we

found the casinos to be sized and developed (in quality and amenity offerings) appropriate to their respective markets.

While it is beyond the scope of this project to assess the needs of each casino, we believe some properties have the opportunity to increase their volumes – or at least stem potential declines – by making disciplined and effectively researched capital improvements. Such projects are critical on an industrywide basis for several reasons:

- **Keeping the property fresh.** Casinos rely on high-frequency customers and considerable daily traffic, which wear down public facilities quickly. Failure to both maintain public spaces and provide customers something new to experience can lead to a vicious cycle of decline – i.e., the “cost of doing nothing.”
- **Expanding the market.** New amenities – particularly adding or expanding a hotel – both increase the geographic reach of a property and provide additional reward for players of higher value.
- **Defending market share.** To the extent a competitor improves its product offering, a casino will need to give its current customers a new reason to stay put.
- **Technology upgrades.** Deploying the latest technological advancements in business-intelligence-based marketing tactics, guest service enhancement, and operational efficiencies can lead to higher profits.
- **Upgraded amenities.** Patrons in certain markets are willing to pay more for improved amenities, such as a fine-dining restaurant, modern nightclub or luxurious spa.

Of course, any capital improvement project should be subject to a feasibility study specific to the particular market to determine whether there is likely to be an acceptable return on investment.

Regardless of the size, location or quality of the casino, we found Washington gaming and gaming-related employees to be friendly, helpful and more personable than in other jurisdictions where we have worked. Such service may be taken for granted within Washington but surely is a positive attribute.

It is important to note that the quality of facility is not necessarily proportional to its performance. There are many factors at play, including location, service levels and amenities offered.

A superior location can trump facility quality, amenities offered and guest service. For instance, Snoqualmie Casino is a 30-minute drive from Seattle and features 1,700 TLS slots and 54 table games. Spectrum found this property to be exemplary in contemporary “adult playground” design, gaming product, levels of food and beverage, name entertainment and

employee friendliness. Customer volume during our mid-week late afternoon visit was impressive. Just 32 miles away, Emerald Queen I-5 in Tacoma is located directly off a major artery in a city of more than 200,000. Emerald Queen I-5 features 2,060 slots, 56 table games, four value-oriented restaurants and entertainment. We observed it to be the busiest casino, by far, of any property we visited – a formidable competitor to a physically superior facility in almost every aesthetic and operational category except gaming product. We found that a majority of patrons were willing to substitute a far superior property with greater amenity variation (Snoqualmie) and superior environment for the sake of convenience (Emerald Queen I-5).

The following observations, by casino type, are based on the physical and operational aspects Spectrum observed in Washington casinos. They are assessed through the eyes of both a prospective guest and a gaming operator.

Major Destination Resorts

Two Washington gaming resorts earned four-diamond ratings from AAA for 2016: Northern Quest and Tulalip. Only 5.7 percent of 28,000 hotels approved by AAA make the four-diamond list, including in 31 Washington.⁸ No gaming properties in Idaho or Oregon have four-diamond ratings but one in British Columbia does: Rock River Casino Resort. Based on the AAA ratings, Northern Quest and Tulalip would be considered commensurate in quality to the four-diamond casino hotel properties in the following major gaming markets:

Nevada

- Delano Las Vegas
- HRH
- JW Marriott Las Vegas Resort & Spa
- Mandalay Bay Resort & Casino
- Vdara Hotel & Spa
- Aliante Casino Hotel and Spa
- MGM Grand Hotel & Casino
- Palms Place Hotel and Spa
- Red Rock Casino Resort & Spa
- The Cosmopolitan of Las Vegas
- The Mirage
- Green Valley Ranch Resort & Spa
- Hyatt Regency Lake Tahoe Resort
- Atlantis Casino Resort Spa
- Peppermill Resort Spa Casino
- The Signature at MGM Grand

Florida

- Seminole Hard Rock Hotel & Casino
- Seminole Hard Rock Hotel & Casino Tampa

Atlantic City

- Borgata Hotel Casino & Spa
- Caesars Atlantic City
- Golden Nugget Atlantic City
- The Water Club by Borgata

Biloxi, Mississippi

- Beau Rivage Resort & Casino
- Hard Rock Hotel & Casino
- IP Casino Resort Spa
- Palace Casino Resort Hotel

Southern California

- Pala Casino Spa and Resort
- Pechanga Resort and Casino
- Harrah's Resort Southern California
- Viejas Casino and Resort

⁸ AAA Four-Diamond Hotels, January 15, 2016.

[http://www.aaa.biz/Travel Information/Diamonds/Awards/2016/January%202016%20-%204D%20Hotels%20-%20FINAL.pdf](http://www.aaa.biz/Travel%20Information/Diamonds/Awards/2016/January%202016%20-%204D%20Hotels%20-%20FINAL.pdf)

Tulalip and Northern Quest are among five Washington properties that Spectrum categorizes as major destination gaming resorts; the others are Lucky Eagle Casino Resort, Suquamish Clearwater Resort, and Silver Reef Hotel and Casino Spa.

We found Tulalip Resort to be emblematic of this category, capable of competing well in any major US gaming market. The overall condition of the property is excellent. The landscaping scheme of the property showcases water features and other natural elements designed to heighten sense of anticipation and arrival. The combination of clear sightlines, navigability, upscale hard surfaces, wall textures and natural elements complete a welcoming picture. The room product is excellent. Rooms are spacious and clean with premium bedding and a powerful shower. Storage capacity is ample for extended lengths of stay. The staff at Tulalip is well trained, well informed, and easily capable of positive guest interaction while performing assigned duties efficiently. This occurred at valet, the front desk, the casino floor, two food and beverage outlets and security.

Northern Quest, located just eight miles from downtown Spokane and close to Spokane International Airport, is a full-service resort of similar quality to a Las Vegas Strip resort, albeit smaller. This property was not masterplanned; instead it has been expanded since opening and now includes a 200-room, four-star hotel with spa, outdoor event venue, and numerous food and beverage outlets including a large-scale sports and entertainment restaurant/bar. The property is sized and equipped to serve a metro area with a population of nearly a half-million. Curt Holmes, director of public and government affairs for the Kalispel Tribe, said Northern Quest derives a significant percentage of its total revenue from non-gaming sources.

Casino properties in this category are well positioned to adapt to the emerging Millennial demographic, which will significantly heighten the need for engaging interior design and social interaction, wagering activities that requiring skill rather than random chance, and opportunities for tech-based competition between groups of gamers.

Regional Destination Resorts

Regional destination gaming resorts are smaller than major destination resorts, designed to both accommodate existing, higher-value players who seek to be rewarded for their play with an overnight stay and to extend the reach of the market by providing an overnight stay for those who arrive from farther away. Spectrum placed seven properties in this category, including 12 Tribes, Angel of the Winds, Emerald Queen at Fife, Little Creek, Quinault Beach, Skagit Valley Casino Resort, and Swinomish Casino and Lodge Resort.

We found the Swinomish Lodge and Casino in Anacortes to a commendable example in this category. Located in Anacortes, 76 miles north of Seattle, Swinomish property features 98 spacious, well-appointed hotel rooms, half of which offer picturesque views of Padilla Bay. Swinomish also offers a 33-spot, full-service waterfront RV park. The Swinomish Links golf course

is located within a five-minute drive of the property. The Swinomish gaming product is current and well maintained. Housekeeping standards are above average and staff encounters reveal a genuine effort in the consistent provision of current information and guest comfort. The facility also offers a popular signature chef restaurant (13 Moons) with reasonable price points.

Anacortes is a popular boating and outdoor activity destination. Located on Fildago Island, Anacortes is surrounded by Puget Sound, the San Juan Islands and the Swinomish Channel. Local area activities range from boating, whale watching, sailing to the San Juan Islands, camping and cycling. The Swinomish Lodge is uniquely well positioned in terms of a location that provides diversity in activities that extend beyond the casino floor. Swinomish possesses a distinct advantage in that the natural non-gaming activities require no capital expense and reduce promotional inducement need. This results in low-acquisition-cost, free-spending traveler. This places Swinomish in an advantageous growth position over many of its inland, gaming-centric competitors. Looking forward, Swinomish would be well served to further capitalize on its natural surroundings to spur both gaming and non-gaming growth.

Another regional casino resort property that enjoys a significant competitive advantage is the Emerald Queen Casino in Fife (“EQC Fife”), but for a vastly different reason than Swinomish. EQC Fife is a gaming-centric casino and enjoys the benefits of having a sister property three miles away, the Emerald Queen Casino I-5 (“EQC I-5”), which we classified as a regional casino. EQC Fife, which has 100 hotel rooms, 1,620 slots and three food outlets, is adjacent to one of the busiest arteries in the densely populated Tacoma area. As a regional destination resort, EQC Fife is an entirely different property than EQC I-5. EQC Fife exudes a notably subdued environment, with contemporary design and more natural ambient lighting and intimate setting than its sister property. EQC I-5, on the other hand, exudes more of a “hustle and bustle” environment and no hotel. The host Puyallup tribe is therefore able to offer guests distinctly different options that are relatively close together, allowing the tribe to increase its the customer base and build brand loyalty. Loyal EQC Fife and ECQ I-5 guests should always be made aware that they are welcome to the any of the diverse amenity choices and environments available at either property.

Regional Casinos

Properties that Spectrum classified as regional casinos have the widest range of design quality, operational best practices, amenity offerings, and guest service levels among our four categories. Essentially, they include any property does not have a hotel but is more than a small, locals-oriented casino. The category includes nine casinos: 7 Cedars, EQC I-5, Legends, Mill Bay, Muckleshoot, The Point, Red Wind, Quil Ceda Creek, and Snoqualmie.

The greatest operational commonality across all levels of these properties was found in the gaming product. All properties offered gaming assets that were current and well maintained. Most slot floors were heavily skewed toward low-denomination video machines.

Some of the larger regional casinos may be candidates to transform into gaming resorts – as Legends is doing now. The Yakama Nation is investing \$90 million to transform a mid-sized casino with limited amenities into a resort that will feature 200 hotel-rooms in an attractive, six-story structure that will include a spa, conference space, fitness center and business center. Any such transformation from casino to casino resort would be subject to a feasibility study, including a hotel market analysis, both to determine the optimal size of the project and the incremental revenue and profits that would be generated from having most of the rooms yield-managed toward higher-value gamblers; such overnight players are typically worth two times to three times more than a typical day-trip players.

Spectrum found Snoqualmie to be a category-defining property. Located 25 miles east of Seattle and just off Interstate 90, this property has standout design, operational efficiency, superior guest service, and excellent food and beverage service. Spectrum found this property to be a formidable competitor from a service and facility standpoint. We conversed with multiple employees in food service, gaming and groundskeeping. In each case Spectrum found Snoqualmie employees to be knowledgeable, friendly and proud of where they worked.

The Snoqualmie gaming floor layout is highly effective in showcasing gaming assets, navigability and non-gaming amenities. Spectrum found Snoqualmie’s atmosphere to be intimate, inviting and devoid of the “visual chaos” found in other properties. We believe the Snoqualmie property would be highly competitive property in any market.

The smaller casinos in this category have more limited gaming floors and amenities. As such, they are designed for shorter lengths of stay and lower frequency of visitation. These facilities are skewed toward building guest loyalty with multiple “value proposition marketing tactics” found in many similar-sized casinos in the Mississippi, northern Nevada and Las Vegas markets. Spectrum found food to be the primary gaming driver in areas of quality and price point. Aggressive slot club marketing strategies in areas of introductory slot point offers, free play, and food incentives were found in every property within the category.

A standout property among the smaller regional casinos was the 7 Cedars Casino in Sequim. The 7 Cedars exterior grounds and building design are exemplary in terms of upkeep and sense of arrival. Parking areas are noticeably absent of dirt or debris and present a perception of overall safety. The 7 Cedars gaming floor layout is spread over two areas. One area is designated for 18-year-old slot gamers; this area does not offer table games and does not serve alcoholic beverages on the floor. The second area is the main casino, which has an easily navigable casino floor, flattering ambient lighting, and an intimate atmosphere to promote social interaction.

Locals Casinos

These properties are categorized as offering smaller gaming floors with amenities limited to minimal food and beverage. Essentially, they are no-frills casinos. In some cases, the casino is

sized and equipped based on market demand and in others it may be due to a lack of capital needed to upgrade or expand the property.

We placed five casinos this category – Chewelah, Coulee Dam, Lucky Dog, Shoalwater Bay, and Two Rivers – while acknowledging that the term “locals” may be misleading in some instances.

Two Rivers Casino, for instance, is open only seasonally – typically May through October – because it relies heavily on summer residents, tourists, campers and boaters. It is located in prime camping/vacationing sites across from Fort Spokane at the confluence of the Columbia and Spokane rivers. Coulee Dam Casino counts on tourism to the adjacent Grand Coulee Dam for a portion of its revenue. Shoalwater Bay is a unique locals casino in that it does have a small, associated lodging facility nearby – the 17-room Tradewinds on the Bay, also owned by the Shoalwater Bay Tribe. Tradewinds provides complimentary shuttle service to the casino.

Chewelah Casino, now managed by Las Vegas-based Warner Hospitality, is more of a typical locals casino – and it strikes us as a candidate for expansion or upgrades at some point. The small but busy property on US 395 is equidistant from the British Columbia border and Spokane and draws players from both markets.

Coulee Dam, the state’s smallest casino, has recognized the need to upgrade its facility, which currently has only a deli, small bar/lounge and 164 slots. It is spending \$3.5 million to add a full-service restaurant, and improve and expand the gaming floor by 24 slots. Eventually, the Colville federation plans to relocate the lounge upstairs to take advantage of the dam view.

We believe the small size of casinos in this category creates low guest expectations in terms facility quality and amenities. In each instance, however, we found the employees to be friendly and attentive to their guests.

Expansion Projects

The Washington State Indian gaming industry is growing, as shown by the annual increases in gross gaming revenue. (See Chapter II.) Its facilities have expanded to meet – and in some cases stimulate – demand in the marketplace. Spectrum identified five Class III expansion projects underway in the state, including two new properties, as shown in the following table; The economic impacts of these projects are included in our modeling in the Chapter IV of this report.

Figure 2: Class III casino expansion projects underway

Tribe	Project	Cost	Start	Completion	Amenities, notes
Colville	Coulee Dam Casino expansion	\$3.5 (i)	Early 2016	October 2016	Full-service restaurant, add 24 slots.
Cowlitz	New Ilani casino resort in Ridgefield	\$510M (p)	February 2016	Spring 2017	100,000 square-feet of gaming space with 2,500 slots and 80 gaming tables, 15 restaurants, bars, retail outlets, 2,500-seat meeting and entertainment venue. No hotel in this phase.
Port Gamble	The Point Casino - hotel expansion	\$30M (e)	September 2015	November 2016	94-room hotel, 44-seat meeting space, fitness room, indoor/outdoor lounge, outdoor gathering area with outdoor kitchen and fire pit.
Spokane	New casino resort, Phase I, in suburban Spokane	\$32M (e)	Third quarter 2016	Late summer/early fall 2017	10-year development plan ultimately costing \$400M. Phase I includes: 450 Class III slots, 12 table games, two restaurants, outdoor activity area with eating area, bar. Future phases/timing will be market-driven.
Yakama	Legends Casino - add hotel, amenities	\$90M (p)	August 2014	Year-end 2016	200-room hotel, spa, fitness center, conference room, business center, F&B.

Source: Casino websites, Spectrum Gaming Group interviews and estimates. Project cost notes: p = published; i = interview with source; e = Spectrum estimate.

B. Cardrooms

Washington has 50 house-banked cardrooms, 28 of which operate the maximum 15 table games. Spectrum visited 16 of cardrooms throughout the state. They ranged from casino-like environments such as Casino Caribbean in Yakima to attractive locals spots such as Crazy Moose in Pasco to small side rooms in bowling centers such as Lilac Lanes in Spokane. Some cardrooms are situated close enough to give local players a reasonable choice, which of course breeds competition and should increase the quality of the patron experience. We note that a section of Tukwila’s Interurban Avenue is home to a cluster of cardrooms including Riverside Casino, Great American Casino, Fortune Casino and Palace Casino. These facilities are gaming-centric and offer value-priced Asian and American menu choices. The food at these establishments visited by Spectrum was of excellent quality.

All cardrooms offer food and beverage (“F&B”) service, which is a State requirement;⁹ the F&B offerings range from a small bar with a few tables to more refined restaurants. Some offer only F&B while others were part of larger enterprises. For example, Joker’s cardroom in Richland is part of a complex that includes bowling, a games arcade, a pool hall, a comedy club, a restaurant, a bar and lounge, and a cigar store. The following table provides the size and primary non-gaming amenities beyond food and beverage at each house-banked cardroom.

⁹ By State law, gambling activities are established as an ancillary to other facilities, as noted by the WSGC, which requires that commercial applicants must “demonstrate that the gambling activity would be a commercial stimulant to on-premises food and/or drink sales.”

Figure 3: Washington State cardrooms

Cardroom	Location	No. Tables	Features in addition to food and beverage
Aces Casino Entertainment	Spokane	7	
All Star Casino	Silverdale	15	Bowling
Black Pearl Restaurant & Card Ro	Spokane	15	
Buzz Inn Steakhouse	East Wenatchee	10	
Caribbean Cardroom	Kirkland	7	
Casino Caribbean/Kirkland	Kirkland	15	
Casino Caribbean/Yakima	Yakima	15	Off-track betting
Chips Casino/Lakewood	Lakewood	12	
Clearwater Saloon & Casino	East Wenatchee	11	
Club Hollywood Casino	Shoreline	15	
Coyote Bob's	Kennewick	12	
Crazy Moose Casino/Mountlake Terrace	Mountlake Terrace	15	
Crazy Moose Casino/Pasco	Pasco	15	Meeting room
Fortune Casino	Tukwila	12	
Freddie's Club/Renton	Renton	15	
Goldie's Shoreline Casino	Shoreline	15	
Great American Casino/Everett	Everett	15	Banquet, meeting room
Great American Casino/Lakewood	Lakewood	15	Banquet, meeting room
Great American Casino/Tukwila	Tukwila	15	
Hawks Prairie Casino	Lacey	15	
Iron Horse Casino/Auburn	Auburn	15	
Joker's Casino Sports Bar & Fiesta	Richland	11	Bowling, arcade, pool hall, comedy club, lounge, cigar store
Lancer Lanes Restaurant And Casino	Pullman	9	
Last Frontier	La Center	15	
Lilac Lanes & Casino	Spokane	12	Bowling
Lucky 21	Woodland	15	
Lucky Bridge Casino	Kennewick	15	
Macau Casino/Lakewood	Lakewood	15	
Macau Casino/Tukwila	Tukwila	15	
New Phoenix	La Center	14	
Nob Hill Casino	Yakima	7	Bowling
Palace Casino/Lakewood	Lakewood	15	
Palace Tukwila	Tukwila	7	
Papa's Casino, Restaurant & Lounge	Moses Lake	12	
RC's	Sunnyside	9	
Red Dragon Casino	Mountlake Terrace	10	
Riverside Casino	Tukwila	15	
Roman Casino	Seattle	15	
Roxy's Bar & Grill	Seattle	12	Bowling
Royal Casino	Everett	15	
Silver Dollar Casino/Mill Creek	Mill Creek	15	
Silver Dollar Casino/Renton	Renton	15	
Silver Dollar Casino/Seatac	SeaTac	15	
Slo Pitch Pub & Eatery	Bellingham	9	
The Getaway	Walla Walla	8	Bowling
The Palace/La Center	La Center	15	
Ubet	Longview	11	Nightclub
Wild Goose Casino	Ellensburg	7	
Wizards Casino	Burien	15	
Zs Restaurant at Zeppoz	Pullman	6	Bowling
Total		551	

Source: Washington State Gambling Commission, Spectrum Gaming Group site visits and interviews, cardroom websites. Note: Total table games subject to change on an ongoing basis. Amenities list is not necessarily definitive.

Spectrum observed some cardrooms that have lackluster visual appeal, ranging from mundane interior ambiance to exterior building maintenance issues to uninviting parking lots.

These stand in contrast to the often glitzier, more polished facilities provided by most Indian casino operators. We believe this disparity is symptomatic of the limitations and economic issues facing the cardroom industry, as discussed below.

Due largely to the 15-table cap, we found that the primary points of differentiation among cardroom operators are in the quality and breadth of their food and beverage offerings as well as the overall environment. In our observations, cardrooms were less like casinos and more like comfortable, unthreatening hangouts for locals – and thus one reason for their appeal.

The types of games offered are limited, as well, and poker seems to be on the decline in the cardrooms we visited. The Black Pearl in suburban Spokane is bucking the trend, with seven poker tables among its 15. Co-owner Ian Riley, a poker player himself, said poker success requires a great deal of personal service and marketing geared toward regular players.

The cardrooms effectively have facility limitations because of the table games cap; i.e., they cannot expect to expand their gaming area or add amenities that would help to drive gaming revenue. Even in facilities that have a bowling center, for example, the crossover play between casino play and bowlers is small. Because of the facility limitations, Spectrum will focus on other, operational issues facing the cardroom industry.

Operational Issues

Cardrooms, despite many branding themselves as “casinos,” are not true casinos in the eyes of the patrons, whereas Washington’s Class III casinos certainly are. Cardrooms are limited to card games (i.e., no roulette, craps, big wheel, etc.), have lower betting limits than the casinos, and cannot offer slot machines or similar electronic gaming devices. They further pay a host-municipality tax that ranges from 2 percent to the maximum of 20 percent of gross receipts.

The Washington cardroom industry further faces a series of challenges that range from economic to political. Among them:

- Proposals to increase the minimum wage that do not take tip income into account.
- Smoking bans that affect cardrooms but not Indian casinos.
- Extremely low barriers to entry, which allow new cardrooms to spring up periodically that cut into already-thin profit margins.
- Continuing expansion of the Indian casino industry – notably the scheduled 2017 opening of the Ilani casino in Ridgefield, which will directly impact five cardrooms operating in Clark and Cowlitz counties.

Taken together, such challenges paint a bleak picture for cardroom operators, based on our research, which included interviews with leaders of the Recreational Gaming Association (“RGA”), the industry’s trade group. Victor Mena, RGA Vice President and Vice President for

Washington Operations of Nevada Gold, which operates nine Washington cardrooms, said the combination of economic factors and growth in tribal gaming could soon halve the number of cardrooms statewide – which already has been more than halved from their peak of 113 in 2005.

According to the RGA’s leadership, a typical cardroom in the state:

- Employs between 100 and 165 full-time equivalent employees who earn about \$28 per hour, including tips, on average
- Spends about 30 percent of its revenue on purchases of goods and services from other Washington businesses

The minimum wage in Washington State is presently \$9.47, but is higher in certain municipalities.¹⁰ In 2015, Washington enjoyed the highest minimum wage in the nation, but has since been eclipsed five states that raised their respective minimum wage levels this year.¹¹

According to the RGA leaders we interviewed, cardroom dealers must be paid the minimum wage, as they do not meet the necessary requirements for exemptions under the law, even though tip income for dealers can be extensive.¹² According to one operator, every 10-cent increase in the minimum wage adds \$1,000 in cost per month. That presents a serious future challenge to an industry, particularly in light of an upcoming referendum that would raise the statewide minimum to \$13.50 over a four-year span.¹³

Such increases, coupled with related requirements on paid sick leave and other areas, will place material pressure on an already pressured industry, according to RGA leaders. They report that about 20 percent of their members are presently operating at a loss, while those that are profitable are likely to be reporting profit margins in the 5 percent to 10 percent range.¹⁴ We note that for Fiscal Year 2014, the last year for which WSGC data are available, 14 of the 49 cardrooms reported a net loss and 18 more operated at margins of less than 10 percent.

Low margins lead to lower capital investment and marketing outreach, which in turn can depress revenues and further depress profits. In challenging times, their profit margins face erosion from a variety of sources, but in profitable times, cardrooms face challenges from new competitors who view cardrooms as a low-cost means of entering the gaming business.

¹⁰ Minimum-Wage.org, Washington fact sheet. <http://www.minimum-wage.org/states.asp?state=Washington> (accessed June 29, 2016)

¹¹ Ibid.

¹² Interview with Recreational Gaming Association (“RGA”) board members, June 16, 2016.

¹³ Walker Orenstein, “State ballot measure filed to raise minimum wage to \$13.50,” Associated Press, January 11, 2016. <http://www.seattletimes.com/seattle-news/new-statewide-initiative-would-raise-minimum-wage/>

¹⁴ RGA interview.

Cardrooms are limited only by the availability of zoned acreage in municipalities that approve such gaming. With such low barriers to entry, cardroom owners and operators are not encouraged to invest significant capital in their facilities, which in turn also limits growth opportunities in both gaming and in food-and-beverage facilities.

As the operators describe it, they must confront a playing field that is not level in more than one area. For example, a statewide smoking ban that took effect on January 1, 2006, resulted in a material drop in gaming revenue “right out of the gate,” as one operator noted.¹⁵

Indeed, 2005 was the peak year for cardrooms, when the number of facilities and gross receipts peaked at 113 and \$307.7 million, respectively. Receipts subsequently declined every year, by a total of 29 percent, before rebounding slightly in 2014. (No further data have been published.)

The operators we interviewed noted that demographic trends are not evolving in their favor, as Millennials and other younger demographic cohorts are not attracted to card games, and such operators seek the ability to offer a limited number (10 was frequently mentioned by operators) of slot machines or similar electronic gaming devices within their facilities. Such a move, they say, would broaden their demographic appeal, and would particularly enhance business from couples, in which one adult prefers tables while the other wants electronic gaming. Some operators believe the solution should be electronic pull-tab machines, essentially a slot-like version of the paper pull tabs they already offer. Joshua Stueckle, a WSGC Agent in Charge, said the Commission has entertained manufacturers seeking to develop a slot-like device that would conform to State pull-tab regulations, but that approval or implementation is not imminent.

C. Class II Casinos

As noted in the Introduction of this report, Class II casinos are not a focus of this report, because they are, by definition, not subject to State compacts and thus not subject to regulatory oversight by the WSGC. They are nonetheless important business operations for their sponsoring Indian tribes and the people they employ. Per the federal Indian Gaming Regulatory Act of 1988, Class II gaming allows bingo and bingo-based slot machines as well as non-house-banked card games. The following table provides a list of the Class II casinos in Washington:

¹⁵ RGA interview.

Figure 4: Washington State Class II casinos

Casino	Location	No. Slots	Amenities
BJ's Bingo & Gaming	Fife	250	Bingo hall, café, 2 bars, cigar lounge
Elwah River Casino	Port Angeles	138	Deli
Muckleshoot Bingo	Auburn	500	Bingo, 1 restaurant, bar, coffee counter
Nooksack Northwood Casino	Lynden	400	RV park, 3 restaurants, gift shop
Total		1,288	

Source: Property websites, Spectrum Gaming Group research

In addition to the existing Class II operations above, the Colville federation – which operates three Class III casinos – plans to open a Class II facility, Twin Lakes Casino, in Inchelium in spring 2017. The \$1 million project is expected to have 50 slot machines along with a deli and lounge that will be shared with the existing Rainbow Beach Resort.

D. Washington Casino and Cardroom Landscape

Washington has an active land-based casino gaming industry, with 26 Class III Indian casinos and 50 cardrooms. We estimate the 76 total casinos and cardrooms currently have a total of 28,199 slot machines and 1,186 table games, yielding a total of 35,300-plus gaming positions.¹⁶ (There are an additional four Class II casinos, which as noted in the Introduction are not a focus of this report but which are included in our forecast; see Chapter I for discussion of Class II casinos and Chapter II for revenue projections.)

Geographically, casinos and cardrooms are well spread throughout Washington. Of the 39 counties, 26 have at least one casino or cardroom and while eight have at least one of each co-existing. A total 42.1 percent of the gaming facilities (or 32 of them) and 48.2 percent of the statewide gaming positions are concentrated within the Seattle-Tacoma-Bellevue Metropolitan Statistical Area (or three counties), where just over one-half of the statewide residents are located.

The 26 Class III casinos are operated by 21 distinct tribes, with 16 operating one casino each and five tribes having multiple casinos. We estimate the 26 casinos currently have 28,199 slot machines and approximately 551 table games, yielding more than 31,500 gaming positions.

Of the 39 counties, 17 are host to one or more casinos: nine are host to one casino, seven counties are host to two casinos, and one (Snohomish) is host to three casinos.

The 50 cardrooms are located in 17 counties: 10 counties have one or two cardrooms, six counties have three or four, and one county (King) is home to 16 cardrooms. We estimate the 50

¹⁶ 1 gaming position = 1 slot machine or 1 seat at a gaming table; we assume the industry-standard six seats per table game.

cardrooms currently have approximately 635 table games, yielding an average of 12.7 table games per cardroom.

Figure 5: Number of cardrooms, casinos and unit counts by county, June 2016

Counts	Cardrooms			Casinos			Cardrooms & Casinos		
	County	Facilities	Slots	Table Games	Facilities	Slots	Table Games	Facilities	Slots
Benton	3	-	38	-	-	-	3	-	38
Chelan	-	-	-	1	640	14	1	640	14
Clallam	-	-	-	1	581	12	1	581	12
Clark	3	-	44	-	-	-	3	-	44
Cowlitz	2	-	26	-	-	-	2	-	26
Douglas	2	-	21	-	-	-	2	-	21
Franklin	1	-	15	-	-	-	1	-	15
Grant	1	-	12	-	-	-	1	-	12
Grays Harbor	-	-	-	1	700	12	1	700	12
King	16	-	218	2	4,800	154	18	4,800	372
Kitsap	1	-	15	2	1,653	42	3	1,653	57
Kittitas	1	-	7	-	-	-	1	-	7
Lincoln	-	-	-	1	230	3	1	230	3
Mason	-	-	-	2	1,460	28	2	1,460	28
Okanogan	-	-	-	2	724	8	2	724	8
Pacific	-	-	-	1	268	0	1	268	-
Pierce	4	-	57	2	3,690	56	6	3,690	113
Skagit	-	-	-	2	1,730	24	2	1,730	24
Snohomish	5	-	70	3	4,650	57	8	4,650	127
Spokane	3	-	34	1	1,653	46	4	1,653	80
Stevens	-	-	-	1	320	5	1	320	5
Thurston	1	-	15	2	2,500	46	3	2,500	61
Walla Walla	1	-	8	-	-	-	1	-	8
Whatcom	1	-	9	1	1,200	20	2	1,200	29
Whitman	2	-	15	-	-	-	2	-	15
Yakima	3	-	31	1	1,400	24	4	1,400	55
Grand Total	50	-	635	26	28,199	551	76	28,199	1,186

Source: Washington State Gambling Commission, Spectrum Gaming Group

The following table shows the data from previous table on a per-county share basis (shares expressed within each column, each column must total 100 percent).

Figure 6: Market share by county of cardrooms, casinos and unit counts, June 2016

% of Total (by Column)	Cardrooms			Casinos			Combined		
	County	Facilities	Slots	Table Games	Facilities	Slots	Table Games	Facilities	Slots
Benton	6.0%	-	6.0%	-	-	-	3.9%	-	3.2%
Chelan	-	-	-	3.8%	2.3%	2.5%	1.3%	2.3%	1.2%
Clallam	-	-	-	3.8%	2.1%	2.2%	1.3%	2.1%	1.0%
Clark	6.0%	-	6.9%	-	-	-	3.9%	-	3.7%
Cowlitz	4.0%	-	4.1%	-	-	-	2.6%	-	2.2%
Douglas	4.0%	-	3.3%	-	-	-	2.6%	-	1.8%
Franklin	2.0%	-	2.4%	-	-	-	1.3%	-	1.3%
Grant	2.0%	-	1.9%	-	-	-	1.3%	-	1.0%
Grays Harbor	-	-	-	3.8%	2.5%	2.2%	1.3%	2.5%	1.0%
King	32.0%	-	34.3%	7.7%	17.0%	27.9%	23.7%	17.0%	31.4%
Kitsap	2.0%	-	2.4%	7.7%	5.9%	7.6%	3.9%	5.9%	4.8%
Kittitas	2.0%	-	1.1%	-	-	-	1.3%	-	0.6%
Lincoln	-	-	-	3.8%	0.8%	0.5%	1.3%	0.8%	0.3%
Mason	-	-	-	7.7%	5.2%	5.1%	2.6%	5.2%	2.4%
Okanogan	-	-	-	7.7%	2.6%	1.5%	2.6%	2.6%	0.7%
Pacific	-	-	-	3.8%	1.0%	0.0%	1.3%	1.0%	-
Pierce	8.0%	-	9.0%	7.7%	13.1%	10.2%	7.9%	13.1%	9.5%
Skagit	-	-	-	7.7%	6.1%	4.4%	2.6%	6.1%	2.0%
Snohomish	10.0%	-	11.0%	11.5%	16.5%	10.3%	10.5%	16.5%	10.7%
Spokane	6.0%	-	5.4%	3.8%	5.9%	8.3%	5.3%	5.9%	6.7%
Stevens	-	-	-	3.8%	1.1%	0.9%	1.3%	1.1%	0.4%
Thurston	2.0%	-	2.4%	7.7%	8.9%	8.3%	3.9%	8.9%	5.1%
Walla Walla	2.0%	-	1.3%	-	-	-	1.3%	-	0.7%
Whatcom	2.0%	-	1.4%	3.8%	4.3%	3.6%	2.6%	4.3%	2.4%
Whitman	4.0%	-	2.4%	-	-	-	2.6%	-	1.3%
Yakima	6.0%	-	4.9%	3.8%	5.1%	4.2%	5.3%	5.1%	4.6%

Source: Washington State Gambling Commission

The following table shows a more detailed breakout for the Class III casinos only, listed according to tribe and then number of locations by county.

Figure 7: Washington casinos by tribe and county, June 2016

	Chelan	Clallam	Grays Harbor	King	Kitsap	Lincoln	Mason	Okanogan	Pacific	Pierce	Skagit	Snohomish	Spokane	Stevens	Thurston	Whatcom	Yakima	Grand Total
Chehalis															1			1
Colville	1							2										3
Jamestown S'Klallam		1																1
Kalispel													1					1
Lummi Nation															1			1
Muckleshoot				1														1
Nisqually															1			1
Port Gamble					1													1
Puyallup										2								2
Quinault			1															1
Shoalwater Bay									1									1
Skokomish							1											1
Snoqualmie				1														1
Spokane						1								1				2
Squaxin Island							1											1
Stillaguamish												1						1
Suquamish					1													1
Swinomish											1							1
Tulalip												2						2
Upper Skagit											1							1
Yakama Nation																	1	1
Grand Total	1	1	1	2	2	1	2	2	1	2	2	3	1	1	2	1	1	26

Source: Washington State Gambling Commission

Future

As noted in Chapter I, two new Class III casinos and a modest gaming expansion at one of the existing casinos will add to the state’s Class III gaming inventory. After these projects open from fall 2016 to fall 2017, we estimate there will be 31,223 TLS terminals/slot machines and 643 table games (and 35,081 gaming positions) at 28 Class III casinos throughout Washington. This assumption is based on existing casinos not adding or subtracting gaming positions from their estimated counts, as of June 30, 2016.

From a cardroom perspective, consistent with recent history and based on our interviews with cardroom operators and the Recreational Gaming Association, we expect the number of cardrooms to contract to approximately 45 by end of 2016. We expect this contraction to continue through 2020 when the number of cardrooms will be one-half of the 2015 count, down to 25 cardrooms statewide in 2020. We base this assumption on the combination of a few salient factors, including, but not limited to the pending rise in the minimum wage, demographic shifts (e.g., younger residents not interested in cardrooms), as well as the continued proliferation of casinos and other gaming options in Washington and in the region.

II. Washington Gaming Revenues

Spectrum developed numerous assumptions that are the foundation for our projections of gross gaming revenue for Class III casinos, Class II casinos and cardrooms. It is critical that stakeholders understand these assumptions and the methodologies used in developing the results.

A. Methodology

Assumed Class III Landscape

As of June 30, 2016, we estimate there were 28,199 slot machines and 551 table games (and 31,505 gaming positions) at the 26 Class III Indian casinos. In 2015, these casinos generated an estimated \$2.322 billion¹⁷ of GGR, yielding an estimated \$202 in GGR per gaming position (commonly called “win per day,” or “WPD”).

When the Cowlitz and Spokane tribes open their respective new casinos in 2017, along with a small expansion of the Coulee Dam Casino, we estimate there will be 31,223 slot machines and 643 table games (and 35,081 gaming positions) at 28 casinos throughout Washington (all effective in 2017). Importantly, this assumption is based on existing casinos not adding or subtracting gaming positions from their counts as of June 30, 2016.

Furthermore, 12 of the 26 existing casinos have integrated hotels, having a total of approximately 2,026 hotel rooms. Effective 2017 (and through 2020), we assume there will be 14 casinos with integrated hotels having a total of 2,320 hotel rooms, due to Legends Casino in Yakima County adding a 200-room hotel and The Point Casino in Kitsap County adding a 94-room hotel. These provisions are included in our gravity modeling to project GGR.

Importantly, this understanding and recognition of the current casino landscape provides the foundation for all of our modeling, and resultant GGR projections in this report. The casino landscape is illustrated in the following table, showing total gaming positions by casino (and sorted by casino name, with exception of the two new casinos shown after existing casinos).

¹⁷ WSGC estimate; see WSGC “Agency Overview Brochure,” p. 2.
<http://www.wsgc.wa.gov/publications/brochures/brochure.pdf>. Official data after 2014 not yet reported.

Figure 8: Washington Class III casino landscape by property, 2015-2020

Property	Tribe	County	Gaming Positions					
			2015	2016	2017	2018	2019	2020
12 Tribes Resort Casino	Colville	Okanogan	608	608	608	608	608	608
7 Cedars Casino	Jamestown S'Klallam	Clallam	653	653	653	653	653	653
Angel of the Winds Casino	Stillaguamish	Snohomish	1,222	1,222	1,222	1,222	1,222	1,222
Chewelah Casino	Spokane	Stevens	350	350	350	350	350	350
Coulee Dam Casino	Colville	Okanogan	164	164	188	188	188	188
Emerald Queen Casino	Puyallup	Pierce	2,396	2,396	2,396	2,396	2,396	2,396
Emerald Queen Casino I-5	Puyallup	Pierce	1,630	1,630	1,630	1,630	1,630	1,630
Legends Casino	Yakama Nation	Yakima	1,544	1,544	1,544	1,544	1,544	1,544
Little Creek Casino Resort	Squaxin Island	Mason	1,368	1,368	1,368	1,368	1,368	1,368
Lucky Dog Casino	Skokomish	Mason	260	260	260	260	260	260
Lucky Eagle Casino	Chehalis	Thurston	1,256	1,256	1,256	1,256	1,256	1,256
Mill Bay Casino	Colville	Chelan	724	724	724	724	724	724
Muckleshoot Casino	Muckleshoot	King	3,700	3,700	3,700	3,700	3,700	3,700
Nisqually Red Wind Casino	Nisqually	Thurston	1,520	1,520	1,520	1,520	1,520	1,520
Northern Quest Resort & Casino	Kalispel	Spokane	1,929	1,929	1,929	1,929	1,929	1,929
Quil Ceda Creek Nightclub & Casino	Tulalip	Snohomish	1,048	1,048	1,048	1,048	1,048	1,048
Quinault Beach Resort & Casino	Quinault	Grays Harbor	772	772	772	772	772	772
Shoalwater Bay Casino	Shoalwater Bay	Pacific	268	268	268	268	268	268
Silver Reef Casino	Lummi Nation	Whatcom	1,320	1,320	1,320	1,320	1,320	1,320
Skagit Valley Casino Resort	Upper Skagit	Skagit	964	964	964	964	964	964
Snoqualmie Casino	Snoqualmie	King	2,024	2,024	2,024	2,024	2,024	2,024
Suquamish Clearwater Casino Resort	Suquamish	Kitsap	1,350	1,350	1,350	1,350	1,350	1,350
Swinomish Casino and Lodge	Swinomish	Skagit	910	910	910	910	910	910
The Point Casino	Port Gamble	Kitsap	555	555	555	555	555	555
Tulalip Resort Casino	Tulalip	Snohomish	2,722	2,722	2,722	2,722	2,722	2,722
Two Rivers Casino & Resort	Spokane	Lincoln	248	248	248	248	248	248
New Casino - Ilani Resort	Cowlitz	Clark	0	0	1,490	2,980	2,980	2,980
New Casino - Name TBD	Spokane	Spokane	0	0	286	572	572	572
Grand Total - WA			31,004	31,004	31,505	31,505	33,305	35,081
# Slots			28,199	28,199	29,723	31,223	31,223	31,223
# Table Games			551	551	597	643	643	643

Source: Spectrum Gaming Group. Note: 2017 gaming positions based on one-half of gaming positions for the three new casinos, assumed partial year.

The same gaming position data/assumptions are shown in the following table, albeit filtered and sorted on a county-by-county basis.

Figure 9: Washington Class III casino landscape by county, 2015-2020

County	Existing Casino Count	Future Casino Count	Gaming Positions					
			2015	2016	2017	2018	2019	2020
Chelan	1	1	724	724	724	724	724	724
Clallam	1	1	653	653	653	653	653	653
Clark	0	1	0	0	1,490	2,980	2,980	2,980
Grays Harbor	1	1	772	772	772	772	772	772
King	2	2	5,724	5,724	5,724	5,724	5,724	5,724
Kitsap	2	2	1,905	1,905	1,905	1,905	1,905	1,905
Lincoln	1	1	248	248	248	248	248	248
Mason	2	2	1,628	1,628	1,628	1,628	1,628	1,628
Okanogan	2	2	772	772	796	796	796	796
Pacific	1	1	268	268	268	268	268	268
Pierce	2	2	4,026	4,026	4,026	4,026	4,026	4,026
Skagit	2	2	1,874	1,874	1,874	1,874	1,874	1,874
Snohomish	3	3	4,992	4,992	4,992	4,992	4,992	4,992
Spokane	1	2	1,929	1,929	2,215	2,501	2,501	2,501
Stevens	1	1	350	350	350	350	350	350
Thurston	2	2	2,776	2,776	2,776	2,776	2,776	2,776
Whatcom	1	1	1,320	1,320	1,320	1,320	1,320	1,320
Yakima	1	1	1,544	1,544	1,544	1,544	1,544	1,544
Grand Total - WA	26	28	31,505	31,505	33,305	35,081	35,081	35,081

Source: Spectrum Gaming Group

The same gaming position data/assumptions are shown in the following table, albeit filtered and sorted on a tribe basis.

Figure 10: Washington Class III casino landscape by tribe, 2015-2020

Tribe	Existing Casino Count	Future Casino Count	Gaming Positions					
			2015	2016	2017	2018	2019	2020
Chehalis	1	1	1,256	1,256	1,256	1,256	1,256	1,256
Colville	3	3	1,496	1,496	1,520	1,520	1,520	1,520
Cowlitz	0	1	0	0	1,490	2,980	2,980	2,980
Jamestown S'Klallam	1	1	653	653	653	653	653	653
Kalispel	1	1	1,929	1,929	1,929	1,929	1,929	1,929
Lummi Nation	1	1	1,320	1,320	1,320	1,320	1,320	1,320
Muckleshoot	1	1	3,700	3,700	3,700	3,700	3,700	3,700
Nisqually	1	1	1,520	1,520	1,520	1,520	1,520	1,520
Port Gamble	1	1	555	555	555	555	555	555
Puyallup	2	2	4,026	4,026	4,026	4,026	4,026	4,026
Quinault	1	1	772	772	772	772	772	772
Shoalwater Bay	1	1	268	268	268	268	268	268
Skokomish	1	1	260	260	260	260	260	260
Snoqualmie	1	1	2,024	2,024	2,024	2,024	2,024	2,024
Spokane	2	3	598	598	884	1,170	1,170	1,170
Squaxin Island	1	1	1,368	1,368	1,368	1,368	1,368	1,368
Stillaguamish	1	1	1,222	1,222	1,222	1,222	1,222	1,222
Suquamish	1	1	1,350	1,350	1,350	1,350	1,350	1,350
Swinomish	1	1	910	910	910	910	910	910
Tulalip	2	2	3,770	3,770	3,770	3,770	3,770	3,770
Upper Skagit	1	1	964	964	964	964	964	964
Yakama Nation	1	1	1,544	1,544	1,544	1,544	1,544	1,544
Grand Total - WA	26	28	31,505	31,505	33,305	35,081	35,081	35,081

Source: Spectrum Gaming Group

The existing and future casino landscape is shown on the following map. Red markers indicate locations of existing casinos, while the green markers indicate both an existing and future casino in very close proximity to each other (Airway Heights), and the blue marker indicates a future casino (Ilani Resort in Clark County).

Figure 11: Washington Class III casino landscape by tribe, 2015-20



Source: Microsoft MapPoint, Spectrum Gaming Group

Projecting Gross Gaming Revenue

Demand for gaming in Washington comes from multiple sources. Based on information and belief, the local population within a reasonable two-hour drive of each existing casino currently accounts for the vast majority of GGR and visitation.

The principal tool Spectrum uses in projecting GGR is our gravity model. The gravity model is an industry-standard forecasting technique that uses the actual adult population totals around a specified casino, taking into account competing locations from within a predefined catchment area (quantified by reasonable drive times, expressed in minutes, surrounding each casino – not actual driving or straight-line miles) to project visitation and, ultimately, GGR from the projected visitation. Simply, the farther away an adult resides from a casino (and/or respective casinos

throughout Washington and/or in nearby states), the lower the probability that that person will make a trip to gamble there. If given an opportunity, adults with propensity to gamble will tend to choose to patronize the closest casino to their homes, particularly if the gaming product is similar among competing casinos. In addition to adult population totals surrounding the specified location, among other variables, the gravity model employed also considers casino participation rates and GGR per adult, and has the ability to adjust each location for the relative attractiveness of the gaming options/facilities when two or more viable gaming options/facilities are available to the population sets (i.e., adjust for number and/or offering of slots, table games, etc.).

Spectrum built a comprehensive, constrained gravity model. We incorporated estimated annual population data from 2015 through 2021 covering 2,477 areas in Washington, Idaho and Oregon, as well as portions of Montana, that were approximated according to Census Tract, including all areas in the US within a four-hour drive of an existing or potential Washington casino. The data included population data (both total and estimated for gaming-age adults – age 18 and over) and median household income by Census Tract (to adjust relative estimated GGR budgets accordingly).

Our estimated population and median household income data were obtained from The Nielsen Company (“Nielsen”) and is principally based on US Census Bureau data. Nielsen indicates these data are further refined at the Census Tract level based on leading consumer surveys and compiled household files, and other public and private sources of demographic and consumer information.

Our gravity model accounts for all 26 existing Class III casinos in Washington, in addition to provisions for the two additional casinos planned for 2017. Additionally, we include more than a dozen casinos (and/or markets with casinos) in Idaho and Oregon where four-hour drive-time boundaries may overlap with such boundaries emanating from casino locations in Washington (to quantify shared visitation).

With regard to annual GGR per adult, the basis for the material assumptions is from extensive experience and working knowledge in many domestic gaming markets by Spectrum professionals assigned to this project, and supported by public data presented within this report (where applicable). The material assumptions (aside from adult population by Census Tract and relative distance calculations, gravity effect) are:

- Gaming age of 18+ or 21+ (i.e., the adult population) based on casino
- Local market gamers:
 - Two-hour drive-time boundary from any Class III casino location
 - One-hour drive-time boundary from any Class II casino location
- Casino participation rates up to 40 percent of adult population by Census Tract:

- Adult population within a five-minute drive-time to any casino has an estimated casino participation rate of 40 percent
- Adult population beyond a five-minute drive-time to any casino has an estimated casino participation rate at or below 40 percent (while this rate decreases for the adult population, according to Census Tract, as distance from a casino increases)
- Provision for Canadian/other GGR dependent upon casino location and relative proximity to a border crossing and/or population center
 - In 2015, there were 7.37 million personal vehicles and 13.12 million personal vehicle passengers that crossed the US/BC border. The vast majority of personal vehicle passenger crossings were over land, at 87.8 percent (versus 12.2 percent on ferry or to remote parts/islands of Washington).¹⁸ Of the 11.51 million personal vehicle passenger crossings at mainland points, the vast majority (at 93.4 percent or 10.76 million) occurred at, or near, the I-5 corridor in western Washington (Blaine/Lynden/Sumas), while the remainder (or 756,000 personal vehicle passengers) occurred at crossings in eastern Washington (Boundary, Danville, Ferry, Frontier, Laurier, Metaline Falls, Nighthawk, and Oroville). These data points, utilized to represent estimated casino patronage from residents of Canada (assumed to be primarily from British Columbia), were incorporated into our gravity model.
- Specific to casinos with integrated hotels:
 - Annual hotel occupancy of 90 percent
 - Annual GGR projections for hotel guests is based on an assumed average GGR per occupied hotel room of \$214 in 2015; we assume half of this amount would have occurred absent a hotel stay and is attributable to the local market (i.e., already quantified in our gravity model)
 - This figure was determined based on FY 2015 estimated GGR-per-occupied-room estimates from the 23 largest Las Vegas Strip resorts
 - We deem this methodology as reasonable in quantifying expected levels of GGR that casinos having integrated hotels could generate from non-local market visitation (and one-half attributed to non-local visitation in this report). For example, according to the most recent Las Vegas Visitor Profile Study, for the years 2011-2015 the percentage of visitors to Las Vegas staying overnight was in excess of 99.6 percent each year. We believe the vast majority of GGR to these Las Vegas Strip properties was from out-of-state residents (i.e., hotel guests and tourists), while the Las Vegas Visitor Profile Study excludes

¹⁸ The 12.2 percent includes border crossings at Anacortes, Port Angeles, Friday Harbor, and Point Roberts.

residents of Clark County (where Las Vegas is located) from its results. For FY 2015, average GGR per occupied room night was \$214.

- In our modeling, this figure is increased each year based on inflationary growth.

Participation Rate

According to the American Gaming Association’s 2013 *State of the States* survey, 34 percent of the US adult population visited a casino during 2012, while 32 percent of the US adult population gambled during a casino visit (i.e., of all US adults visiting a casino, ±5 percent did not gamble). Based on this information, as well as our experience, we believe the casino participation rate for adults that live nearby to a casino, or casinos, may reasonably approach 40 percent, annually. Therefore, in our modeling we assume a casino participation rate up to 40 percent by Census Tract (albeit adjusted downward by gravity effect as the relative distance to a casino increases).

Annual GGR per Casino Gambler

We have assembled nationwide casino GGR, as well as participants, over the most recent 10-year period available to provide a snapshot of the US casino participation and average GGR per gambler.

Figure 12: US casino GGR, visitation and annual GGR per casino gambler, 2006-2015

Year	GGR (\$B)			Casino Gamblers (M)	Participation Rate	GGR / Gambler
	Commercial	Native American	Total			
2006	\$35.4	\$24.9	\$60.2	56.2	26.0%	\$1,072
2007	\$37.5	\$26.1	\$63.6	54.5	25.0%	\$1,167
2008	\$36.2	\$26.7	\$62.9	54.6	25.0%	\$1,152
2009	\$34.3	\$26.5	\$60.8	61.7	28.0%	\$985
2010	\$34.6	\$26.5	\$61.1	54.8	25.0%	\$1,115
2011	\$35.7	\$27.2	\$62.8	59.7	27.1%	\$1,052
2012	\$37.4	\$27.9	\$65.3	71.6	32.0%	\$912
2013	\$37.8	\$28.0	\$65.9	72.3	32.0%	\$911
2014	\$37.9	\$28.5	\$66.4	73.1	32.0%	\$909
2015	\$40.2	\$29.9	\$70.1	73.8	32.0%	\$950
5-year Avg. 2011-15	\$37.8	\$28.3	\$66.1	70.1	31.0%	\$943
10-year Avg. (2006-15)	\$36.7	\$27.2	\$63.9	63.2	28.4%	\$1,011

Source: American Gaming Association, National Indian Gaming Commission, state gaming commissions

As illustrated, over the last 10 years nationwide commercial and Native American casino GGR collectively averaged more than \$63 billion annually, while there was an average of 63 million casino gamblers (casino participation) annually. This yields an average GGR per gambler, per year, of \$1,011 over the 10-year period.

The 2006 *Harrah’s Survey* estimated the average number of visits annually to a casino was 6.1. Spectrum has no reason to believe that this figure would have declined since then, given the continued proliferation of casino gaming throughout the United States. Additionally, per a 2009 report that Spectrum prepared for the State of Connecticut, a comprehensive survey of 1,427

Connecticut residents found that the average number of casino visits per resident exceeded 12 annually at a time when every Connecticut adult resided within a two-hour drive of a casino and 40 percent resided within a one-hour drive.¹⁹

Therefore, we believe that our assumption(s) of GGR per casino gambler (and by establishing reasonableness to number of casino visits that correspond to this value) is reasonable as utilized throughout our gravity modeling and in projecting GGR for Washington.

Inflationary Growth

The following table shows inflation rates utilized throughout this report.

Figure 13: Inflationary growth estimates

Calendar Years (per CBO)	Annual Growth	Total Growth (from 2015)	CAGR (from 2015)
2015	0.40%	n/a	1.75%
2016	1.70%	1.70%	1.70%
2017	2.40%	4.14%	2.05%
2018	2.40%	6.64%	2.17%
2019	2.40%	9.20%	2.22%
2020	2.40%	11.82%	2.26%

Source: Congressional Budget Office, The Budget and Economic Outlook: 2016 to 2026

Ramp-Up Period

Our GGR projections inclusive of two new casinos in Washington do not include any adjustments for a ramp-up (nor ramp-down) of operations. In our experience, many new casinos experience some degree of revenue ramp-up during at least their first two years of operations, when marketing initiatives and customer trial and retention contribute to early growth in the business. However, such a ramp-up should not be considered inevitable, as some properties open strongly (this may be the case for the Ilani Casino Resort in Clark County due to its location within and proximity to the heart of the Portland-Vancouver-Hillsboro, OR-WA MSA, as well as bolstered by the lack of any other Washington Class III casinos nearby).

Disclaimer

It should be noted that despite our drive-in (or local) market GGR projections resulting from our gravity modeling exercise, actual market and property performance can be subject to industry internal and external factors. From an internal industry perspective, competitive marketing and operational strategies, targeted and timely capital reinvestment, and customer perceptions all influence potential performance. From an external point of view, competition for patron discretionary income from other leisure and recreational activities and the general state of the economy may influence spending habits of gaming patrons. In essence, our GGR

¹⁹ Spectrum Gaming Group, *Gambling in Connecticut: Analyzing the Economic and Social Impacts*, June 22, 2009. http://www.spectrumgaming.com/dl/june_24_2009_spectrum_final_final_report_to_the_state_of_connecticut.pdf

projections herein are illustrative and may be influenced by a variety of factors (aside from gravity modeling, or quantification of adults by drive-time calculations alone).

B. Gross Gaming Revenue Projections

Class III Casinos

Our modeling indicates that the existing 26 Class III casinos will generate \$2.39 billion of GGR in 2016, which would be 3 percent growth from 2015. However, with the addition of two new casinos in 2017, along with population and inflationary growth, we project 28 Class III casinos will generate \$2.75 billion in 2017, which would be 18.4 percent growth from 2015. Extending our projections through 2020 (i.e., a five-year projection period), we project total GGR for 28 Class III casinos in Washington to surpass \$3.3 billion, which equates to 42.3 percent growth from 2015. Our GGR projections, and by source (state/location), are shown in the following table (along with actual GGR for 2015 and our estimate by source).

Figure 14: GGR projections for Class III casinos, 2016-2020

GGR (\$M)	2015	2016	2017	2018	2019	2020
Washington	\$2,064.2	\$2,125.6	\$2,284.0	\$2,435.9	\$2,516.6	\$2,599.9
Idaho	\$23.7	\$24.4	\$27.1	\$29.7	\$30.8	\$31.9
Montana	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Oregon	\$56.8	\$58.4	\$235.8	\$436.0	\$436.4	\$436.9
Canada/Other	\$177.3	\$182.2	\$202.2	\$223.0	\$229.6	\$236.3
Total	\$2,322.0	\$2,390.7	\$2,749.1	\$3,124.6	\$3,213.4	\$3,305.1
% Growth (vs. Prior Year)	3.7%	3.0%	15.0%	13.7%	2.8%	2.9%
\$ Growth (vs. 2015)	n/a	3.0%	18.4%	34.6%	38.4%	42.3%

Source: Spectrum Gaming Group

The following table is an extension of the previous and shows GGR as a percentage by state of origin, per results of our modeling.

Figure 15: GGR projections for Class III casinos, by state of origin, 2016-2020

GGR Source (% of Total)	2015	2016	2017	2018	2019	2020
Washington	88.9%	88.9%	83.1%	78.0%	78.3%	78.7%
Idaho	1.0%	1.0%	1.0%	0.9%	1.0%	1.0%
Montana	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Oregon	2.4%	2.4%	8.6%	14.0%	13.6%	13.2%
Canada/Other	7.6%	7.6%	7.4%	7.1%	7.1%	7.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Spectrum Gaming Group

As illustrated, we estimate approximately 89 percent of GGR to existing Class III casinos in Washington comes from Washington residents. We project this will materially shift to less than 79 percent after the openings of two new casinos in Washington (i.e., primarily from the Ilani Casino Resort due to its proximity to Oregon).

The following table illustrates other metrics related to our GGR projections, including resultant GGR per position per day (or win per day, [“WPD”]) figures and our estimated casino participation rate for Washington residents.

Figure 16: GGR projections for Class III casinos, associated metrics, 2016-2020

Casino Metrics	2015	2016	2017	2018	2019	2020
Slots	28,199	28,199	29,723	31,223	31,223	31,223
Table Games	551	551	597	643	643	643
Gaming Positions	31,505	31,505	33,305	35,081	35,081	35,081
GGR/Position/Day (WPD)	\$202	\$208	\$226	\$244	\$251	\$258
Casino Participation (WA)	31.2%	31.2%	32.7%	32.7%	32.7%	32.7%

Source: Spectrum Gaming Group

Class II Casinos

There are currently four casinos throughout Washington that offer Class II gaming, with a fifth slated to open in 2017 (Twin Lakes with 50 gaming machines near Inchelium). However, historical operating results are not publicly available for such; while we deem these facilities as a limited substitute for Class III casinos (i.e., in absence of a Class III casino nearby a Class II casino may fulfill some Class III demand). As such, our GGR projections for the four Class II casinos stem from our gravity modeling, albeit we assume these casinos have a lesser relative attractiveness compared to any Class III casinos nearby and have a local market capture at one-half that of a Class III casino (i.e., limited to one-hour versus two-hour).

Our modeling indicates the four existing Class II casinos throughout Washington will generate \$62.7 million of GGR in 2016, which we estimate will be 3 percent growth from 2015. We assume one change to the Class II casino landscape in the future (through 2020), the addition of 50 gaming machines at a facility near Inchelium. We project Class II GGR will grow each year and will amount to \$72.2 million in 2020 (i.e., the final year of our five-year projection period). Our GGR projections, and by source (state/location), are shown in the following table (along with our estimate of GGR for 2015 and our estimate by source).

Figure 17: GGR projections for Class II casinos, 2016-2020

GGR (\$M)	2015	2016	2017	2018	2019	2020
Washington	\$46.3	\$47.7	\$49.5	\$51.2	\$53.1	\$55.1
Idaho	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Montana	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Oregon	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Canada/Other	\$14.5	\$14.9	\$15.4	\$16.0	\$16.5	\$17.1
Total	\$60.8	\$62.7	\$64.9	\$67.2	\$69.7	\$72.2
% Growth (vs. Prior Year)	n/a	3.0%	3.6%	3.6%	3.6%	3.6%
\$ Growth (vs. 2015)	n/a	3.0%	6.7%	10.5%	14.5%	18.7%

Source: Spectrum Gaming Group

The following table is an extension of the previous and shows GGR as a percentage by source (state/location) per results of our modeling.

Figure 18: GGR projections for Class II casinos, by state of origin, 2016-2020

GGR Source (% of Total)	2015	2016	2017	2018	2019	2020
Washington	76.1%	76.2%	76.2%	76.2%	76.3%	76.3%
Idaho	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Montana	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Oregon	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Canada/Other	23.9%	23.8%	23.8%	23.8%	23.7%	23.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Spectrum Gaming Group

As illustrated, we estimate approximately three-quarters GGR to the four existing Class II casinos in Washington comes from Washington residents.

The following table illustrates other metrics related to our Class II GGR projections.

Figure 19: GGR projections for Class II casinos, associated metrics, 2016-2020

Casino Metrics	2015	2016	2017	2018	2019	2020
Slots	1,288	1,288	1,313	1,338	1,338	1,338
Table Games	0	0	0	0	0	0
Gaming Positions	1,288	1,288	1,313	1,338	1,338	1,338
GGR/Position/Day (WPD)	\$129	\$133	\$135	\$138	\$143	\$148

Source: Spectrum Gaming Group

Combined Class III and Class II Casinos

Our consolidated GGR projections, for both Class II and Class III casino operations in Washington, are shown in the following table (along with our estimate of GGR for 2015 and our estimate by source).

Figure 20: Consolidated GGR projections for Class III and Class II casinos, 2016-2020

GGR (\$M)	2015	2016	2017	2018	2019	2020
Washington	\$2,110.5	\$2,173.3	\$2,333.5	\$2,487.1	\$2,569.7	\$2,655.0
Idaho	\$23.7	\$24.4	\$27.1	\$29.7	\$30.8	\$31.9
Montana	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Oregon	\$56.8	\$58.4	\$235.8	\$436.0	\$436.4	\$436.9
Canada/Other	\$191.8	\$197.2	\$217.7	\$239.0	\$246.1	\$253.4
Total	\$2,382.8	\$2,453.3	\$2,814.0	\$3,191.8	\$3,283.0	\$3,377.3
% Growth (vs. Prior Year)	n/a	3.0%	14.7%	13.4%	2.9%	2.9%
\$ Growth (vs. 2015)	n/a	3.0%	18.1%	33.9%	37.8%	41.7%

Source: Spectrum Gaming Group

The following table is an extension of the previous and shows GGR as a percentage by source (state/location) per results of our modeling.

Figure 21: Consolidated GGR projections for Class III and Class II casinos, by state of origin, 2016-2020

GGR Source (% of Total)	2015	2016	2017	2018	2019	2020
Washington	88.6%	88.6%	82.9%	77.9%	78.3%	78.6%
Idaho	1.0%	1.0%	1.0%	0.9%	0.9%	0.9%
Montana	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Oregon	2.4%	2.4%	8.4%	13.7%	13.3%	12.9%
Canada/Other	8.0%	8.0%	7.7%	7.5%	7.5%	7.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Spectrum Gaming Group

The following table illustrates other metrics related to our Class II GGR projections.

Figure 22: Consolidated GGR projections for Class III and Class II casinos, associated metrics, 2016-2020

Casino Metrics	2015	2016	2017	2018	2019	2020
Slots	29,487	29,487	31,036	32,561	32,561	32,561
Table Games	551	551	597	643	643	643
Gaming Positions	32,793	32,793	34,618	36,419	36,419	36,419
GGR/Position/Day (WPD)	\$199	\$205	\$223	\$240	\$247	\$254

Source: Spectrum Gaming Group

C. Illustrative Market Sizing

Using a casino participation rate of 30 percent to 40 percent and average GGR per gambler range of \$900 to \$1,300 as benchmarks (as well as the US average GGR per gambler of \$950 in 2015), we illustrate the GGR potential from total Washington adults (21+), as well as those residing within a one- and two-hour drive of an existing casino location. Additionally, we illustrate GGR potential in same manner for all US adults (21+) residing within a reasonable two-hour drive of an existing casino in Washington and with two new casinos.

The aforementioned GGR potential scenarios are shown in the following tables resulting from the intersecting points of casino participation rates and average GGR per gambler. This is simply an illustrative exercise to place our GGR projections in context to GGR potential scenarios utilizing two salient US casino industry benchmarks.

Figure 23: Illustrative GGR potential from all Washington adults, 2016

GGR (\$B)	Illustrative Range of GGR/ Gambler, \$100 increments					US Avg. (2015)
Casino Participation Rate	\$900	\$1,000	\$1,100	\$1,200	\$1,300	\$950
30.0%	\$1.40	\$1.56	\$1.72	\$1.87	\$2.03	<i>\$1.48</i>
32.5%	\$1.52	\$1.69	\$1.86	\$2.03	\$2.20	<i>\$1.61</i>
35.0%	\$1.64	\$1.82	\$2.00	\$2.19	\$2.37	<i>\$1.73</i>
37.5%	\$1.76	\$1.95	\$2.15	\$2.34	\$2.54	<i>\$1.85</i>
40.0%	\$1.87	\$2.08	\$2.29	\$2.50	\$2.71	<i>\$1.98</i>

Source: Spectrum Gaming Group

As illustrated, if Washington adults had a GGR per gambler value equivalent to an average US adult in 2015 (at \$950) and if casino participation was at 32.5 percent (our estimate of the national average rate), then GGR from Washington adults would be \$1.61 billion. However, we estimate the combination of Class II and Class III casinos had GGR of \$2.11 billion attributable to Washington residents. Therefore, on this basis, Washington adults have either greater casino participation and/or greater GGR per gambler than an average US adult – and this without including gambling expenditures at cardrooms.

Next we go through the same example and venture beyond Washington borders to look at all US adults within a two-hour drive of an existing casino in Washington in 2016; GGR potential scenarios are illustrated in the following table. This scenario is based on 6.74 million adults, of

which 77.7 percent (or 5.24 million) reside in Washington and the remainder (or 1.5 million) reside in the neighboring states of Idaho and Oregon.

Figure 24: Illustrative GGR potential from all adults within a two-hour drive of an existing casino in Washington, 2016

GGR (\$B)	Illustrative Range of GGR/ Gambler, \$100 increments					US Avg. (2015)
Casino Participation rate	\$900	\$1,000	\$1,100	\$1,200	\$1,300	\$950
30.0%	\$1.82	\$2.02	\$2.22	\$2.43	\$2.63	<i>\$1.92</i>
32.5%	\$1.97	\$2.19	\$2.41	\$2.63	\$2.85	<i>\$2.08</i>
35.0%	\$2.12	\$2.36	\$2.59	\$2.83	\$3.07	<i>\$2.24</i>
37.5%	\$2.27	\$2.53	\$2.78	\$3.03	\$3.28	<i>\$2.40</i>
40.0%	\$2.43	\$2.69	\$2.96	\$3.23	\$3.50	<i>\$2.56</i>

Source: Spectrum Gaming Group

As illustrated, if all US adults residing within a two-hour drive of an existing casino in Washington had a GGR per gambler value equivalent to an average US adult in 2015 (at \$950) and if casino participation was at 32.5 percent (our estimate of the national average rate) then GGR from these adults would amount to \$2.08 billion. However, we estimate the combination of Class II and Class III casinos in Washington generated \$2.19 billion of GGR in 2015 from a combination of Washington, Idaho, and Oregon residents. Therefore, on this basis, we deem our methodologies/projections reasonable as the aforementioned \$2.19 billion is within 5 percent of the US benchmarked figure of \$2.08 billion (at \$950 GGR per gambler and 32.5 percent casino participation rate).

Finally, if we go through same exercise (as with previous table) and incorporate the two new casino locations in Washington, the 2016 GGR potential scenarios are illustrated in the following table. This scenario is based on 7.42 million adults, of which 70.7 percent (or 5.24 million) reside in Washington and the remainder (or 2.17 million) reside in the neighboring states of Idaho and Oregon.

Figure 25: Illustrative GGR potential from all adults w/in a two-hour drive of existing and two new casinos in Washington, 2016

GGR (\$B)	Illustrative Range of GGR/ Gambler, \$100 increments					US Avg. (2015)
Casino Participation rate	\$900	\$1,000	\$1,100	\$1,200	\$1,300	\$950
30.0%	\$2.00	\$2.23	\$2.45	\$2.67	\$2.89	<i>\$2.11</i>
32.5%	\$2.17	\$2.41	\$2.65	\$2.89	\$3.13	<i>\$2.29</i>
35.0%	\$2.34	\$2.60	\$2.86	\$3.12	\$3.38	<i>\$2.47</i>
37.5%	\$2.50	\$2.78	\$3.06	\$3.34	\$3.62	<i>\$2.64</i>
40.0%	\$2.67	\$2.97	\$3.26	\$3.56	\$3.86	<i>\$2.82</i>

Source: Spectrum Gaming Group

As illustrated, if all US adults residing within a two-hour drive of an existing or new (i.e., in La Center and Airway Heights) casino location in Washington had a GGR per gambler value equivalent to an average US adult in 2015 (at \$950) and if casino participation was at 32.5 percent (our estimate of the national average rate), then GGR from these adults would amount to \$2.29 billion. However, we project the combination of Class III and Class II casinos in Washington will

generate in excess of \$2.95 billion of GGR annually from a combination of Washington, Idaho, and Oregon residents from 2018 through 2020. Therefore, on this basis, we deem our methodologies/projections reasonable as the aforementioned \$2.95 billion is within the illustrated benchmarked figures (e.g., \$1,200 GGR per gambler and 35 percent casino participation rate; or \$1,100 GGR per gambler and 35 to 37.5 percent casino participation; or at other combinations thereof).

D. Cardrooms

Revenue Overview

The following table shows number of cardrooms in Washington and associated revenue over the last 15 years, along with various growth rates (and average cardroom and revenue figures for various periods).

Figure 26: Washington cardrooms and GGR, 2001-2015

Washington Cardrooms	No. Cardrooms	Total Revenue (\$M)	Growth	Avg. Rev. /Cardroom (\$M)	Growth
2001	105	\$228.5	21.8%	\$2.18	25.3%
2002	104	\$247.5	8.3%	\$2.38	9.4%
2003	99	\$250.8	1.4%	\$2.53	6.5%
2004	103	\$271.1	8.1%	\$2.63	3.9%
2005	113	\$307.7	13.5%	\$2.72	3.4%
2006	112	\$296.0	(3.8%)	\$2.64	(2.9%)
2007	103	\$291.1	(1.7%)	\$2.83	6.9%
2008	98	\$284.1	(2.4%)	\$2.90	2.6%
2009	99	\$258.9	(8.9%)	\$2.61	(9.8%)
2010	90	\$231.4	(10.6%)	\$2.57	(1.7%)
2011	80	\$231.0	(0.2%)	\$2.89	12.3%
2012	75	\$228.5	(1.1%)	\$3.05	5.5%
2013	65	\$218.2	(4.5%)	\$3.36	10.2%
2014	60	\$220.4	1.0%	\$3.67	9.4%
2015(e)	50	\$225.9	2.5%	\$4.52	23.0%
2010-15	70	\$225.9	(0.5%)	\$3.23	11.9%
2005-15	86	\$253.9	(3.0%)	\$2.96	5.2%
2000-15	92	\$248.7	1.2%	\$2.72	6.6%

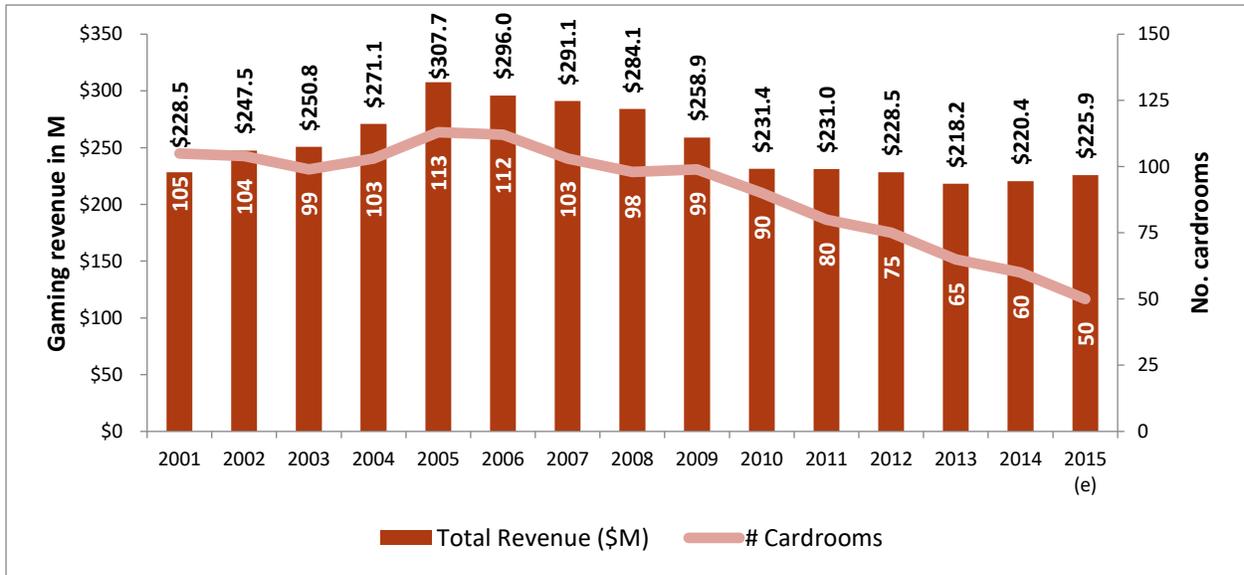
Source: Washington State Gambling Commission

As illustrated, there were 50 cardrooms in Washington that generated an estimated \$225.9 million in revenue in 2015.²⁰ Total cardroom revenue grew through 2005 (it peaked 10 years earlier, in 2005), it declined from 2006 through 2010, and has been relatively stable over the last five years (ranging from \$218 million to \$231 million annually). However, due to the closing of more than half of cardrooms statewide (i.e., from a peak of 113 in 2005), the yield per cardroom (based on average revenue per location) has been improving since 2010, as an average

²⁰ 2015 revenue estimated by Spectrum at 2.5% growth from 2014, based on interviews with cardroom operators.

cardroom generated \$4.5 million in revenue in 2015 (up by more than 50 percent per location compared to all years prior to 2012).

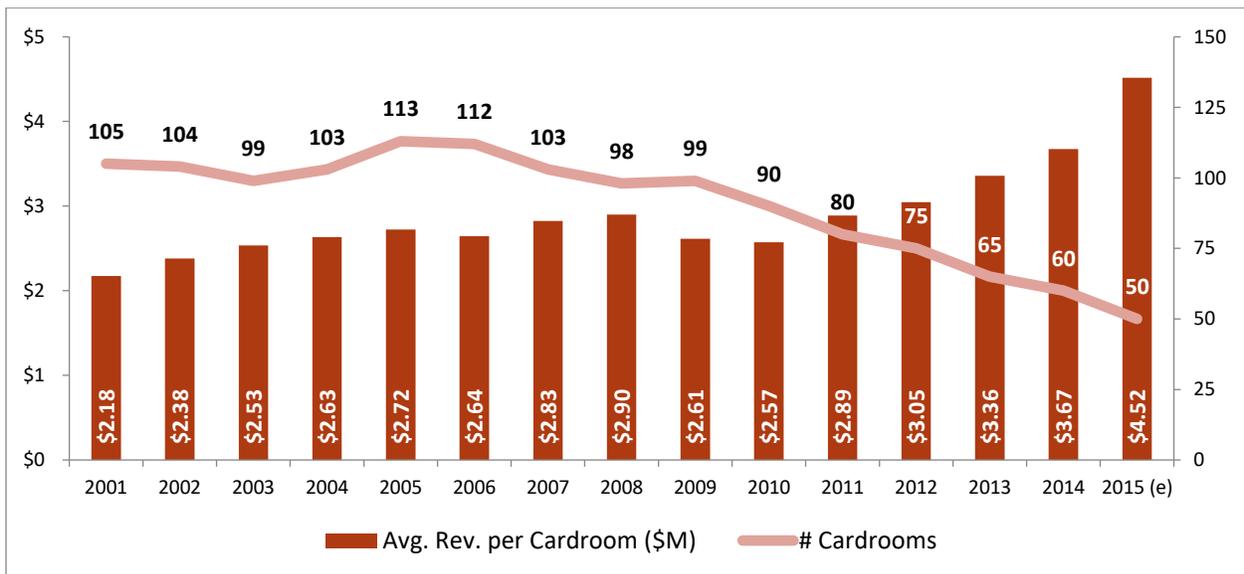
Figure 27: Washington cardrooms and gaming revenue, 2001-2015



Source: Washington State Gambling Commission

In contrast to the previous graph, illustrating gaming revenue for Washington cardrooms, the following graph illustrated average revenue generated per cardroom by year.

Figure 28: Washington cardrooms and average gaming revenue per location, 2001-2015



Source: Washington State Gambling Commission

As noted earlier (and as discussed in Chapter I), we expect the contraction in number of cardrooms throughout Washington to continue over the next five years due to a variety of factors.

Cardroom Revenue Projections

Our gravity modeling exercise to project GGR for casinos is not applicable to cardrooms, as the nature and scale of operations is fundamentally different from casinos and, in our experience, cardroom visitation is primarily very local to a facility whereas casinos have a much greater geographic reach and appeal. Therefore, we examine for a possible relationship amongst casino revenue and cardrooms, both on a per-capita basis for Washington adults, from 2001 through 2015 – and then utilize this data to project cardroom revenue from 2016 through 2020.

The following table shows the number of Class III casinos and cardrooms throughout Washington, along with respective GGR, on an annual basis from 2001 through 2015.

Figure 29: Washington Class III casino and cardroom count of facilities and GGR, 2001-2015

Washington	No. Casinos	Casino GGR (\$M)	Growth	No. Cardrooms	Total Revenue (\$M)	Growth
2001	16	\$422.0	n/a	105	\$228.5	21.8%
2002	17	\$514.5	21.9%	104	\$247.5	8.3%
2003	19	\$707.8	37.6%	99	\$250.8	1.4%
2004	23	\$888.0	25.5%	103	\$271.1	8.1%
2005	23	\$1,023.9	15.3%	113	\$307.7	13.5%
2006	23	\$1,192.8	16.5%	112	\$296.0	(3.8%)
2007	23	\$1,338.3	12.2%	103	\$291.1	(1.7%)
2008	26	\$1,479.5	10.6%	98	\$284.1	(2.4%)
2009	26	\$1,571.9	6.2%	99	\$258.9	(8.9%)
2010	26	\$1,745.9	11.1%	90	\$231.4	(10.6%)
2011	26	\$1,953.7	11.9%	80	\$231.0	(0.2%)
2012	26	\$2,121.0	8.6%	75	\$228.5	(1.1%)
2013	26	\$2,225.3	4.9%	65	\$218.2	(4.5%)
2014	26	\$2,239.4	0.6%	60	\$220.4	1.0%
2015(e)	26	\$2,322.0	3.7%	50	\$225.9	2.5%
2010-15	26	CAGR	5.9%	70	CAGR	(0.5%)
2005-15	25	CAGR	8.5%	86	CAGR	(3.0%)
2000-15	23	CAGR	n/a	92	CAGR	1.2%

Source: Washington State Gambling Commission

As illustrated, while the number of casinos and related GGR increased over the 15-year period (and GGR continues to increase), the result has not been similar for cardrooms throughout Washington. Cardroom revenue peaked in 2005 and has stabilized over the last few years (albeit at a level that is more than \$80 million lower annually than it was in 2005).

The following table shows cardroom revenue from 2001 through 2015, along with number of Washington adults (18+). For modeling/projection purposes, we assume that 98 percent of annual cardroom revenue is derived from Washington residents and consequently show cardroom revenue on a per-adult basis.

Figure 30: Washington cardroom revenue – per-adult basis, 2001-2015

	Cardroom Rev. (\$M)	Est. % from WA Adults	Est. Cardroom Rev. from WA (\$M)	WA Adults (18+)	Rev. / Adult	Growth
2001	\$228.5	98.0%	\$223.9	4.47	\$50	n/a
2002	\$247.5	98.0%	\$242.5	4.53	\$53	6.7%
2003	\$250.8	98.0%	\$245.8	4.59	\$54	0.1%
2004	\$271.1	98.0%	\$265.7	4.66	\$57	6.5%
2005	\$307.7	98.0%	\$301.5	4.73	\$64	11.7%
2006	\$296.0	98.0%	\$290.1	4.83	\$60	(5.8%)
2007	\$291.1	98.0%	\$285.3	4.91	\$58	(3.2%)
2008	\$284.1	98.0%	\$278.5	5.00	\$56	(4.1%)
2009	\$258.9	98.0%	\$253.7	5.09	\$50	(10.5%)
2010	\$231.4	98.0%	\$226.8	5.14	\$44	(11.5%)
2011	\$231.0	98.0%	\$226.4	5.21	\$43	(1.5%)
2012	\$228.5	98.0%	\$223.9	5.28	\$42	(2.4%)
2013	\$218.2	98.0%	\$213.9	5.35	\$40	(5.7%)
2014	\$220.4	98.0%	\$216.0	5.42	\$40	(0.3%)
2015(e)	\$225.9	98.0%	\$221.4	5.49	\$40	1.2%

Source: Washington State Gambling Commission

As illustrated, consistent with total cardroom revenue, but on a revenue per-adult basis the value peaked in 2005 and exhibited a year-over-year decline in nine of the last 10 years. For comparison purposes, the following table (with same methodology as previous) shows this data set for Class III casinos in Washington, in which we assume 90 percent of GGR emanated from Washington adults through 2014 and utilize our gravity model estimate, of 88.9 percent, for 2015 – while we arbitrarily utilize an adult age of 18+ to be consistent with our cardroom projections.

Figure 31: Washington casino GGR – per-adult basis, 2001-2015

	Casino GGR (\$M)	Est. % from WA Adults	Est. Casino GGR from WA (\$M)	WA Adults (18+)	GGR / Adult	Growth
2001	\$422.0	90.0%	\$379.8	4.47	\$85	n/a
2002	\$514.5	90.0%	\$463.1	4.53	\$102	20.1%
2003	\$707.8	90.0%	\$637.0	4.59	\$139	35.9%
2004	\$888.0	90.0%	\$799.2	4.66	\$172	23.6%
2005	\$1,023.9	90.0%	\$921.5	4.73	\$195	13.5%
2006	\$1,192.8	90.0%	\$1,073.5	4.83	\$222	14.1%
2007	\$1,338.3	90.0%	\$1,204.5	4.91	\$245	10.4%
2008	\$1,479.5	90.0%	\$1,331.6	5.00	\$266	8.6%
2009	\$1,571.9	90.0%	\$1,414.7	5.09	\$278	4.3%
2010	\$1,745.9	90.0%	\$1,571.3	5.14	\$306	10.0%
2011	\$1,953.7	90.0%	\$1,758.3	5.21	\$337	10.4%
2012	\$2,121.0	90.0%	\$1,908.9	5.28	\$361	7.1%
2013	\$2,225.3	90.0%	\$2,002.8	5.35	\$374	3.6%
2014	\$2,239.4	90.0%	\$2,015.5	5.42	\$372	(0.6%)
2015	\$2,322.0	88.9%	\$2,064.2	5.49	\$376	1.1%

Source: Washington State Gambling Commission

As illustrated, but unlike the phenomena for cardrooms, on a GGR-per-adult basis the value has grown on a year-over-year basis in all but one year (over the 14 years for which growth can be calculated). Importantly, these findings would not change whether we utilize 18 or 21 as the gaming age.

If we further assume/acknowledge that a substitution effect exists (i.e., between casinos and cardrooms), then we can posit that growth in casino GGR per adult in Washington could result from revenue that would have otherwise occurred in a Washington cardroom. To support this statement, the following table shows Class III casino GGR and cardroom revenue (both on a per-adult basis) over the 15-year period along with the total and percentage split between the segments.²¹

Figure 32: Washington casino GGR and cardroom revenue, per adult basis, % of total, 2001-2015

	Casino GGR / Adult	Casino GGR % of Total	Cardroom Rev. / Adult	Cardroom Rev. % of Total	Total (Casino + Cardroom) / Adult	Growth
2001	\$85	62.9%	\$50	37.1%	\$135	n/a
2002	\$102	65.6%	\$53	34.4%	\$156	15.2%
2003	\$139	72.2%	\$54	27.8%	\$192	23.6%
2004	\$172	75.1%	\$57	24.9%	\$229	18.8%
2005	\$195	75.3%	\$64	24.7%	\$258	13.0%
2006	\$222	78.7%	\$60	21.3%	\$282	9.2%
2007	\$245	80.9%	\$58	19.1%	\$303	7.5%
2008	\$266	82.7%	\$56	17.3%	\$322	6.1%
2009	\$278	84.8%	\$50	15.2%	\$328	1.8%
2010	\$306	87.4%	\$44	12.6%	\$350	6.7%
2011	\$337	88.6%	\$43	11.4%	\$381	8.9%
2012	\$361	89.5%	\$42	10.5%	\$404	6.1%
2013	\$374	90.4%	\$40	9.6%	\$414	2.6%
2014	\$372	90.3%	\$40	9.7%	\$412	(0.6%)
2015	\$376	90.3%	\$40	9.7%	\$416	1.1%

Source: Washington State Gambling Commission

As illustrated, when examining Class III casino GGR per adult and cardroom revenue per adult on a side-by-side basis over the last 15 years, casino GGR per adult has grown on a year-over-year basis in all but one year, while the opposite has occurred with cardroom revenue per adult (over the 14 years for which growth can be calculated).

Based on this data, we project cardroom revenue for 2016 through 2020 with the salient assumption that the Class III casino GGR per adult will continue to comprise a greater amount of the total spend per adult (when combining casino GGR and cardroom revenue). To quantify the figures for 2016 through 2020 we assume casino GGR per adult (as a percentage of total) will grow by 0.7 percent annually, which is the average annual growth between 2010 and 2015

²¹ Casino GGR is limited to Class III in this example due to availability of data, as GGR for Class II casinos is not publicly reported.

(i.e., from 87.4 percent to 90.3 percent) and then apply this figure to our casino revenue projections, from Washington residents, for 2016 through 2020 (presented elsewhere in this report). This allows us to quantify resultant cardroom revenue per adult over the same period and then multiply the figure by the projected number of adults in Washington between 2016 and 2020 (based on same sources utilized in our gravity modeling to project casino GGR). The following table shows our projected cardroom revenue from 2016 and 2020, along with the actual figure for 2015.

Figure 33: Washington cardroom GGR projections, 2016-2020

Cardrooms	2015	2016	2017	2018	2019	2020
# Cardrooms	50	45	40	35	30	25
Gaming Revenue (\$M)	\$225.9	\$216.8	\$216.2	\$212.7	\$201.4	\$189.3
% Growth (vs. Prior Year)	2.5%	(4.0%)	(0.3%)	(1.6%)	(5.3%)	(6.0%)
\$ Growth (vs. 2015)	n/a	2.0%	1.6%	0.0%	(5.3%)	(11.0%)
Rev. per Cardroom (\$M)	\$4.5	\$4.8	\$5.4	\$6.1	\$6.7	\$7.6
% Growth (vs. Prior Year)	2.5%	6.7%	12.1%	12.5%	10.5%	12.8%
\$ Growth (vs. 2015)	n/a	(20.7%)	(11.1%)	0.0%	10.5%	24.6%

Source: Spectrum Gaming Group

As illustrated, we project Washington cardroom revenue will decrease annually (from 2015) to approximately \$189.3 million in 2020. However, due to our assumption that the number of cardrooms will contract significantly over this period we show that average revenue per cardroom will steadily increase over the period, from \$4.5 million in 2015 to \$7.6 million in 2020.

E. Non-Gaming Revenue

Gaming facilities, regardless of type, generate revenue from non-gambling sources that may include restaurants, bars, hotels, spas, entertainment, retail shops, and meetings and conventions. For Washington’s Class III casinos, we believe the percentage of total revenue derived from such non-gaming amenities varies widely – from close to 30 percent at some major destination gaming resorts to the low single digits at small, gaming-centric properties that have only minimal food and beverage service. Based on interviews with some tribal operators and on our observations, we estimate that on a statewide basis Washington’s Class III casinos generate 20 percent of total revenue from non-gaming sources. For the Class II casinos, we estimate the figure at approximately 9 percent. For cardrooms, we do know the actual amount for 2014 was in excess of 23 percent based on figures reported to the WSGC, while we assume this figure will be approximately 23.6 percent in future years. The overall non-gaming revenue (to total revenue) assumption we utilize for the combination of all casinos and cardrooms is 20 percent.

Based on Spectrum’s estimates for the casinos and on the actual cardroom figure, we applied those ratios to our projected gaming revenue in each category to project the non-gaming revenue by type for 2015-2020.

Figure 34: Estimated and projected non-gaming revenue for casinos and cardrooms, 2016-2020

	2015	2016	2017	2018	2019	2020
Class III casinos	\$580.50	\$597.68	\$687.28	\$781.15	\$803.35	\$826.28
Class II casinos	\$6.08	\$6.27	\$6.49	\$6.72	\$6.97	\$7.22
Cardrooms	\$69.95	\$67.14	\$66.95	\$65.87	\$62.37	\$58.62
Total	\$656.53	\$671.08	\$760.72	\$853.74	\$872.69	\$892.12

Source: Spectrum Gaming Group

F. Other Forms of Gambling in Washington

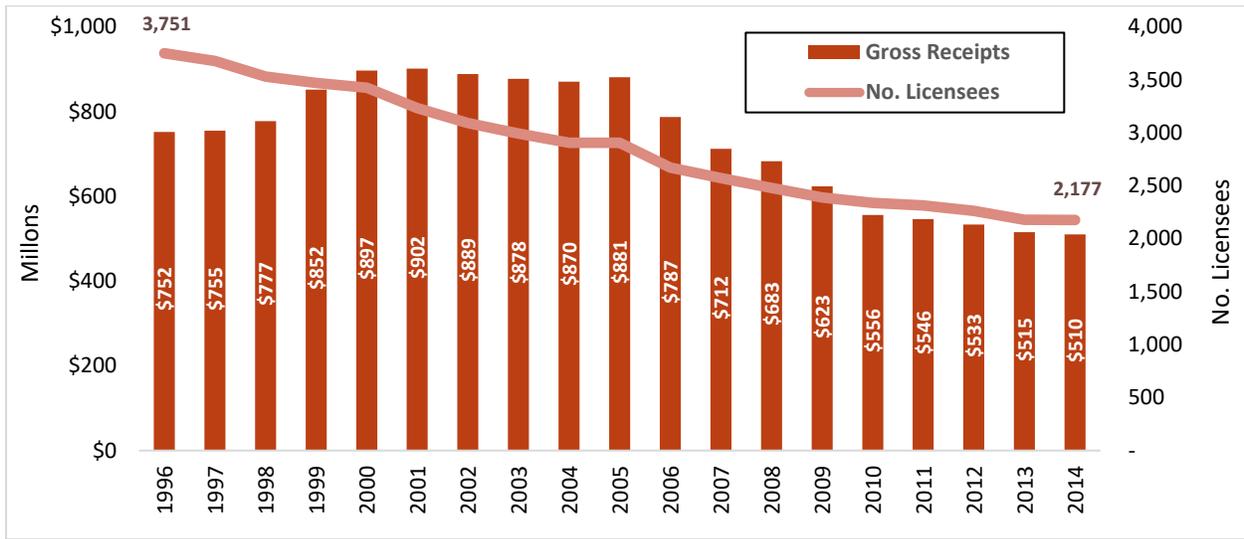
In addition to Indian casinos and commercial cardrooms, the WSGC regulates non-profit bingo, punchboard/pull tabs (hereafter simply “pull tabs,” as punchboards account for perhaps 1 percent or less of the combined category²²) and raffles, as well as commercial cardrooms, pull tabs and amusement games.

The largest game types – pull tabs (both commercial and non-profit) and bingo – are in serious decline while the considerably smaller raffle and amusement game types have shown growth over the last 15 years for which data are available. Quite simply, bingo and pull tabs are seen as slow, antiquated methods of gambling; they are paper-based products in an electronic world. Players of those games are dying out and being replaced by a generation that desires faster and/or more technologically advanced gambling options (see Chapter VII and Chapter VIII for discussion).

The following chart shows the combined gross receipts – which is the best gauge of customer demand – and combined number of licensees for all non-profit and commercial gambling, including cardrooms.

²² Based on interviews with WSGC staff and game operators.

Figure 35: Total gross receipts, number of licenses for combined commercial, non-profit gambling sectors, 1996-2014

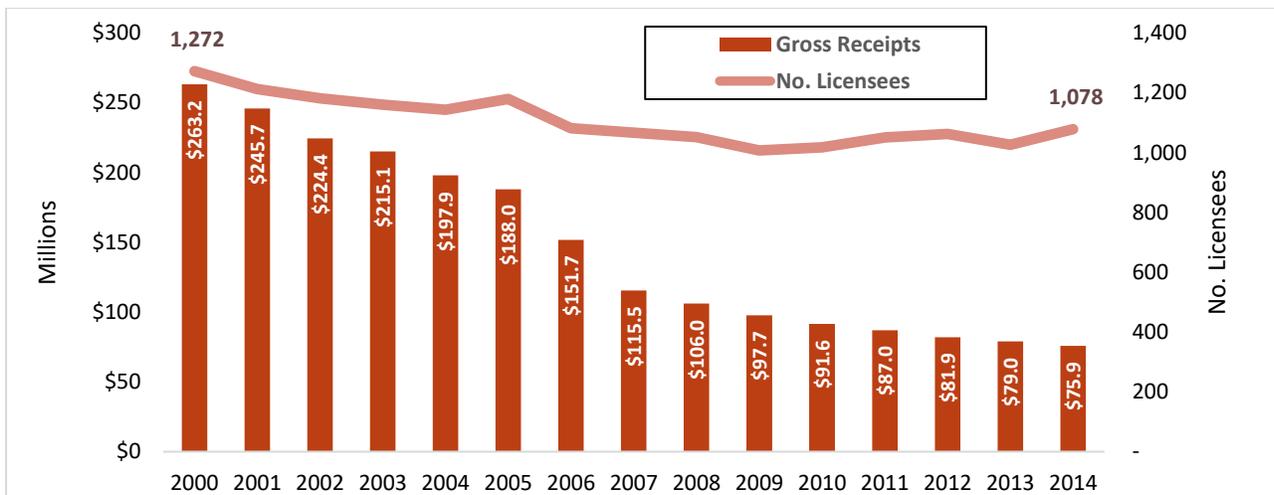


Source: Washington State Gambling Commission

Non-Profit

Gross receipts for all non-profit types declined by 71 percent, to \$75.9 million, from 2000 to 2014. Tellingly, the amounts declined every year, as shown in the following chart.

Figure 36: Total gross receipts, number of licenses for non-profit gambling sector, 2000-2014

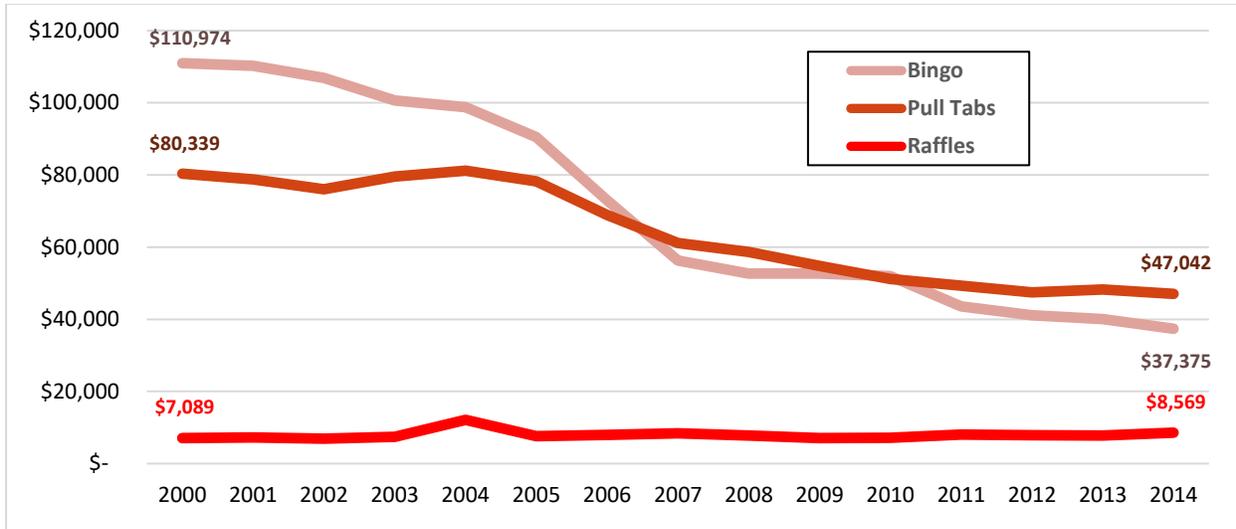


Source: Washington State Gambling Commission

Note that the number of licenses declined by only 15 percent over the period, meaning each licensee – on average – is realizing far less revenue. Whereas other charts in this section show gross receipts – which is an indicator of consumer demand – the following chart shows average *net receipts*, which is the amount after prize payouts; i.e., the revenue realized by the sponsoring non-profit organization. These amounts are before any costs the sponsoring non-

profit organizations may incur to operate the games. The diminishing net receipts shown below bring into question the viability for some non-profit organizations of continuing to offer these games as fundraisers.

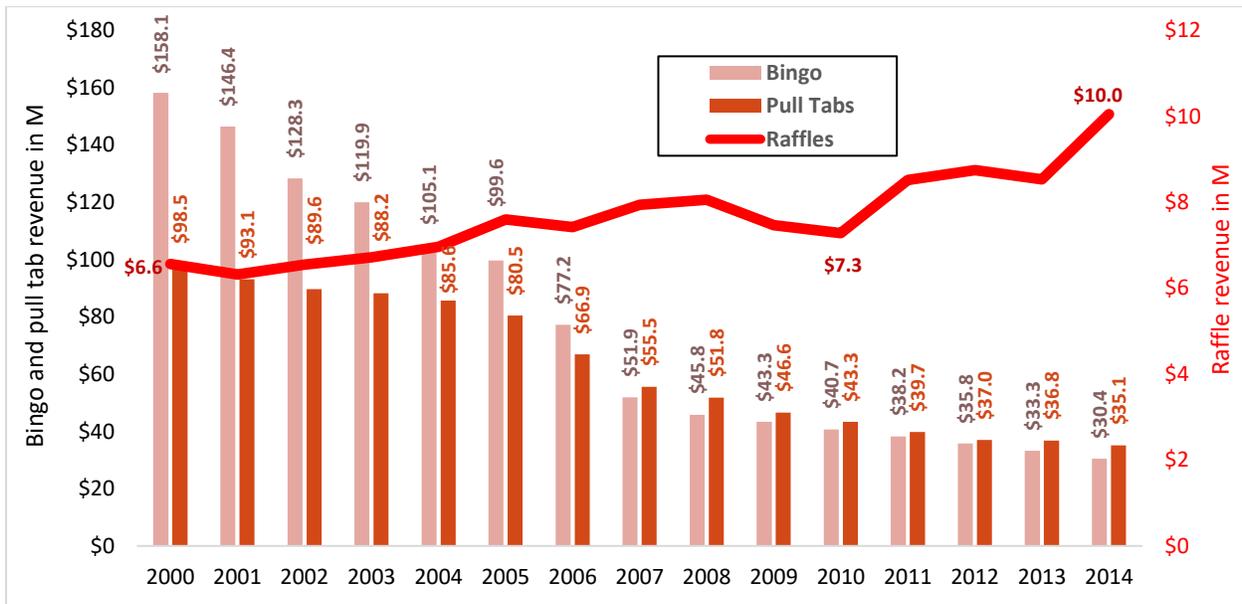
Figure 37: Average annual net receipts per non-profit licensee, by type, 2000-2014



Source: Washington State Gambling Commission

Within the non-profit category, bingo has fallen most precipitously while raffles have grown. In 2000, raffles accounted for 2 percent of total non-profit receipts; by 2014 they accounted for 13 percent of a vastly shrunken total.

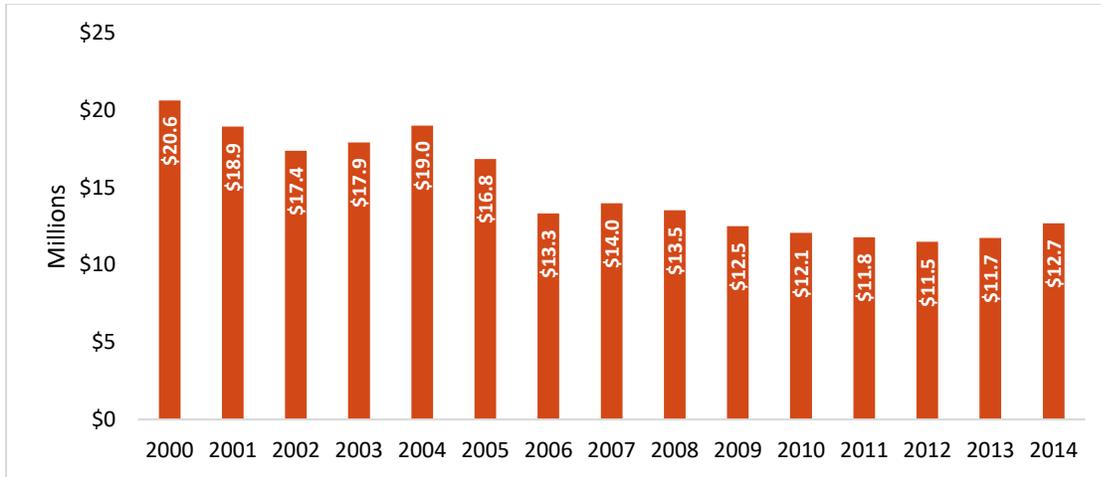
Figure 38: Gross receipts by non-profit type, 2000-2014



Source: Washington State Gambling Commission

Not surprisingly, net income of the sponsoring non-profit organizations has declined, though not at the same rate as revenues, with 2014 combined net income down 39 percent compared to 2000.

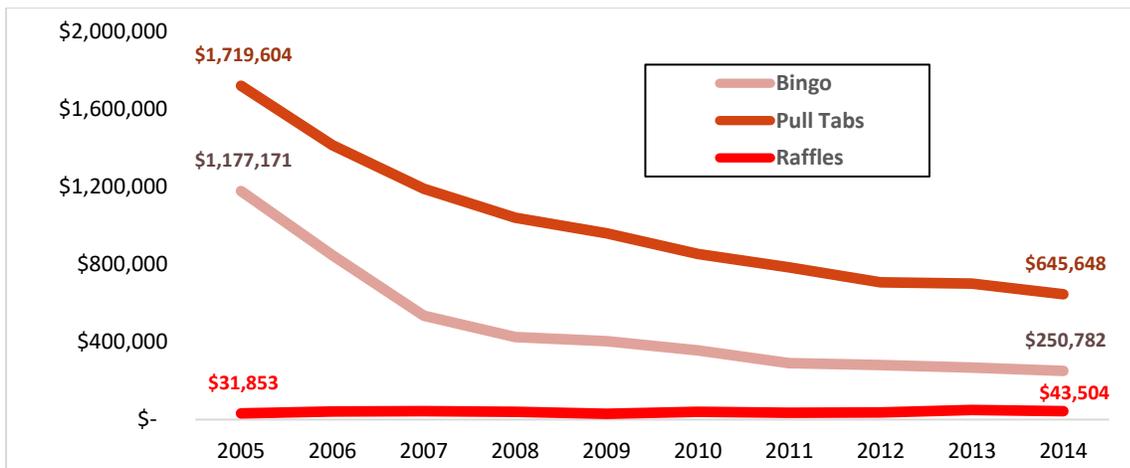
Figure 39: Combined net income of non-profit sector, 2000-2014



Source: Washington State Gambling Commission

Non-profit organizations pay local taxes on their net receipts. The combined local taxes declined by 68 percent from 2005 to 2014, to less than \$1 million. The data are for years available through WSGC annual reports.

Figure 40: Reported local taxes paid by non-profit sector, 2005-2014



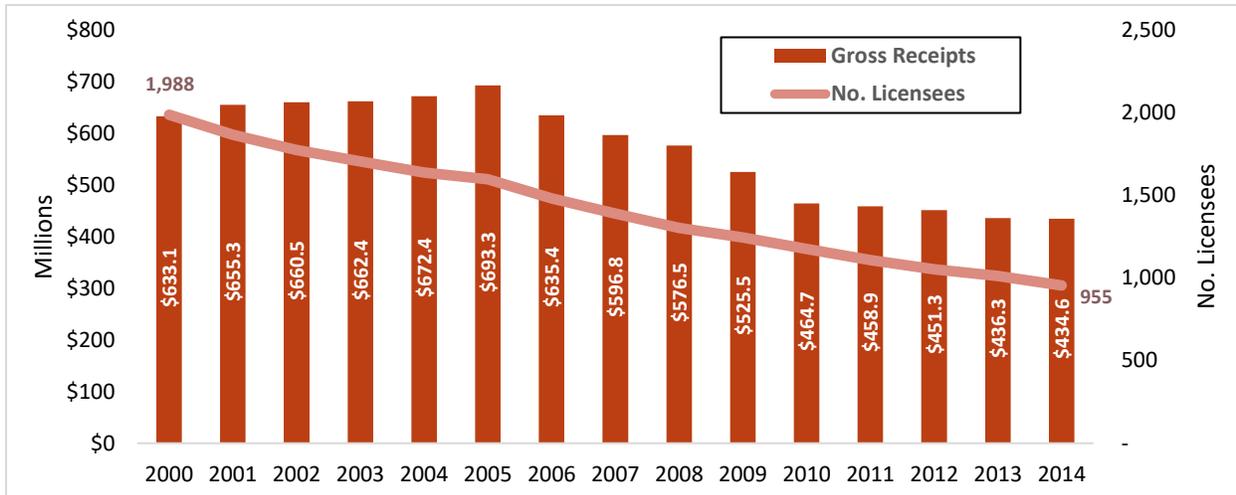
Source: Washington State Gambling Commission

Commercial

Gross receipts for all types of commercial gambling declined by 31.4 percent in 2014 vs. 2000, and the number of licensees were more than halved, as shown the following chart. Gross receipts had increased each year through 2005, then began a steady decline as the statewide

indoor smoking ban, the national recession starting in 2008, and the continuing growth of Indian gaming impacted results.

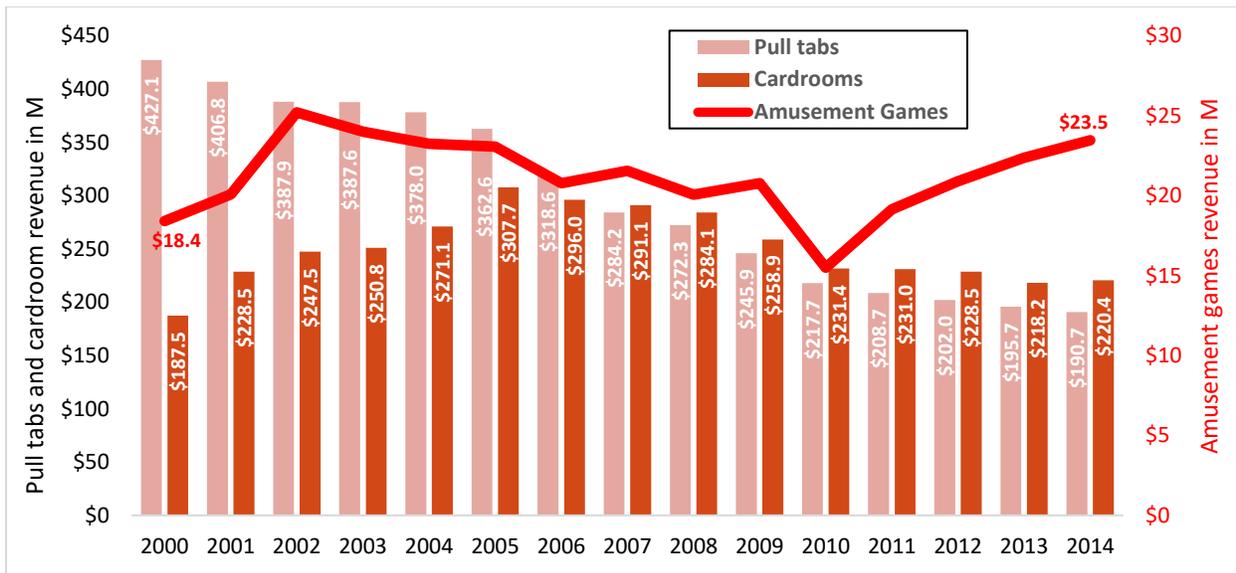
Figure 41: Total gross receipts, number of licenses for commercial sector, 2000-2014



Source: Washington State Gambling Commission

Pull tabs accounted for 67 percent of the combined commercial gross receipts but only 44 percent in 2014. Pull tab receipts have declined every year since 2000 whereas cardroom revenue grew dramatically from 2000 to 2005 before beginning a steady decline. Amusement game receipts fluctuated over the study period but over the last four years showed growth.

Figure 42: Gross receipts by commercial type, 2000-2014

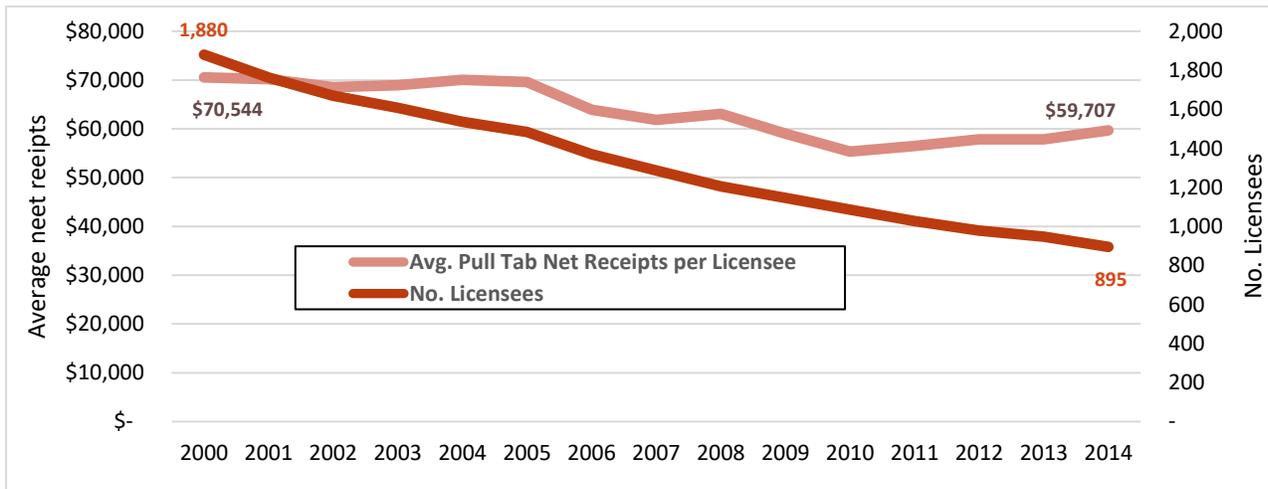


Source: Washington State Gambling Commission

With cardrooms having been analyzed earlier in this chapter, we focus on the other, once-dominant form of gambling in the commercial sector: pull tabs. Above, we see that pull tab

receipts declined by 55 percent over the period. Next, we examine *net receipts* per commercial pull tab licensee, which is the amount after prize payouts. We can see that the number of pull tab licensees halved over the period. With the reduction in licensees, the average net receipts per licensee declined by only 15 percent despite a large decline in gross receipts.

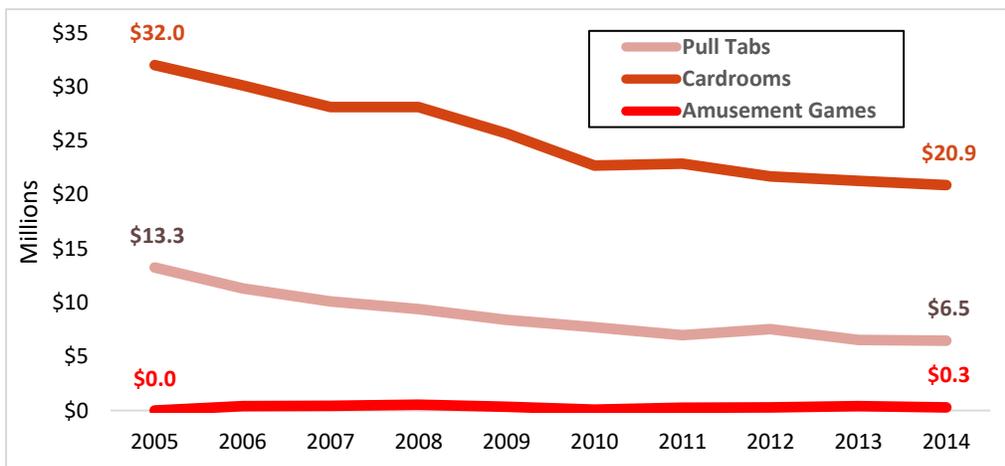
Figure 43: Average net receipts per commercial pull tab licensee, number of licensees, 2000-2014



Source: Washington State Gambling Commission

The operators of commercial games pay local taxes on their receipts.²³ The combined local taxes declined by 39 percent from 2005 to 2014, to \$27.6 million. The data are for years available through WSGC annual reports.

Figure 44: Reported local taxes paid by commercial sector, 2005-2014



Source: Washington State Gambling Commission

²³ Cardrooms pay based on gross receipts, pull tabs on either net or gross receipts, and amusement games on net receipts.

Future Revenues

After cardrooms (which we discuss earlier in this chapter), pull tabs and bingo are the two dominant forms of “other” gambling regulated by the WSGC. As noted earlier, both game types experienced severe declines over the 2000-2014 period and there is no visible catalyst to reverse the trend. Both game types are based on a paper product and use manual processes, which are slower and more labor-intensive than electronic gambling games preferred by younger generations.

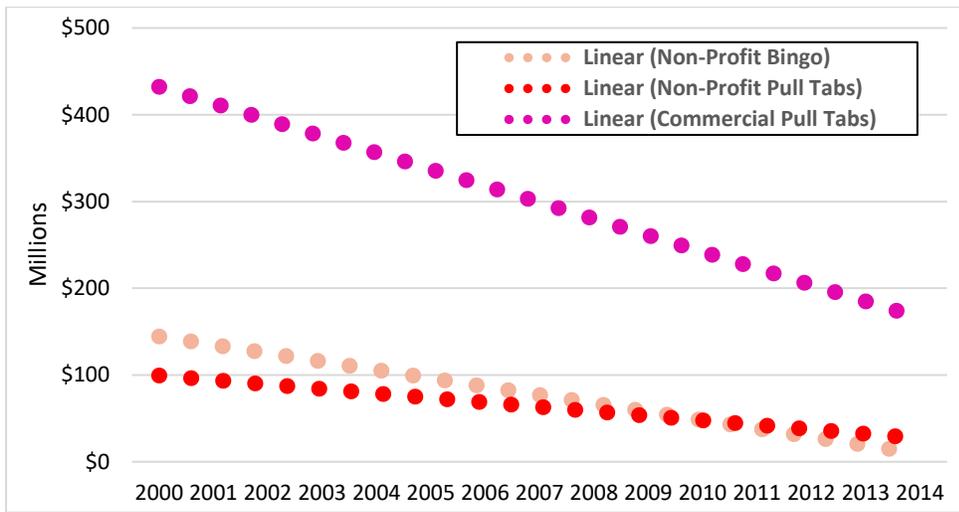
Projecting the dollar performance for pull tabs and bingo would be dependent to a large degree on the number of operators/providers of the games and their locations. Spectrum cannot reasonably assume the number of operators, as many are small establishments/organizations that must make a business decision regarding the viability of offering such games. Further, the operators must make these decisions in the context of their primary, non-gambling business, be it food, beverage, entertainment or other.

We do, however, project that the revenues of both pull tabs and bingo in their current forms will – in the long run – continue their respective downward trends for three reasons that are based on interviews with industry participants and regulators and on our research in Washington and other gaming markets (see Chapter VIII for discussion):

1. Younger gamblers raised on faster, technology-based games are replacing older gamblers
2. Electronic games, including those on mobile devices, are replacing older-style gambling games
3. The casino industry continues to grow, offering increasingly sophisticated electronic gaming devices as well as amenities and entertainment options that attract younger patrons

The following chart shows the gross receipts trends for Washington pull tabs and bingo, based on the dollar figures gleaned from figures 41 and 42 above. As noted, Spectrum believes the downward trends will continue for the foreseeable future.

Figure 45: Gross receipts trends for commercial and non-profit pull tabs, non-profit bingo, 2000-2014



Source: Washington State Gambling Commission

Bingo

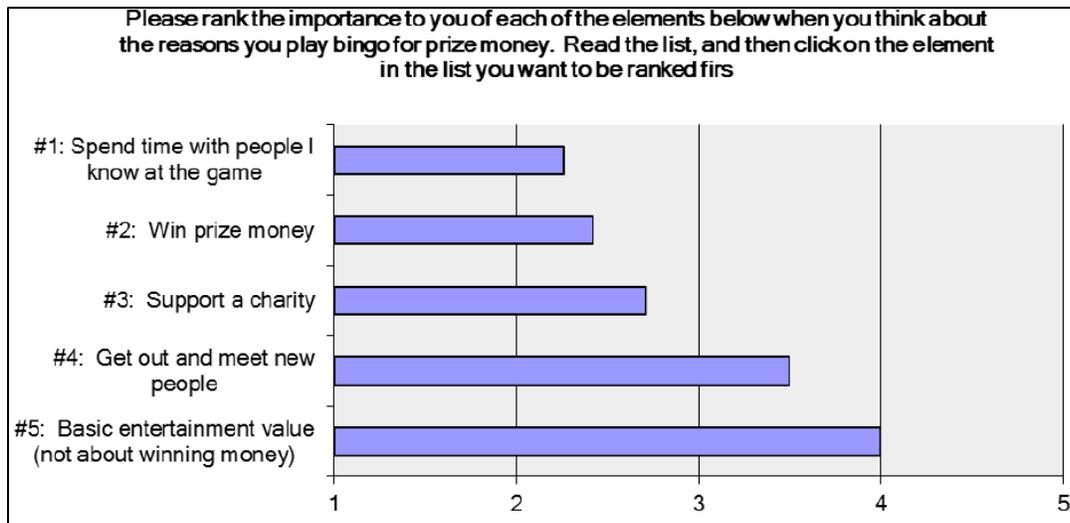
In FY 2014, 40 et 8 Bingo in Vancouver was, by far, the state’s highest-grossing operator with \$4.1 million in gross receipts. Ten years earlier, 40 et 8 reported \$5.2 million in gross receipts. The Seattle Junior Hockey Association, which operates the 220th Street High Stakes Bingo in the Seattle suburb of Mountlake Terrance, 10 years ago was the highest-grossing operator in the state with \$7.3 million in gross receipts and net receipts of more than \$519,000. By FY 2014, its gross had declined 59 percent and its net by 93 percent.

The substantial declines at these two prominent Washington operators exemplify the state of the bingo industry. The game is largely perceived as an activity for senior citizens – a “grandmother’s thing,” said Barbara Loucks, human resources manager and bookkeeper for 40 et 8. Loucks and other bingo operators interviewed by Spectrum said business is declining primarily because their core players are not being replaced after they die or can no longer play the game and secondarily due to the growth of Indian gaming. Bingo operators may use various promotions and special events such as late night glow-in-the-dark bingo to promote their game but they recognize that such action can stem the declines by only so much.

A primary appeal of bingo is the social factor – a fun night out to meet and make friends. Many patrons have played bingo for much of their lives, as it was first popularized in the United States about a century ago. Bingo further offers an evening (or afternoon) of entertainment at a modest cost; the average gross receipts per player at Washington’s 21 highest-grossing bingo halls in FY 2014 was just under \$50 – before accounting for any prize winnings.

The fun/social appeal was underscored in a 2013 bingo study commissioned by the State of Colorado; the following table illustrates responses from bingo players surveyed for that study:

Figure 46: Colorado bingo study – reasons for playing bingo



Source: “Creating a Sustainable Model for the Colorado Bingo-Raffle Advisory Board,” p. 27, April 17, 2013.²⁴

Dave Tosch, executive director of the Wenatchee Senior Center, said his bingo business has stabilized because it serves a large retirement community that manages to replenish itself. “We’re good for another several years. I’ll continue to forecast the same amount of revenue for a while, but I do not anticipate growth,” he told Spectrum. Tosch’s insight underscores that bingo is dependent on a core audience of older patrons. Younger generations, however, see the game as slow, antiquated and unsophisticated.

An obvious, narrow-minded solution to increase the appeal of bingo would be allow the game to be played in slot-like machines. However, this would clearly infringe on tribal gaming, which has its roots in Class II, or bingo-based, electronic gaming devices.

Pull Tabs

Unlike the gambling activity in a casino, cardroom or bingo hall, playing commercial pull tabs is a secondary activity in the host establishment. While the number of commercial pull tab licensees dropped by more than half in the past 15 years, it remains “an extraordinarily important part of our members’ business,” said Bruce Beckett, Director of Government Affairs for the Washington Restaurant Association, which represents liquor-licensed establishments. He added, “But it’s declined precipitously because it’s antiquated.” Even the state’s largest pull tab distributor, WOW distributing, acknowledges this. “You can’t develop new gamblers with a paper product,” President and CEO Aaron Winsor said.

Pull tabs are declining in appeal from the perspective of both players and providers. From a player’s perspective, playing pull tabs is slow and requires more effort than other games.

²⁴ Study available at http://www.sos.state.co.us/pubs/bingo_raffles/files/2013/20130417BingoMarketStudy.pdf

Players have to study the flare, ask to purchase the pull tabs, manually open the paper game pieces and then, if a winner, request to be paid. From a provider’s perspective, the pull tabs take up counter space, either with the fish tanks or machine dispensers, and the tanks must be monitored and manually replenished with thousands of paper tickets whose packages require secure storage.

“Our big gamblers out there in the pull tab world, they are dying – literally,” Winsor said. “If who somebody bets \$2,000 a month in a bar dies, that goes away. The (age) 25-35 Millennial is not playing; they’d rather sit at a slot machine.” Winsor said having employees dedicated to selling pull tabs can result in higher sales but acknowledges that they have to work hard at it and that providers must weigh the employment cost vs. the sales benefit.

Winsor and many pull tabs retailers would like to see the State legalize electronic pull tabs – an electronic gaming device that would resemble a slot machine in look and play characteristics. As noted in Chapter I of this report, the WSGC has entertained manufacturers seeking to develop a slot-like device that would conform to State pull-tab regulations, but that approval or implementation is not imminent.

Amusement Games, Raffles

The growth in the amusement games sector is, we believe, reflective of the rise of Millennials, who prefer more technologically advanced and skill-based gaming options (see Chapter VIII). Amusement games operators and manufacturers have adapted to provide popular video games, or games similar to them, in cabinet form. We believe that the convergence of video gaming and casino-like social games bodes well for the future of amusement games sector, as such centers provide a social experience that cannot be replicated on a mobile device.

The growth in the raffles sector is, we believe, reflective of the overall growth in state lottery sales as well as organizations focusing on raffle sales as the other forms of non-profit gambling in Washington decline. We note that Washington lottery sales have grown every year over the last 10 years²⁵ (albeit at declining rates of growth) and that the outlook for US lottery sales as a whole is positive for the 2016-2020 period, with Technavio analysts forecasting a 5.41 percent compound annual growth rate during that period.²⁶

²⁵ Washington Lottery, “Comprehensive Annual Financial Report,” 2015. <http://www.walottery.com/About/AnnualReports.aspx>

²⁶ ReportBuyer, “Lottery Market in the US 2016-2020,” August 27, 2016. <http://www.prnewswire.com/news-releases/lottery-market-in-the-us-2016-2020-300315149.html>

III. Washington Gaming Employment

The Washington State gambling industry is a significant employer, with a total of 30 Indian casinos²⁷ and 50 cardrooms providing a wide range of jobs from entry-level food-service workers to maintenance specialists to technicians to managers and executives. In addition, other gambling sectors in the state provide employment, primarily liquor-licensed establishments offering pull tabs, non-profit groups offering bingo, and amusement centers.

A. Casino and Cardrooms

There are no definitive sources – and just a paucity of estimates – for the total number of casino facility employees in the state. The US Bureau of Labor Statistics (“BLS”), via its Standard Occupational Classification system, provides useful employment and wage data on the total number of gaming-specific jobs for Washington State as of May 2015,²⁸ classifying the employees into nine groups. The BLS data, however, do not segregate employees by type of gaming – i.e., casino or cardroom – nor do they segregate employees who work in casino facilities but in non-gaming classifications. By way of example, all food servers are reported in one classification whether or not they are working in casino restaurants.

The WSGC does not collect employment data from the casinos and cardrooms, nor do the state’s two principal gaming trade groups – the Washington Indian Gaming Association (“WIGA”) and the Recreational Gaming Association of Washington (“RGA,” which represents cardrooms). However, a 2012 study conducted for WIGA by Jonathan B. Taylor²⁹ based on a 2010 survey issued by WIGA found that Indian casinos employed 15,387 individuals. Taylor’s figure accounted for 95 percent of the Indian gaming industry’s capacity at the time; adjusting for the 5 percent that did not participate in Taylor’s research suggests that total Indian gaming employment at the time may have been about 16,150. Spectrum found this six-year-old figure to be in line with the 2016 total-industry estimates we provide below, as the casino industry has since increased its volumes and expanded its facilities.

Due to the unavailability of detailed BLS employment data for many non-gaming jobs in casino facilities, Spectrum determined that the best methodology to measure casino/cardroom

²⁷ All casino data and estimates in this chapter include both Class III and Class II casinos.

²⁸ US Bureau of Labor Statistics, “May 2015 State Occupational Employment and Wage Estimates, Washington.” http://www.bls.gov/oes/current/oes_wa.htm

²⁹ Jonathan B. Taylor, “The Economic and Fiscal Impacts of Indian Tribes in Washington,” Taylor Policy Group, 2012. <http://www.washingtonindiangaming.org/images/content/FINAL%20CIR%20WEB%20VERSION.pdf>

employment and total wages was to use a combination of BLS data and our own estimates based on the inventory of non-gaming amenities at Washington casinos and cardrooms.

The nine BLS gaming job classifications included 8,710 hourly employees and 1,040 supervisory and management employees in Washington gaming facilities. The BLS data include both full- and part-time employees. To calculate total wages for gaming employees, we determined the number of full-time equivalents (“FTEs”) by using a ratio of 1.5 total employees for every one FTE in the non-administrative and non-supervisory categories. The factor of 1.5 is based on Spectrum’s experience working with other casinos and gaming companies throughout the country regarding their ratio of total employees (i.e., “headcount”) to FTEs. The number of FTEs was then multiplied by the annual mean wage listed in the BLS Occupational Employment Statistics (“OES”) tables for Washington to derive the total wages for direct gaming employees.

The BLS states that the wages listed in the OES data include tips³⁰ but not benefits. The mean hourly rate listed for dealers in Washington State is \$12.98. We used this hourly rate as reported in our total wages forecast. However, based on our experience in the gaming industry, as well as on our interviews with Washington gaming operators for this study, we have found the hourly rate for dealers with tips is typically higher – sometimes double or more than triple the BLS number – at some facilities, especially in cardrooms (where tips are not pooled). But absent official, industrywide figures for Washington dealers we must rely on the BLS data – with the caveat that, in Spectrum’s opinion, the reported dealer wages may be conservative.

For non-gaming employment at Washington casinos, we developed an inventory of facilities including number of food and beverage outlets, number of hotel rooms, and number/size of other non-gaming amenities to forecast of non-gaming employment. FTEs were estimated using standard operating practices of casinos in several gaming jurisdictions and the experience of Spectrum experts. To project the total wages, the number of FTEs for each job classification was multiplied by the annual mean wage listed in the BLS OES tables for Washington. Total headcount was calculated using the ratio of 1.5 employees to 1 FTE.

Administrative employees and supervisors of administrative employees typically are full-time employees and are often paid on a salaried basis rather than hourly basis. Examples of such employees include accountants, computer programmers, office staff, etc. The need for these employees is relatively constant, so the number of positions does not typically fluctuate with seasonal and weekend/weekday variations in business levels. Consequently, these positions are not often staffed with part-time employees, so the 1.5 ratio was not used for this classification. Instead, we estimated that there should be 200 additional positions to the headcount of administrative employees at existing casinos to account for a very small number of part of time-

³⁰ US Bureau of Labor Statistics, Frequently Asked questions, Section D Item 3.
http://www.bls.gov/oes/oes_ques.htm

office workers. Our supervisory headcount is a blended number that includes both supervisors of operations employees.

For cardrooms, Spectrum used actual data collected from 18 cardrooms, via a July-August 2016 survey conducted by the RGA of its members, to estimate the employment for all 50 cardrooms in the state. The 18 responding cardrooms provided the headcounts for gaming and non-gaming positions. An average number of gaming and non-gaming employees per responding cardroom was used to estimate the number of employees for all cardrooms. FTEs were calculated using a ratio of 1.5 employees to FTE in the non-administrative and non-supervisory categories and a blended wage rate for non-gaming positions in the OES tables for Washington was used to estimate total non-gaming cardroom wages.

We used our methodology to then project the employment and wages that will be created by the six current expansion/new-casino projects underway or planned in Washington. Sources for the employment estimates at these projects included property websites, interviews and Spectrum estimates based on the size and scope of gaming and non-gaming amenities.

As shown in the table below, we estimate that the casinos and cardrooms currently employ a total of 23,329 (or 16,515 full-time equivalents) and generate total payroll of \$514.5 million. This equates to an average FTE wage of \$31,150, which in Spectrum’s experience is in line with other gaming across the country. We estimate that Washington Indian casinos employ 17,098 and the cardrooms employ 6,231. Spectrum estimates that the casino expansion projections underway will add another 1,517 jobs and \$34.1 million in wages.

Figure 47: Washington casino/cardroom direct employment and wage estimates and forecast

	FTEs	Headcount	Total Wages
Existing Casinos and Cardrooms			
Direct Gaming Hourly	5,807	8,710	\$157,746,467
Direct Gaming Supervisory	700	1,040	35,684,230
F&B	5,356	8,031	\$147,663,630
Other Amenities	773	1,160	\$19,914,310
Administrative	3,022	3,222	\$107,151,800
Supervisory	857	1,166	\$46,293,109
Total	16,515	23,329	\$514,453,546
Casino Expansions Under Way			
Direct Gaming Hourly	247	370	\$6,632,733
Direct Gaming Supervisory	23	35	1,101,367
F&B	477	715	\$12,762,333
Other Amenities	53	80	\$1,860,656
Administrative	200	200	\$7,076,000
Supervisory	86	117	\$4,669,007
Total	1,086	1,517	\$34,102,096

Source: US Bureau of Labor Statistics, Recreational Gaming Association, property websites, Spectrum Gaming Group estimates.
FTE = full-time-equivalent employee

B. Other Sectors

There are no formal sources of employment data for other gambling sectors regulated by the WSGC, as neither the WSGC, BLS nor in-state trade associations collect or track such information. The employers in these other sectors are primarily liquor-licensed establishments that offer pull tab games, non-profit groups that offer bingo and pull tabs, and amusement-games centers. The liquor-licensed establishments that offer pull tabs and non-profits that offer bingo and pull tabs have created gambling-specific jobs that, while important because they provide the livelihoods of numerous individuals, are comparatively small on a total, industrywide basis.

Non-profit bingo was offered at 220 licensed locations at the end of FY 2014, 151 fewer locations than in 2000. Several high-gross bingo halls have full- and part-time dedicated bingo employees. It should be noted that many bingo halls also sell pull tabs, which at some locations is a significant source of net income. The following illustrate employment ranges for bingo halls:

- Washington's highest-grossing bingo hall, 40 et 8 in Vancouver, has five full-time employees and 20 others who generally work between 32 and 38 hours per week, making them eligible for benefits. Jobs include managers, supervisors, floor workers, sellers, snack bar workers, according to Barbara Loucks, human resources manager and bookkeeper for the hall.
- American Legion 176 in Vancouver, the eighth-highest-grossing bingo venue in the state, has six employees dedicated to bingo, and they average 20 to 25 hours per week, according to Bonnie Dykstra, bookkeeper for the post.
- The Wenatchee Senior Center pays a caller for its one bingo session per week, in addition to employing a part-time accountant whose duties include keeping the bingo books, according to Dave Tosch, executive director of the center.

Spectrum believes that, in total, the non-profit licensees statewide may be responsible for between 200 and 400 jobs directly related to bingo and pull tab operations.

Commercial pull tabs were available in 895 authorized liquor-licensed establishments at the end of FY 2014, almost 1,000 fewer locations than in 2000. At most establishments, pull tabs are sold by employees who also have other responsibilities, such as a bartender or cashier. Aaron Winsor, co-owner of WOW Distributing, Washington's largest distributor of pull tabs, told Spectrum that there are probably fewer than 100 direct employees statewide dedicated to pull-tab sales and operations. WSGC field agents we interviewed said they believe such an employment estimate is reasonable.

Countless people are also employed in the amusement games sector, which despite being regulated by the WSGC typically is not considered gambling in that the games can be played by children and involve elements of skill and luck; winners are rewarded with merchandise or tickets

redeemable for merchandise. Most of the industry's \$23.5 million in gross receipts in FY 2014 were from larger-scale operations such as bowling centers and arcades, which have a combination of non-gambling games such as video games and gambling-type games that dispense prize tickets. As such, we cannot estimate the number jobs specific to gambling for this sector.

IV. Economic Impacts of Washington Casinos, Cardrooms

Washington casinos and cardrooms will have collectively grossed an estimated \$2.67 billion in gaming revenue in 2016. Those revenues have a considerable economic impact throughout the state in the form of direct jobs, indirect and induced jobs, construction jobs (for expansion projects), income, spending, and governmental receipts. This chapter measures those impacts by inputting data developed in preceding three chapters of this report into the widely used IMPLAN economic-impact model.

Our economic impacts focus solely on the combined casino (both Class III and Class II) and cardroom industry, as they all are in the casino business, regardless of whether they offer only slots or only table games, or both. Further, as noted in Chapter III, the US Bureau of Labor Statistics does not segregate gaming employees by type of establishment. Our economic impact analysis does not include other, smaller forms of gambling regulated by the WSGC, such as bingo, pull tabs and amusement games, as employment data (as noted in Chapter III) are not available for these sectors and, further, many jobs in those establishments are comingled with non-gambling functions.

A. Economic Lifeline for Indian Tribes

Before we quantify the economic impacts of gaming, and although studying the economic impacts of casinos on Washington Indian tribes is beyond the scope of this report, we will briefly discuss the importance of casino operations to many tribes who were facing desperate economic times. As Taylor succinctly said in his 2012 study for the Washington Indian Gaming Association:

The history of American Indian hardship is beyond dispute. Nationwide, American Indians are repeatedly the poorest identified minority, and while there has been hopeful and significant improvement since the last census, the latest available data show continuing economic challenge in Indian Country. The Bureau of Indian Affairs reports that among Indians on and near Washington's reservations, each employed Indian supported more than three others who were not employed. By contrast, the proportion was one to one in Washington generally. This employment-to-population ratio highlights the economic dependency tribal governments intend to conquer.

The labor force participation rate—the proportion of able-bodied civilians of working age that are working— corroborates the underutilization of Indians by the formal economy. Little more than a third of Indians receive a paycheck, versus nearly three-quarters of all Washingtonians. To counter this long-lived problem and as part of a broader move toward

effective self-determination, Indian tribes built the casinos that are now prominent on Washington's reservations.³¹

To varying degrees – depending on the population density and economic conditions of their particular region – tribal casinos across Washington State have evolved into cultural and regional economic centers, serving as major employers. Any understanding of the economic impacts of such hubs requires consideration of that alternate reality: How would the region function economically in the absence of that hub?

One telling example in our research can be found in Shelton, where the Skokomish Tribe operates Lucky Dog Casino, which has only 250 slots and no table games. A 2002 report by the Sierra Institute put the pre-gaming economic landscape of the Skokomish in perspective:

Alternative employment opportunities (other than logging) are very limited on the reservation. Work opportunities are primarily with the tribal government or tribal economic programs, such as the tribally owned store and farm market. The Tribe currently employs about 100 people part-time and full-time. Others commute to Shelton or Olympia for work. More tribal families would like to move back to the reservation, but are unable to do so due to employment limitations and a lack of housing. According to labor market statistics from the BIA, the unemployment rate was 68 percent among the 825 enrolled tribal members in 1997.³²

The same report notes that even that unemployment number does not provide the complete picture. Nearly two-thirds of those employed lived below the poverty line in 1997, while “the number of children eligible for free and reduced lunch at the local elementary school has increased from 55 percent in 1994-5 to 65 percent in 1999-00, peaking in 1998-99 at 67 percent.”³³

A similar story of economic despair could be found when examining the Shoalwater Bay Tribe in Tokeland. The small tribe made national headlines in 1993 when news organizations reported on an extraordinary epidemic of infant mortality on the Shoalwater Bay reservation. Tom Brokaw, the then-anchor for NBC Nightly News, described the situation in a March 1993 broadcast as “an Indian reservation mystery: unexplained deaths, failed pregnancies, dying babies, a tribe that's now fearing extinction.”³⁴ The story was prompted by reports that the small tribe (about 150 members at the time) experienced 12 miscarriages, two stillborns, and three

³¹ Jonathan B. Taylor, “The Economic and Fiscal Impacts of Indian Tribes in Washington,” Taylor Policy Group, 2012. <http://www.washingtonindiangaming.org/images/content/FINAL%20CIR%20WEB%20VERSION.pdf>

³² Northwest Economic Adjustment Initiative, Skokomish Indian Tribe Case Study, p. 4, December 2002. http://www.academia.edu/3401858/Skokomish_Indian_Tribe_Shelton_Washington

³³ Ibid. p. 9.

³⁴ “Why Are Children of Shoalwater Tribe Dying?” NBC Nightly News, March 2, 1993. <https://archives.nbclearn.com/portal/site/k-12/browse/?cuecard=2326>

infant deaths out of a total of 26 pregnancies.³⁵ The same broadcast noted that the tribe, at the time, had a life expectancy of 41 years, and 90 percent of tribal members lived below the poverty line.³⁶

The *Los Angeles Times* covered the same story:

The Shoalwaters live on a moody, empty stretch of Washington coast. Their village looks out on an ever-shifting panorama of sand dunes, driftwood, tides and waves.

A few hundred years ago, thousands of American Indians inhabited this part of Washington. The Shoalwaters were expert canoe makers who navigated the seas and inland waters in canoes carved from Western red cedar. The Indians feasted on the abundant shellfish, and each Shoalwater relied on a personal guardian spirit, called Tomanawas.

But in the early 1800s, European visitors introduced smallpox, venereal disease and other illnesses to the tribes, and by the 1850s there were only small pockets of Indians left. Once free-roaming over the vast coastal lands, the Shoalwaters were crammed into a 1,035-acre reservation in 1866. The majority of their land is tidelands and wetlands, with only a few usable acres.³⁷

In our interview with Jim Anderson, who presently serves as chair of the Shoalwater Tribal Gaming Commission, we learned that the Shoalwater tribe has managed to leverage the opportunities afforded by gaming to create hope and opportunity where there had previously been neither. The tribe – which now has 368 members, 80 of whom live on the reservation – has more than doubled in size since those reports were generated nearly a quarter-century ago. Gaming has allowed the Shoalwater Bay tribe to provide a variety of services and benefits to both its members, and to the overall community, including:

- Pensions and stipends for its elders
- Scholarships to its youths, as well to area youths who are not tribal members
- Employment opportunities

The tribe has used the economic benefits of its casino to evolve into a pillar of the Tokeland-North Cove Chamber of Commerce as well. According to tribal leaders, the casino helps promote tourism while it sponsors food banks and local scholastic sports teams, and has helped turn annual events such as the Fourth of July celebration into regional activities. In 2014 the

³⁵ Ibid.

³⁶ Ibid.

³⁷ Ann Japenga, "A Pattern of Failed Pregnancies, Infant Deaths Baffles Shoalwater Indian Tribe, Which Fears Extinction Because Its Babies Are Dying," *Los Angeles Times*, February 25, 1993. http://articles.latimes.com/1993-02-25/news/vw-717_1_indian-health-service

Chamber voted the Shoalwater Bay Tribal Community Library as the “Business of the Year,” citing it as an “economic generator and a force for progress in the community.”³⁸

The casino – which has no table games – employs about 90 full-time equivalents, which is the bulk of the tribe’s overall employment base of 130 (which does not include some seasonal employees).³⁹

In Eastern Washington, the Kalispel Tribe reservation was “pretty pitiful” before the tribe opened the Northern Quest casino 2000, said Curt Holmes, Director of Public and Government Affairs for the Kalispel Tribe of Indians. The reservation had one telephone (a party line at that) and three homes with running water. “The casino was literally our chance to have a life,” he said.

The tribe received a \$24 million syndicate loan and opened with 500 slots. Northern Quest has subsequently expanded to become is a first-class destination gaming resort that employs more than 1,700, one-third of whom are Native American, with half of those being Kalispel members. As a result of Northern Quest’s success, the tribe has been able to open a wellness center on the reservation to help address key issues such as alcoholism and diabetes, among other issues, as well as to start other, non-gaming enterprises such a gas station and commercial laundry. “The casino has the only significant source of funds for government services but we’re trying to expand into other business,” Holmes said. Additionally, the tribe has become a provider of charitable funds to others, having donated more than \$15 million to non-profits in Spokane and Pend Oreille counties.⁴⁰

Holmes said Northern Quest uses Native American hiring preferences, employing members from Colville, Coeur d’Alene and Spokane tribes as well; other tribes also have hiring preferences at their casinos. Roughly 60 percent of the 556 employees among the three Colville federation casinos in Eastern Washington are Native American, Chief Operating Officer John MacClain said. Taylor found that 19 percent of all Washington casino employees in 2010 were Native Americans.⁴¹

The economic impacts of the Skokomish and Shoalwater Bay casinos would be miniscule as measured by their contribution to the gross state product, or the employment base, of the entire state. Yet, within their regions, and particularly among their tribal members, the impacts could be justifiably viewed as profound. As the Shoalwater Bay leadership noted in our interview,

³⁸ “Shoalwater Library honored by the Chamber of Commerce,” Between the Lines, Washington State Library Blog, November 5, 2014. <http://blogs.sos.wa.gov/library/index.php/2014/11/shoalwater-library-honored-by-the-chamber-of-commerce/>

³⁹ June 17, 2016 interviews.

⁴⁰ Kalispel Tribe, “Charitable Fund.” <http://kalispeltribe.com/community/charitable-fund> (accessed September 15, 2016)

⁴¹ Taylor, p. 4.

the casino is more than an employer, and is more than a small center for tourism in a region that seeks visitors. It is a social gathering place. Indeed, that description could fit numerous smaller casinos in Washington. They are social gathering spots in areas that would otherwise be largely devoid of such centers.

Additionally, in the less-populous, poorer counties, they are a bulwark against further economic declines. This is again evidenced in Pacific County, home to the Shoalwater Bay community. The tribal leadership described Pacific County as one of the poorest in the state, and this is borne out by available economic data. Consider the following, gleaned from reports published by the Employment Security Department of Washington State:⁴²

- Pacific County’s average annual wage in 2014 was \$33,029, while the median hourly wage in 2014 was \$17.60, more than \$5 per hour lower than the state’s median hourly wage of \$22.61.
- Pacific County personal income in 2014 was \$39,374, below the national average of \$46,049 and far below the state average of \$49,610.
- Between 2010 and 2014, 17.8 percent of Pacific County’s population lived below the poverty level, far exceeding the state rate of 13.2 percent and the national rate of 14.8 percent.

Even in more populous areas of Washington a tribal casino can stand out economically. The Kalispel Tribe, for example, is the fourth-largest private-sector employer in Greater Spokane, with 1,351 full-time-equivalent employees.⁴³

B. Measuring Economic Impacts of Casinos, Cardrooms

Next, we measure the combined economic impacts of casino and cardroom gaming (collectively “casinos”) in Washington. Spectrum worked with the Economic and Public Policy Research (“EPPR”) group of the University of Massachusetts Donahue Institute (“UMDI”) in undertaking this analysis. We evaluated the gaming industry’s contributions according to the following economic measures:

- Employment
- New personal income
- Business activity and value added

⁴² Pacific County Profile, updated January 2016, Employment Security Department of Washington State. <https://fortress.wa.gov/esd/employmentdata/reports-publications/regional-reports/county-profiles/pacific-county-profile>

⁴³ Greater Spokane Incorporated, Major Employers, citing Spokane Journal of Business Book of Lists 2016. <https://advantagespokane.com/major-employers/>

- Changes in state and local government tax revenues
- Changes in sales and jobs for the retail, accommodations and restaurant sectors
- Industries in Washington State that are supported by the spending of casinos

Key inputs for our modeling were the gaming and non-gaming revenues, employment and wage data, and construction estimates, noted in earlier chapters. Some imputation was required to complete the data necessary for modeling, and this process is explained in more detail below. Once prepared, the data were entered into an IMPLAN model to produce the total economic contributions.

Methodology

UMDI built an input-output model using the IMPLAN Professional 3.1 model building software and data packages. The economic data used in the model are for 2014, which are the latest data available. All model outputs are reported in 2016 dollars.

Input-output models, including IMPLAN, examine the flow of money between industries and households in the economy. Any given expenditure in an economy leads to further expenditures as the money is re-spent. Impact analysis models this spending and re-spending of money, tracing the path of every dollar through the economy. The path of a given dollar ends when that dollar leaves the region through foreign or domestic trade, or is collected as a tax.

The IMPLAN modeling system combines the US 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 these 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 period. The IMPLAN input-output accounts are based on industry survey data collected periodically by the US Bureau of Economic Analysis and follow a balanced account format recommended by the United Nations.

The IMPLAN model estimates two major types of impacts:

- *Outputs* are expenditures of the industry and supplier industries to produce the final good.
- *Employment* is all employees required to produce the outputs, including wage and salary employees, full-time and part-time employees, and the self-employed.

IMPLAN estimates direct, indirect and induced impacts for both outputs and employment. Direct, indirect, induced and total are defined as follows:

- *Direct output* refers to the gross expenditures of the industry or sector on operations, payroll and taxes.

- *Direct employment* refers to workers in the impacted sector or industry, which in this case are the Washington State casinos and the public sector.
- *Indirect output* refers to spending by suppliers and contractors to produce inputs for the industry.
- *Indirect employment* refers to employees of the industry’s contractors and suppliers.
- *Induced output* refers to household spending on goods and services by industry employees and the employees of contractors and suppliers (both direct and indirect employees).
- *Induced employment* refers to the employees of industries that produce the household goods and services purchased by the direct and indirect employees.
- *Total outputs or total impacts* are the sum of direct, indirect and induced outputs.
- *Total employment* is the sum of direct, indirect and induced employment.

In addition, the model uses certain multipliers. A multiplier is an index of how many times each dollar is re-spent in the economy of a geographical area. An employment multiplier is an index of how each job in an economy supports related jobs in other industries. The multiplier is the ratio of total outputs or employment to direct outputs or employment. An output multiplier of 1.5 could be understood to mean that out of every one dollar of direct expenditure, 50 cents is re-spent in the local economy.

IMPLAN Methods

Given a number of employees and a specific industry definition, the model estimates the total production output and household expenditures of those workers using internal output-per-worker and pay-per-worker estimates for a given industry in a given geographical area.

For this study, a model of Washington State was used to model later rounds of local spending. The model is specifically tailored to reflect the expenditure patterns and industry mix of Washington, including information about when expenditures leave the state due to foreign and domestic trade and taxes. Finally, all rounds of spending are added together to produce the total contribution estimate. We customized employment, income and output in the model to match our estimates of changes in gaming sector revenues, employment and wages.

Preparation of Data for Modeling

Actual and projected headcounts of workers, employee wages and gross gaming revenues (“GGR”) were provided for all casinos in Washington for each year in the period from 2015 to 2020. Due to the projected growth of the gaming industry in the state, the total number of casino employees and the wages of those new employees is expected to increase every year starting in

2017, and our calculations of annual casino-related employment and wages reflects these incremental changes. The yearly total of workers and wages for all casinos served as the casino employment and casino wages inputs in the economic model, respectively. In order to capture the effects of the casinos' direct spending on the economy, we developed input values for total casino revenues. Total revenues include both gaming and non-gaming revenues, and comprise revenues from both Class II and Class III casinos as well as those from cardrooms. The economic model treats each class of casino in the same way, so none of the revenue inputs required any differentiation.

Construction projects are currently underway in six of these casinos: Ilani, Legends, Point, Coulee Dam, Twin Lakes, and an unnamed project operated by the Spokane Tribe, all expected to open in 2017 (for modeling purposes). Thus for the two-year construction phase, headcounts and wages for construction workers as well as the total costs of the construction projects were provided on a project basis for the six casinos. While many of the projects lasted exactly one or two years, a few projects did not have full years of spending. In order to appropriately capture and annualize the construction spending that occurred in each year, we weighted the total spending of the projects by the length of time scheduled to complete them and then aggregated those allocations for 2015 and 2016 into inputs for the economic model. Wages for construction workers were similarly allocated into the total construction spending for 2015 and 2016 according to the duration of each project.⁴⁴

With actual and projected GGR, non-gaming revenues, employment, wages, and construction spending in hand, we calculated annual levels for each year in the series and these became the inputs to IMPLAN, as shown in Figure 48. Both the operating and construction data informed the economic model about the casinos' employment levels, wages and spending in Washington's gaming and construction sectors.

It is important to note that the economic contributions of any charitable contributions or direct spending by the tribes of their earnings from gaming are not considered in this analysis. However, the state and local tax revenues that are supported by the indirect and induced activities of the casinos are included in this analysis.

⁴⁴ In projecting the economic impacts of the six casino expansion projects identified in Chapter I, we estimated the daily manpower as well as the total number of workers. The total number of workers, which is the value entered into the economic model, reflects the idea that a typical tradesman spends only nine months on a construction project, then his portion may be complete and another trade is involved in the project.

Figure 48: Inputs to IMPLAN economic-impact model (in millions of \$2016)

Category	2015	2016	2017	2018	2019	2020
Construction Expenditures	\$529	\$138	\$0	\$0	\$0	\$0
Construction Jobs	875	875	0	0	0	0
Construction Wages	\$114	\$82	\$0	\$0	\$0	\$0
Casino Revenues	\$3,265	\$3,341	\$3,791	\$4,258	\$4,357	\$4,459
Casino Jobs	23,329	23,329	24,415	25,501	26,587	27,673
Casino Wages	\$514	\$514	\$514	\$514	\$514	\$514

Source: Spectrum Gaming Group, UMDI, Washington State Gambling Commission. Note: Jobs represent the total number of employees in each year and likely count the same people multiple times as they continue to work at the same job from year to year.

Economic Contributions of Casinos on Washington State

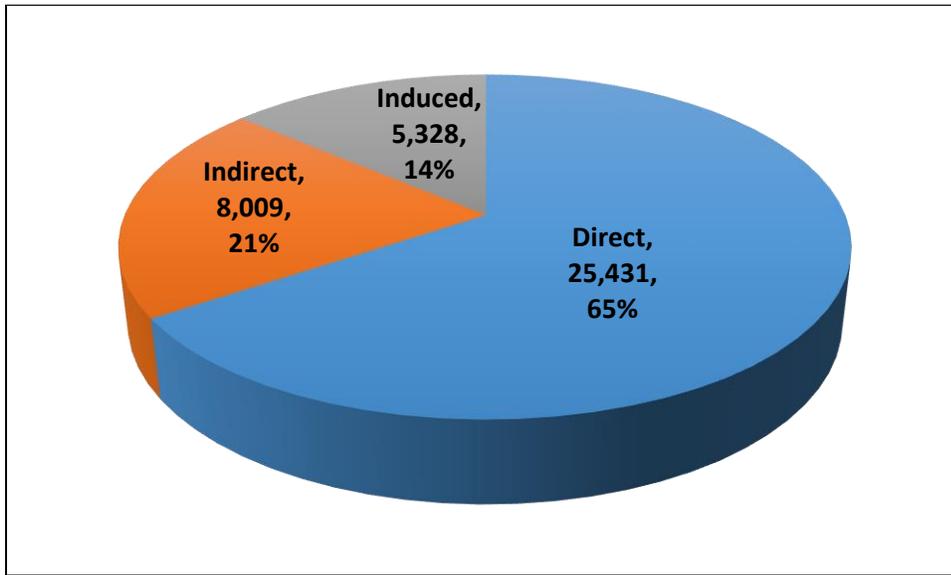
The inputs shown in Figure 48 above drive the results of the analysis. We examined economic contributions of the casinos and cardrooms from 2015 to 2020, but for ease of understanding and comparison, all dollar values are expressed in current (2016) dollars. The following pages describe the casinos’ contributions to jobs, income, economic activity, and taxes. The section ends with additional industry sector results.

Jobs

In addition to the direct employment supported by casino construction and operations, indirect and induced employment is supported through the linkages in the economy. Indirect jobs refer to those supported through business-to-business sales and can be thought of as supply-chain effects. Induced jobs are those supported through household spending from the wages earned through new employment.

The average number of people employed by the Washington casinos is 25,431 per year, including 875 construction workers in both 2015 and 2016. Casino and employee spending supports an additional 13,337 jobs per year for an average annual employment contribution of 38,768 jobs. Since many employees continue to work at the same job from year to year, cumulative totals of employment would likely count the same people multiple times and so annual averages are an easier way to interpret employment contributions. Of the total jobs, 65 percent are direct jobs. These estimates result in an employment multiplier of 1.52, which means that for every one direct job related to the spending of the gaming industry, an additional half of one job is supported in the state economy. Most of the non-direct jobs are indirect rather than induced, which indicates that the casinos’ business-to-business transactions support a greater number of jobs in the economy than does increased household consumption from casino employees’ wages. This pattern is often seen in the Accommodations and Food Services industry.

Figure 49: Average annual employment contributions, by type, of Washington casinos, 2015-2020



Source: Spectrum Gaming Group, UMDI, Washington State Gambling Commission, IMPLAN

The figure below shows the employment contributions by industry sector. Accommodations and Food Services (which includes the casino hotel sector) accounts for nearly all direct jobs and 69 percent of total jobs supported in the state economy. The expansion and increased operations of the casinos in Washington also support a significant number of jobs in the Retail Trade, Administrative and Support and Waste Management and Remediation Services, and Professional, Scientific and Technical Services industries. Total employment in Construction is highest in 2015 and 2016, when the construction projects take place and right before scaled-up operations commence. The high number of total jobs in Administrative and Support and Waste Management and Remediation Services is driven by the indirect effects and reflects the majority of the casinos' business-to-business transactions in that sector. The induced effects, or changes in household consumption, are concentrated in more income-dependent sectors such as Health Care and Social Assistance, Retail Trade and Accommodations and Food Services.

Figure 50: Employment contributions, by sector, of Washington casinos, 2015-2020

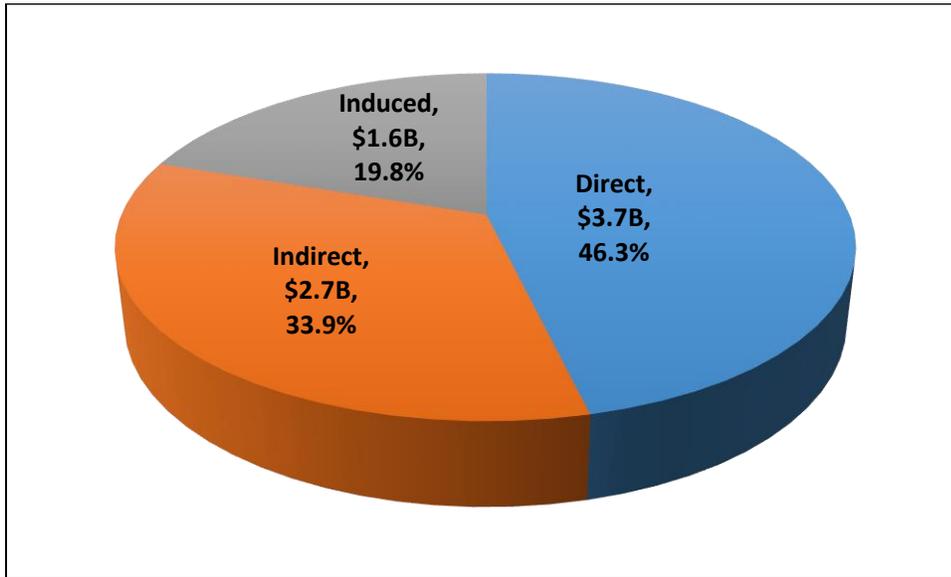
Total Employment Contributions	2015	2016	2017	2018	2019	2020	Average
Accommodation and Food Services	24,938	24,885	26,050	27,296	28,416	29,537	26,854
Administrative and Support and Waste Management and Remediation Services	1,385	1,344	1,462	1,627	1,662	1,698	1,530
Agriculture, Forestry, Fishing and Hunting	90	82	82	90	91	93	88
Arts, Entertainment, and Recreation	461	443	466	511	521	531	489
Construction	1,188	1,184	337	375	383	391	643
Educational Services	167	155	149	158	160	161	158
Finance and Insurance	742	700	723	790	804	819	763
Health Care and Social Assistance	1,226	1,136	1,083	1,147	1,160	1,174	1,154
Information	393	382	414	460	469	479	433
Management of Companies and Enterprises	272	264	290	324	331	339	303
Manufacturing	477	339	316	350	357	364	367
Mining, Quarrying, and Oil and Gas Extraction	21	16	15	16	17	17	17
Other Services (except Public Administration)	793	744	750	813	826	839	794
Professional, Scientific, and Technical Services	1,225	1,118	1,182	1,313	1,341	1,369	1,258
Real Estate and Rental and Leasing	726	679	710	781	797	812	751
Retail Trade	1,755	1,676	1,744	1,911	1,946	1,982	1,836
Transportation and Warehousing	621	561	588	652	665	679	628
Utilities	37	37	40	44	45	46	42
Wholesale Trade	448	343	322	351	358	364	364
Public Administration	276	266	282	311	317	324	296
All Industries	37,242	36,354	37,005	39,320	40,666	42,019	38,768

Source: Spectrum Gaming Group, UMDI, Washington State Gambling Commission, IMPLAN.

Income

Job growth in Washington due to the increased spending of the gaming industry is also linked to the rise in income associated with those jobs. As with jobs, income can also be divided into three categories: direct, indirect and induced. In Figure 51, we see that, from 2015 to 2020, employees in the gaming industry are expected to earn a total of \$3.7 billion, which supports an additional \$4.3 billion of income in the state economy for a total income contribution of \$8.0 billion. Expressed in another way, this is an average of \$1.3 billion per year. About 43 percent of the total income derives from the direct income of casino employees and construction workers while the remaining \$4.3 billion is from indirect and induced effects. Similar to the employment contributions, more of the multiplier effect of income stems from the income of the indirect jobs from the casinos' spending on goods and services than from the income of the induced jobs due to household consumption. It is important to note that the distribution of income among the direct, indirect and induced effects does not closely mirror that of employment at the aggregate level. The share of direct income is lower than that of direct employment. This is because the sectors being directly impacted have lower than average incomes than the other sectors that comprise the indirect and induced impacts.

Figure 51: Total income contributions, by type, of Washington casinos, 2015-2020 (in millions of \$2016)



Source: Spectrum Gaming Group, UMDI, Washington State Gambling Commission, IMPLAN

Similar to the job contributions, the total income supported by the gaming industry across the six-year period (shown in Figure 57 on page 73) is estimated to be concentrated in Accommodations and Food Services, Professional, Scientific and Technical Services and Administrative and Support and Waste Management and Remediation Services. The effects of construction workers' income can be seen in 2015 and 2016, when their direct Construction incomes are re-spent in the economy. The direct income contributions drive the income effects in the Professional, Scientific and Technical Services and Administrative and Support and Waste Management and Remediation Services industries, both of which are high-wage sectors. Following the pattern of employment contributions, the majority of induced income is in the Health Care and Social Assistance and Retail sectors.

Economic Activity

Economic activity can be quantified in two complementary ways: Output and Value Added. Output can be thought of as sales or business revenues while Value Added is analogous to Gross State Product and can be thought of as net new economic activity. Using both measures gives a clearer picture of both the change in activity among businesses and the net new value that the economy creates as a result.

The casinos' estimated direct output of \$24.9 billion from 2015 to 2020 supports an additional \$13.1 billion in sales in Washington State for a total economic contribution of \$37.9 billion, as shown in Figure 52. The average annual economic contribution to the state economy is \$6.3 billion. Likewise, Figure 53 illustrates that Washington casinos are expected to directly

contribute \$13.3 billion to the Gross State Product while the economic activity that they support contributes an additional \$7.3 billion for a total value added contribution of \$20.5 billion in the same period. This amounts to \$3.4 billion of net new economic activity on average during the six-year period.

Figure 52: Total output contributions, by type, of Washington casinos, 2015-2020 (in millions of \$2016)

Impact Type	2015	2016	2017	2018	2019	2020	Total
Direct	\$3,905	\$3,583	\$3,904	\$4,386	\$4,488	\$4,592	\$24,857
Indirect	\$1,280	\$1,167	\$1,269	\$1,426	\$1,459	\$1,493	\$8,094
Induced	\$879	\$814	\$777	\$822	\$832	\$842	\$4,967
Total	\$6,064	\$5,564	\$5,950	\$6,634	\$6,778	\$6,927	\$37,918

Source: Spectrum Gaming Group, UMDI, Washington State Gambling Commission, IMPLAN

Figure 53: Total value added contributions, by type, of Washington casinos, 2015-2020 (in millions of \$2016)

Impact Type	2015	2016	2017	2018	2019	2020	Total
Direct	\$2,093	\$2,025	\$2,106	\$2,301	\$2,342	\$2,385	\$13,253
Indirect	\$687	\$632	\$690	\$775	\$793	\$812	\$4,390
Induced	\$514	\$476	\$454	\$481	\$487	\$492	\$2,904
Total	\$3,294	\$3,134	\$3,251	\$3,557	\$3,622	\$3,689	\$20,547

Source: Spectrum Gaming Group, UMDI, Washington State Gambling Commission, IMPLAN

For both output and value added, more than 60 percent of the total economic contribution is due to the direct effects of the casinos. The same is true for the employment contributions discussed earlier. The share of indirect effects is similarly almost twice that of the induced effects. Compared to the employment multiplier of 1.52, the output multiplier is 1.53 and for value added it is 1.55. When the multiplier for output is larger than that for employment, it suggests that the directly impacted sectors have higher revenues per employee than the indirect and induced sectors. A lower value added multiplier usually suggests higher labor intensity in the direct sectors compared to the others. Both of these attributes are consistent with the gaming and casino hotel sectors.

Taxes

Despite the casinos' not paying gaming taxes or having a revenue-sharing arrangement with the State, the indirect and induced economic effects of their and their employees' spending on goods and services still contribute to state and local revenues through taxes on personal income and corporate profits and taxable purchases by households and businesses. Figure 54 shows the tax contributions to Washington from the economic activity supported by the gaming industry. From 2015 to 2020, an estimated total of \$5.4 billion is expected to accrue to the state, and the majority of these tax revenues derives from taxes on production and imports. Casino employees are expected to pay a total of \$4.8 million in personal income taxes for an annual average of \$0.8 million in the six-year period. Firms that conduct business with the casinos are

estimated to pay a total of \$2.9 million and an average of \$0.5 million per year to the State in corporate profits taxes.

Figure 54: State and local tax revenue contributions, by source, 2015-2020 (in millions of \$2016)

Source	2015	2016	2017	2018	2019	2020	Total
Employee Compensation	\$0.8	\$0.8	\$0.8	\$0.8	\$0.8	\$0.8	\$4.8
Tax on Production and Imports	\$769.1	\$764.7	\$852.3	\$954.4	\$976.1	\$998.2	\$5,314.8
Households	\$7.1	\$6.6	\$6.3	\$6.7	\$6.7	\$6.8	\$40.3
Corporations	\$0.4	\$0.4	\$0.5	\$0.5	\$0.5	\$0.5	\$2.9
Total	\$777.5	\$772.5	\$859.8	\$962.4	\$984.1	\$1,006.4	\$5,362.8

Source: Spectrum Gaming Group, UMDI, Washington State Gambling Commission, IMPLAN

Figure 55 and Figure 56 provide snapshots of three industries considered to be integral to casinos, in terms of employment and revenues, respectively. We examine these contributions separately in order to highlight how the Washington casinos affect them in particular. Contributions to employment and sales stem from the Accommodations sector but have indirect and induced effects in the Retail and Restaurant industries. From 2015 to 2020, Washington casinos are estimated to support an additional 747 employees on average and a total of \$323.9 million in revenues in the restaurant industry and an average of 1,836 employees and \$993.3 million total in the Retail industry. It will be important to continue tracking the effects of casino spending on the restaurant industry in particular as more of the casinos start featuring their own restaurant establishments.

Figure 55: Snapshot of Retail, Accommodations, and Restaurant sector employment contributions, 2015-2020

Average Employment	Direct Effect	Indirect + Induced Effects	Total Effects
Retail	0	1,836	1,836
Accommodations	25,139	1,715	26,854
Restaurants	0	747	747

Source: Spectrum Gaming Group, UMDI, Washington State Gambling Commission, IMPLAN

Figure 56: Snapshot of Retail, Accommodations, and Restaurant sector revenue contributions, 2015-2020 (in millions of \$2016)

Total Revenues	Direct Effect	Indirect + Induced Effects	Total Effects
Retail	\$0	\$993	\$993
Accommodations	\$24,174	\$580	\$24,754
Restaurants	\$0	\$324	\$324

Source: Spectrum Gaming Group, UMDI, Washington State Gambling Commission, IMPLAN

The following tables provide additional sector-level results that are included in the aggregated totals presented thus far in the report but are not described in detail elsewhere. These tables will allow readers to find the Income, Output and Value Added contributions for the specific industry sectors that interest them. The definitions of direct, indirect, and induced and all units are consistent with other results.

Figure 57: Income contributions by sector, 2015-2020 (\$2016)

Total Labor Income	2015	2016	2017	2018	2019	2020
Accommodation and Food Services	\$611,447,242	\$611,178,228	\$619,594,146	\$630,290,069	\$632,554,828	\$634,878,574
Administrative and Support and Waste Management and Remediation Services	\$61,072,848	\$59,226,566	\$64,422,011	\$71,698,772	\$73,239,556	\$74,820,471
Agriculture, Forestry, Fishing and Hunting	\$4,226,320	\$3,723,250	\$3,701,644	\$4,030,304	\$4,099,895	\$4,171,298
Arts, Entertainment, and Recreation	\$10,010,397	\$9,592,091	\$9,996,226	\$10,948,681	\$11,150,354	\$11,357,280
Construction	\$162,228,987	\$109,446,500	\$21,121,935	\$23,494,595	\$23,996,983	\$24,512,455
Educational Services	\$5,879,323	\$5,439,799	\$5,211,257	\$5,528,352	\$5,595,494	\$5,664,384
Finance and Insurance	\$51,121,067	\$48,325,422	\$50,163,942	\$54,971,596	\$55,989,571	\$57,034,059
Health Care and Social Assistance	\$73,717,110	\$68,290,309	\$65,138,071	\$68,943,206	\$69,748,907	\$70,575,592
Information	\$44,866,258	\$43,675,499	\$47,367,053	\$52,624,301	\$53,737,473	\$54,879,638
Management of Companies,Enterprises	\$34,435,940	\$33,454,925	\$36,727,214	\$41,017,393	\$41,925,796	\$42,857,860
Manufacturing	\$30,004,068	\$21,265,643	\$19,714,199	\$21,813,500	\$22,258,006	\$22,714,090
Mining, Quarrying, and Oil and Gas Extraction	\$417,628	\$273,717	\$239,623	\$264,180	\$269,380	\$274,715
Other Services (except Public Administration)	\$34,342,662	\$32,219,893	\$32,849,648	\$35,763,812	\$36,380,858	\$37,013,976
Professional, Scientific, and Technical Services	\$88,316,356	\$79,847,820	\$84,166,620	\$93,508,920	\$95,487,062	\$97,516,726
Real Estate and Rental and Leasing	\$21,548,543	\$19,791,168	\$20,546,354	\$22,623,972	\$23,063,888	\$23,515,261
Retail Trade	\$66,873,099	\$63,689,922	\$65,999,129	\$72,183,098	\$73,492,494	\$74,835,994
Transportation and Warehousing	\$43,885,798	\$40,208,763	\$42,486,720	\$47,146,418	\$48,133,064	\$49,145,408
Utilities	\$5,054,931	\$4,949,575	\$5,406,844	\$6,019,419	\$6,149,126	\$6,282,211
Wholesale Trade	\$39,110,104	\$29,929,877	\$28,094,858	\$30,699,366	\$31,250,846	\$31,816,689
Public Administration	\$25,925,877	\$25,053,123	\$26,739,753	\$29,545,309	\$30,139,359	\$30,748,881
Total, All Industries	\$1,414,484,558	\$1,309,582,090	\$1,249,687,246	\$1,323,115,265	\$1,338,662,937	\$1,354,615,562

Source: Spectrum Gaming Group, UMDI, Washington State Gambling Commission, IMPLAN

Figure 58: Output contributions by sector, 2015-2020 (\$2016)

Total Output	2015	2016	2017	2018	2019	2020
Accommodation and Food Services	\$3,455,400,243	\$3,529,899,643	\$3,996,322,184	\$4,486,194,678	\$4,589,920,434	\$4,696,347,825
Administrative and Support and Waste Management and Remediation Services	\$113,818,739	\$110,589,571	\$120,480,679	\$134,137,101	\$137,028,717	\$139,995,647
Agriculture, Forestry, Fishing and Hunting	\$11,096,269	\$10,165,535	\$10,323,383	\$11,265,527	\$11,465,017	\$11,669,703
Arts, Entertainment, and Recreation	\$29,888,658	\$28,637,385	\$29,736,879	\$32,520,407	\$33,109,792	\$33,714,528
Construction	\$599,561,972	\$198,355,206	\$62,298,782	\$69,281,848	\$70,760,445	\$72,277,553
Educational Services	\$10,599,141	\$9,805,678	\$9,392,338	\$9,963,359	\$10,084,267	\$10,208,324
Finance and Insurance	\$159,089,155	\$150,352,279	\$155,367,308	\$169,933,721	\$173,018,018	\$176,182,649
Health Care and Social Assistance	\$126,742,939	\$117,412,340	\$111,992,790	\$118,535,119	\$119,920,394	\$121,341,749
Information	\$201,891,191	\$194,980,316	\$209,379,184	\$231,953,355	\$236,733,218	\$241,637,576
Management of Companies and Enterprises	\$66,036,014	\$64,154,773	\$70,429,872	\$78,656,924	\$80,398,923	\$82,186,293
Manufacturing	\$212,052,632	\$161,844,694	\$155,260,097	\$171,328,588	\$174,730,935	\$178,221,900
Mining, Quarrying, and Oil and Gas Extraction	\$4,483,067	\$3,226,122	\$2,997,726	\$3,308,083	\$3,373,798	\$3,441,224
Other Services (except Public Administration)	\$66,170,800	\$61,921,720	\$63,145,704	\$68,783,731	\$69,977,528	\$71,202,419
Professional, Scientific, and Technical Services	\$182,957,758	\$167,237,654	\$177,191,490	\$196,917,777	\$201,094,627	\$205,380,267
Real Estate and Rental and Leasing	\$180,669,189	\$169,016,084	\$176,966,601	\$194,968,902	\$198,780,715	\$202,691,810
Retail Trade	\$158,407,427	\$151,080,142	\$157,263,039	\$172,291,219	\$175,473,290	\$178,738,242
Transportation and Warehousing	\$93,649,686	\$82,922,899	\$85,506,651	\$94,473,721	\$96,372,411	\$98,320,555
Utilities	\$59,709,576	\$58,601,089	\$64,131,316	\$71,425,327	\$72,969,763	\$74,554,425
Wholesale Trade	\$112,788,874	\$86,314,194	\$81,022,219	\$88,533,311	\$90,123,711	\$91,755,536
Public Administration	\$109,245,164	\$106,308,188	\$114,465,299	\$126,800,648	\$129,412,538	\$132,092,458
Owner-occupied Dwellings	\$109,577,414	\$101,459,587	\$96,813,173	\$102,496,918	\$103,700,396	\$104,935,220
Total, All Industries	\$6,063,835,908	\$5,564,285,098	\$5,950,486,714	\$6,633,770,263	\$6,778,448,937	\$6,926,895,903

Source: Spectrum Gaming Group, UMDI, Washington State Gambling Commission, IMPLAN

Figure 59: Value added contributions by sector, 2015-2020 (\$2016)

Total Value Added	2015	2016	2017	2018	2019	2020
Accommodation and Food Services	\$1,943,101,990	\$1,972,522,201	\$2,162,196,704	\$2,362,427,375	\$2,404,824,281	\$2,448,325,454
Administrative and Support and Waste Management and Remediation Services	\$78,680,658	\$76,391,460	\$83,156,939	\$92,562,786	\$94,554,383	\$96,597,853
Agriculture, Forestry, Fishing and Hunting	\$7,286,345	\$6,625,206	\$6,685,303	\$7,284,735	\$7,411,659	\$7,541,888
Arts, Entertainment, and Recreation	\$15,450,227	\$14,772,569	\$15,273,530	\$16,677,661	\$16,974,972	\$17,280,027
Construction	\$231,990,198	\$131,992,829	\$27,718,874	\$30,835,633	\$31,495,577	\$32,172,709
Educational Services	\$6,394,409	\$5,915,752	\$5,665,975	\$6,010,233	\$6,083,127	\$6,157,918
Finance and Insurance	\$80,645,473	\$76,022,925	\$78,695,059	\$86,173,265	\$87,756,703	\$89,381,383
Health Care and Social Assistance	\$80,175,992	\$74,273,334	\$70,845,184	\$74,983,911	\$75,860,247	\$76,759,407
Information	\$74,874,758	\$72,351,684	\$77,652,134	\$85,997,477	\$87,764,523	\$89,577,593
Management of Companies and Enterprises	\$40,356,530	\$39,206,849	\$43,041,745	\$48,069,535	\$49,134,122	\$50,226,436
Manufacturing	\$53,718,198	\$39,225,641	\$36,874,753	\$40,750,368	\$41,570,992	\$42,412,990
Mining, Quarrying, and Oil and Gas Extraction	\$1,154,638	\$693,668	\$569,775	\$627,717	\$639,986	\$652,574
Other Services (except Public Administration)	\$49,993,263	\$46,738,770	\$47,617,650	\$51,856,136	\$52,753,595	\$53,674,428
Professional, Scientific, and Technical Services	\$118,268,371	\$108,826,604	\$115,563,068	\$128,407,785	\$131,127,530	\$133,918,113
Real Estate and Rental and Leasing	\$131,919,884	\$123,308,351	\$128,913,164	\$141,955,813	\$144,717,467	\$147,551,052
Retail Trade	\$113,684,265	\$108,387,971	\$112,780,884	\$123,545,158	\$125,824,388	\$128,162,983
Transportation and Warehousing	\$49,389,088	\$44,193,165	\$45,851,810	\$50,698,470	\$51,724,704	\$52,777,666
Utilities	\$31,719,222	\$31,142,724	\$34,089,663	\$37,968,260	\$38,789,515	\$39,632,161
Wholesale Trade	\$75,570,476	\$57,831,988	\$54,286,274	\$59,318,833	\$60,384,429	\$61,477,779
Owner-occupied Dwellings	\$71,612,111	\$66,306,869	\$63,270,298	\$66,984,795	\$67,771,304	\$68,578,298
Public Administration	\$38,010,716	\$37,011,100	\$39,894,118	\$44,209,001	\$45,122,636	\$46,060,067
Total, All Industries	\$3,293,996,813	\$3,133,741,660	\$3,250,642,903	\$3,557,344,949	\$3,622,286,137	\$3,688,918,779

Source: Spectrum Gaming Group, UMDI, Washington State Gambling Commission, IMPLAN

C. Gambling-Related Taxes

Washington State does not impose a gaming-revenue tax, nor does it share in revenues from tribal casinos, but gambling establishments are subject to two taxes specific to their industry:

- **Business and Occupation Tax:** In lieu of a state income tax, Washington businesses pay a business and occupation (“B&O”) tax, which for WSGC-regulated “Contests of Chance”

providers is 1.63 percent⁴⁵ of gross income. This category includes social card games, bingo, raffles and pull tabs/punchboards. Tribal casinos and gambling entities with less than \$50,000 in annual gross income are exempt. The B&O tax rate is bifurcated, with 1.5 percent dedicated to the State General Fund and 0.13 percent dedicated to the State’s Problem Gambling Account, which helps to fund the Department of Social and Health Services’ Problem and Pathological Gambling Treatment Program. For FY 2016, Contests of Chance providers generated total B&O tax of \$5.48 million;⁴⁶ this amount implies that approximately \$437,000 of the tax receipts were directed to the Problem and Pathological Gambling Treatment Program.

- **Local Gambling Taxes:** Local municipalities and counties are permitted to tax gambling receipts from non-casino operations. The WSGC reports that licensees, including cardrooms, paid \$29.2 million in local gambling taxes for the fiscal year ending June 30, 2013. The following table provides the maximum local tax rates by sector:

Figure 60: Maximum local gambling taxes, by sector

Activity	Maximum Tax	Basis
Amusement Games	2%	Net Receipts; however, cannot exceed actual enforcement costs
Bingo	5%	Net receipts
Cardrooms	20%	Gross Receipts
Punchboards and Pull Tabs - Charitable	10%	Net Receipts
Punchboards and Pull Tabs - Commercial	5% 10%	Gross Receipts, or Net Receipts (Chosen via Local Ordinance)
Raffle	5%	Net Receipts; the first \$10,000 cannot be taxed

Source: Washington State Gambling Commission

⁴⁵ Washington State Department of Revenue, “Business & occupation tax classifications.” <http://dor.wa.gov/content/findtaxesandrates/bandotax/bandorates.aspx>

⁴⁶ Email from Washington State Department of Revenue, October 21, 2016.

V. Washington Population Trends

A Metropolitan Statistical Area (“MSA”) has at least one urbanized area of 50,000 residents or more and a Micropolitan Statistical Area (“McSA”) has at least one urban cluster of at least 10,000 but less than 50,000. For both types of statistical areas, adjacent communities are included that have a high degree of social and economic integration with the core as measured by commuting ties. All such areas are delineated and agglomerated according to whole-county boundaries. There are 382 MSAs and 551 McSAs throughout the US, with 13 of the MSAs and nine of the McSAs in Washington (or inclusive of one or more counties in Washington if the MSA is centered in a neighboring state). Of Washington’s 39 counties, 30 are classified within an MSA or McSA and nine are classified as unassigned areas.

Figure 61: Designated statistical areas of Washington

Metropolitan Statistical Area (MSA)	County	Central/Outlying County
Bellingham, WA	Whatcom	Central
Bremerton-Silverdale, WA	Kitsap	Central
Kennewick-Richland, WA	Benton	Central
	Franklin	Central
Lewiston, ID-WA	Asotin	Central
Longview, WA	Cowlitz	Central
Mount Vernon-Anacortes, WA	Skagit	Central
Olympia-Tumwater, WA	Thurston	Central
Portland-Vancouver-Hillsboro, OR-WA	Clark	Central
	Skamania	Outlying
Seattle-Tacoma-Bellevue, WA	King	Central
	Snohomish	Central
	Pierce	Central
Spokane-Spokane Valley, WA	Spokane	Central
	Pend Oreille	Outlying
	Stevens	Outlying
Walla Walla, WA	Walla Walla	Central
	Columbia	Outlying
Wenatchee, WA	Chelan	Central
	Douglas	Central
Yakima, WA	Yakima	Central
Micropolitan Statistical Area	County	Central/Outlying County
Aberdeen, WA	Grays Harbor	Central
Centralia, WA	Lewis	Central
Ellensburg, WA	Kittitas	Central
Moses Lake, WA	Grant	Central
Oak Harbor, WA	Island	Central
Othello, WA	Adams	Central
Port Angeles, WA	Clallam	Central
Pullman, WA	Whitman	Central
Shelton, WA	Mason	Central
Unassigned Area (by County)		
Ferry, Garfield, Jefferson, Klickitat, Lincoln, Okanogan, Pacific, San Juan, Wahkiakum		

Sources: US Office of Management and Budget Washington State Office of Financial Management, Forecasting and Research Division; The Nielsen Company (US), Inc.

The following table shows total population by county in five-year increments effective 2000, along with estimated population for 2020, and county-share of total for each year depicted.

Figure 62: Population of Washington counties in five-year increments

County	2000	Share	2005	Share	2010	Share	2015	Share	2020	Share
Adams	16,428	0.3%	17,643	0.3%	18,728	0.3%	19,410	0.3%	22,388	0.3%
Asotin	20,551	0.3%	20,939	0.3%	21,623	0.3%	22,010	0.3%	23,012	0.3%
Benton	142,475	2.4%	159,286	2.5%	175,177	2.6%	188,590	2.7%	198,741	2.7%
Chelan	66,616	1.1%	68,963	1.1%	72,453	1.1%	75,030	1.1%	77,743	1.0%
Clallam	64,179	1.1%	67,672	1.1%	71,404	1.1%	72,650	1.0%	76,156	1.0%
Clark	345,238	5.9%	394,600	6.3%	425,363	6.3%	451,820	6.4%	477,769	6.4%
Columbia	4,064	0.1%	4,135	0.1%	4,078	0.1%	4,090	0.1%	3,835	0.1%
Cowlitz	92,948	1.6%	97,673	1.6%	102,410	1.5%	104,280	1.5%	107,847	1.5%
Douglas	32,603	0.6%	34,466	0.5%	38,431	0.6%	39,990	0.6%	40,527	0.5%
Ferry	7,260	0.1%	7,405	0.1%	7,551	0.1%	7,710	0.1%	6,921	0.1%
Franklin	49,347	0.8%	62,572	1.0%	78,163	1.2%	87,150	1.2%	94,953	1.3%
Garfield	2,397	0.0%	2,315	0.0%	2,266	0.0%	2,260	0.0%	2,272	0.0%
Grant	74,698	1.3%	80,121	1.3%	89,120	1.3%	93,930	1.3%	96,954	1.3%
Grays Harbor	67,194	1.1%	70,812	1.1%	72,797	1.1%	73,110	1.0%	74,888	1.0%
Island	71,558	1.2%	75,951	1.2%	78,506	1.2%	80,600	1.1%	82,124	1.1%
Jefferson	26,299	0.4%	28,356	0.5%	29,872	0.4%	30,880	0.4%	30,200	0.4%
King	1,737,046	29.5%	1,814,999	28.8%	1,931,249	28.7%	2,052,800	29.1%	2,221,940	29.9%
Kitsap	231,969	3.9%	239,819	3.8%	251,133	3.7%	258,200	3.7%	262,136	3.5%
Kittitas	33,362	0.6%	37,660	0.6%	40,915	0.6%	42,670	0.6%	44,558	0.6%
Klickitat	19,161	0.3%	19,753	0.3%	20,318	0.3%	21,000	0.3%	22,102	0.3%
Lewis	68,600	1.2%	71,771	1.1%	75,455	1.1%	76,660	1.1%	78,462	1.1%
Lincoln	10,184	0.2%	10,367	0.2%	10,570	0.2%	10,720	0.2%	10,833	0.1%
Mason	49,405	0.8%	54,739	0.9%	60,699	0.9%	62,200	0.9%	60,939	0.8%
Okanogan	39,564	0.7%	40,267	0.6%	41,120	0.6%	41,860	0.6%	43,437	0.6%
Pacific	20,984	0.4%	20,675	0.3%	20,920	0.3%	21,210	0.3%	20,779	0.3%
Pend Oreille	11,732	0.2%	12,356	0.2%	13,001	0.2%	13,240	0.2%	12,693	0.2%
Pierce	700,818	11.9%	756,919	12.0%	795,225	11.8%	830,120	11.8%	865,706	11.6%
San Juan	14,077	0.2%	15,180	0.2%	15,769	0.2%	16,180	0.2%	16,519	0.2%
Skagit	102,979	1.7%	109,977	1.7%	116,901	1.7%	120,620	1.7%	127,751	1.7%
Skamania	9,872	0.2%	10,515	0.2%	11,066	0.2%	11,430	0.2%	8,321	0.1%
Snohomish	606,024	10.3%	661,346	10.5%	713,335	10.6%	757,600	10.7%	800,817	10.8%
Spokane	417,939	7.1%	438,249	7.0%	471,221	7.0%	488,310	6.9%	504,393	6.8%
Stevens	40,066	0.7%	41,792	0.7%	43,531	0.6%	44,030	0.6%	48,086	0.6%
Thurston	207,355	3.5%	229,286	3.6%	252,264	3.8%	267,410	3.8%	280,008	3.8%
Wahkiakum	3,824	0.1%	3,867	0.1%	3,978	0.1%	3,980	0.1%	3,968	0.1%
Walla Walla	55,180	0.9%	57,005	0.9%	58,781	0.9%	60,650	0.9%	62,167	0.8%
Whatcom	166,826	2.8%	184,965	2.9%	201,140	3.0%	209,790	3.0%	216,086	2.9%
Whitman	40,740	0.7%	42,498	0.7%	44,776	0.7%	47,250	0.7%	49,414	0.7%
Yakima	222,581	3.8%	231,902	3.7%	243,231	3.6%	249,970	3.5%	257,303	3.5%
WA Totals	5,894,143	100%	6,298,816	100%	6,724,540	100%	7,061,410	100%	7,434,751	100%

Sources: Washington State Office of Financial Management, Forecasting and Research Division; The Nielsen Company (US), Inc.

The following table shows total population by MSA in five-year increments effective 2000, along with estimated population for 2020, and county-share of total for each year depicted.

Figure 63: Population of Washington Metropolitan Statistical Areas in five-year increments

Metropolitan Statistical Area (MSA)	2000	Share	2005	Share	2010	Share	2015	Share	2020	Share
Bellingham, WA	166,826	2.8%	184,965	2.9%	201,140	3.0%	209,790	3.0%	216,086	2.9%
Bremerton-Silverdale, WA	231,969	3.9%	239,819	3.8%	251,133	3.7%	258,200	3.7%	262,136	3.5%
Kennewick-Richland, WA	191,822	3.3%	221,858	3.5%	253,340	3.8%	275,740	3.9%	293,694	4.0%
Lewiston, ID-WA	20,551	0.3%	20,939	0.3%	21,623	0.3%	22,010	0.3%	23,012	0.3%
Longview, WA	92,948	1.6%	97,673	1.6%	102,410	1.5%	104,280	1.5%	107,847	1.5%
Mount Vernon-Anacortes, WA	102,979	1.7%	109,977	1.7%	116,901	1.7%	120,620	1.7%	127,751	1.7%
Olympia-Tumwater, WA	207,355	3.5%	229,286	3.6%	252,264	3.8%	267,410	3.8%	280,008	3.8%
Portland-Vancouver-Hillsboro, OR-WA	355,110	6.0%	405,115	6.4%	436,429	6.5%	463,250	6.6%	486,090	6.5%
Seattle-Tacoma-Bellevue, WA	3,043,888	51.6%	3,233,264	51.3%	3,439,809	51.2%	3,640,520	51.6%	3,888,463	52.3%
Spokane-Spokane Valley, WA	469,737	8.0%	492,397	7.8%	527,753	7.8%	545,580	7.7%	565,172	7.6%
Walla Walla, WA	59,244	1.0%	61,140	1.0%	62,859	0.9%	64,740	0.9%	66,002	0.9%
Wenatchee, WA	99,219	1.7%	103,429	1.6%	110,884	1.6%	115,020	1.6%	118,271	1.6%
Yakima, WA	222,581	3.8%	231,902	3.7%	243,231	3.6%	249,970	3.5%	257,303	3.5%
WA MSA Total	5,264,229	89.3%	5,631,764	89.4%	6,019,776	89.5%	6,337,130	89.7%	6,691,836	90.0%

Sources: Washington State Office of Financial Management, Forecasting and Research Division; The Nielsen Company (US), Inc.

As illustrated, through 2015 89.7 percent of the total population of Washington resided in an MSA; this figure is forecast to reach 90 percent by 2020. More than half of Washington residents live in the Seattle-Tacoma-Bellevue MSA (i.e., within the three counties of King, Snohomish and Pierce). Therefore, all other MSAs in Washington pale in comparison to the greater Seattle area.

The following table shows total population by McSA in five-year increments effective 2000, along with estimated population for 2020, and county-share of total for each year depicted.

Figure 64: Population of Washington Micropolitan Statistical Areas in five-year increments

Micropolitan Statistical Area (McSA)	2000	Share	2005	Share	2010	Share	2015	Share	2020	Share
Aberdeen, WA	67,194	1.1%	70,812	1.1%	72,797	1.1%	73,110	1.0%	74,888	1.0%
Centralia, WA	68,600	1.2%	71,771	1.1%	75,455	1.1%	76,660	1.1%	78,462	1.1%
Ellensburg, WA	33,362	0.6%	37,660	0.6%	40,915	0.6%	42,670	0.6%	44,558	0.6%
Moses Lake, WA	74,698	1.3%	80,121	1.3%	89,120	1.3%	93,930	1.3%	96,954	1.3%
Oak Harbor, WA	71,558	1.2%	75,951	1.2%	78,506	1.2%	80,600	1.1%	82,124	1.1%
Othello, WA	16,428	0.3%	17,643	0.3%	18,728	0.3%	19,410	0.3%	22,388	0.3%
Port Angeles, WA	64,179	1.1%	67,672	1.1%	71,404	1.1%	72,650	1.0%	76,156	1.0%
Pullman, WA	40,740	0.7%	42,498	0.7%	44,776	0.7%	47,250	0.7%	49,414	0.7%
Shelton, WA	49,405	0.8%	54,739	0.9%	60,699	0.9%	62,200	0.9%	60,939	0.8%
WA McSA Total	486,164	8.2%	518,867	8.2%	552,400	8.2%	568,480	8.1%	585,883	7.9%

Sources: Washington State Office of Financial Management, Forecasting and Research Division; The Nielsen Company (US), Inc.

As illustrated, through 2015 8.1 percent of the total population of Washington resided in a McSA; this figure is forecast to decrease to 7.9 percent by 2020.

The following table shows total population according to delineated area(s) for Washington in five-year increments effective 2000, along with estimated population for 2020, and county share of total for each year depicted.

Figure 65: Population of Washington delineated areas in Washington in five-year increments

Delineated Areas	2000	Share	2005	Share	2010	Share	2015	Share	2020	Share
MSA (21 counties)	5,264,229	89.3%	5,631,764	89.4%	6,019,776	89.5%	6,337,130	89.7%	6,691,836	90.0%
McSA (9 counties)	486,164	8.2%	518,867	8.2%	552,400	8.2%	568,480	8.1%	585,883	7.9%
Unassigned Area (9 counties)	<u>143,750</u>	<u>2.4%</u>	<u>148,185</u>	<u>2.4%</u>	<u>152,364</u>	<u>2.3%</u>	<u>155,800</u>	<u>2.2%</u>	<u>157,032</u>	<u>2.1%</u>
WA Grand Total	5,894,143	100%	6,298,816	100%	6,724,540	100%	7,061,410	100%	7,434,751	100%

Sources: Washington State Office of Financial Management, Forecasting and Research Division; The Nielsen Company (US), Inc.

Washington had a total population of 7.06 million in 2015, of which nearly 5.5 million (77.7 percent) were adults age 18+ and 5.2 million (73.7 percent) were adults age 21+. Importantly, the majority of Washington casinos require an adult to be age 21 to gamble, while some allow adults 18+ to gamble; conversely, a majority of cardrooms require adults to be 18+ to gamble, while some require an adult to be 21+ to gamble. Ultimately, when looking at casinos and cardrooms as a whole, there are slightly more facilities that allow for adults age 18+ to gamble than those that require an adult to be age 21+.

The following table illustrates the geographic positioning of existing Class III casinos in Washington in context to the US adult population (both 18+ and 21+), according to either one- or two-hour drive time to/from a casino.

Figure 66: Adults within 1-hour drive of a Washington Class III casino, current landscape, 2015-2020

Adults (18+)	2015	2016	2017	2018	2019	2020
Washington	4,581,850	4,639,298	4,697,140	4,754,983	4,812,825	4,870,668
Idaho & Oregon	<u>109,902</u>	<u>111,813</u>	<u>113,650</u>	<u>115,487</u>	<u>117,324</u>	<u>119,161</u>
Total	4,691,752	4,751,111	4,810,790	4,870,470	4,930,149	4,989,829
% of WA w/in 1-Hour Drive	83.5%	83.5%	83.5%	83.5%	83.4%	83.4%
Adults (21+)	2015	2016	2017	2018	2019	2020
Washington	4,352,925	4,410,079	4,465,745	4,521,411	4,577,078	4,632,744
Idaho & Oregon	<u>104,276</u>	<u>106,170</u>	<u>107,904</u>	<u>109,637</u>	<u>111,371</u>	<u>113,104</u>
Total	4,457,201	4,516,249	4,573,649	4,631,049	4,688,448	4,745,848
% of WA w/in 1-Hour Drive	83.7%	83.7%	83.6%	83.6%	83.6%	83.6%

Source: Spectrum Gaming Group

Figure 67: Adults within 2-hour drive of a Washington Class III casino, current landscape, 2015-2020

Adults (18+)	2015	2016	2017	2018	2019	2020
Washington	5,452,763	5,521,473	5,591,463	5,661,453	5,731,443	5,801,433
Idaho & Oregon	<u>1,554,288</u>	<u>1,573,973</u>	<u>1,592,962</u>	<u>1,611,951</u>	<u>1,630,940</u>	<u>1,649,929</u>
Total	7,007,051	7,095,446	7,184,425	7,273,404	7,362,383	7,451,362
% of WA w/in 2-Hour Drive	99.4%	99.4%	99.4%	99.4%	99.4%	99.4%
Adults (21+)	2015	2016	2017	2018	2019	2020
Washington	5,169,461	5,237,744	5,304,945	5,372,145	5,439,346	5,506,546
Idaho & Oregon	<u>1,480,386</u>	<u>1,499,484</u>	<u>1,517,488</u>	<u>1,535,492</u>	<u>1,553,496</u>	<u>1,571,500</u>
Total	6,649,847	6,737,228	6,822,433	6,907,637	6,992,842	7,078,046
% of WA w/in 2-Hour Drive	99.3%	99.4%	99.4%	99.4%	99.4%	99.4%

Source: Spectrum Gaming Group

The following two tables illustrate the geographic positioning of the existing and the two planned new Class III casinos (in La Center and Airway Heights) in context to the US adult population (both 18+ and 21+), according to either one- or two-hour drive time to/from a casino.

Figure 68: Adults within 1-hour drive of a Washington Class III casino, future landscape, 2015-2020

Adults (18+)	2015	2016	2017	2018	2019	2020
Washington	4,986,997	5,050,310	5,114,316	5,178,322	5,242,328	5,306,334
Idaho & Oregon	<u>1,530,993</u>	<u>1,552,448</u>	<u>1,572,662</u>	<u>1,592,876</u>	<u>1,613,089</u>	<u>1,633,303</u>
Total	6,517,990	6,602,758	6,686,978	6,771,198	6,855,417	6,939,637
% of WA w/in 1-Hour Drive	90.9%	90.9%	90.9%	90.9%	90.9%	90.9%
Adults (21+)	2015	2016	2017	2018	2019	2020
Washington	4,737,246	4,799,908	4,861,353	4,922,798	4,984,244	5,045,689
Idaho & Oregon	<u>1,458,398</u>	<u>1,478,961</u>	<u>1,498,053</u>	<u>1,517,144</u>	<u>1,536,236</u>	<u>1,555,327</u>
Total	6,195,645	6,278,869	6,359,406	6,439,943	6,520,479	6,601,016
% of WA w/in 1-Hour Drive	91.0%	91.0%	91.0%	91.0%	91.0%	91.0%

Source: Spectrum Gaming Group

Figure 69: Adults within 2-hour drive of a Washington Class III casino, future landscape, 2015-2020

Adults (18+)	2015	2016	2017	2018	2019	2020
Washington	5,460,085	5,528,896	5,599,000	5,669,103	5,739,207	5,809,310
Idaho & Oregon	<u>2,265,811</u>	<u>2,293,199</u>	<u>2,320,208</u>	<u>2,347,216</u>	<u>2,374,225</u>	<u>2,401,233</u>
Total	7,725,896	7,822,095	7,919,207	8,016,319	8,113,432	8,210,544
% of WA w/in 2-Hour Drive	99.5%	99.5%	99.5%	99.5%	99.5%	99.5%
Adults (21+)	2015	2016	2017	2018	2019	2020
Washington	5,176,455	5,244,830	5,312,140	5,379,450	5,446,760	5,514,070
Idaho & Oregon	<u>2,146,625</u>	<u>2,173,437</u>	<u>2,199,169</u>	<u>2,224,901</u>	<u>2,250,633</u>	<u>2,276,365</u>
Total	7,323,080	7,418,267	7,511,309	7,604,351	7,697,393	7,790,435
% of WA w/in 2-Hour Drive	99.5%	99.5%	99.5%	99.5%	99.5%	99.5%

Source: Spectrum Gaming Group

As it relates to locational attributes of Washington’s casinos, adults in the state are well-served, as illustrated by fact that more than 83.5 percent of adults reside within a reasonable one-hour drive of a Washington Class III casino; this figure will increase to more than 90 percent in the coming years with two new casinos added to the Washington landscape. To this point, unlike in many other states where casinos may be out of reach or inconvenient, the bulk of the adult population – 99 percent – reside within a two-hour drive of a Washington Class III casino.

While at least 52 percent of Washington adults reside in the Seattle-Tacoma-Bellevue MSA, our modeling indicates that 99.9 percent of such adults in that MSA are within a reasonable one-hour drive of a Washington Class III casino. However, only 42.1 percent of the gaming facilities (all casinos and cardrooms) and 48.2 percent of the statewide gaming positions are concentrated in this MSA. Absent daily win per gaming position results for these casinos, it is difficult to ascertain if the Seattle-Tacoma-Bellevue MSA is under-supplied or over-supplied with gaming positions to serve local market adults (or tourists and out-of-market visitors).

The following table shows the total 2015 adult population (both 18+ and 21+) for the 39 Washington counties, grouped according to MSA, McSA, or Unassigned Area, along with respective percentage of such adult population within a one-hour drive of a Washington Class III

casino. The shaded rows show those areas where fewer than half of the adults live within a one-hour drive of a casino, potentially indicating an area underserved by casino gaming. This information may indicate potential gaming business opportunities in those areas.

Figure 70: WA adults by county (2015) and % within one-hour drive of an existing Class III WA casino

Metropolitan Statistical Area (MSA)	County	Total Adults (18+)	Adults (18+), w/in 1-Hour Drive	% w/in 1-Hour Drive of WA Casino	Adults (21+)	Adults (21+), w/in 1-Hour Drive	% w/in 1-Hour Drive of WA Casino
Bellingham	Whatcom	167,320	167,320	100.0%	155,319	155,319	100.0%
Bremerton-Silverdale	Kitsap	201,842	201,842	100.0%	191,516	191,516	100.0%
Kennewick-Richland	Benton	138,444	55,055	39.8%	130,881	52,106	39.8%
	Franklin	59,281	5,161	8.7%	55,484	4,877	8.8%
	Total	197,725	60,216	30.5%	186,365	56,983	30.6%
Lewiston, ID-WA	Asotin	17,588	0	0.0%	16,840	0	0.0%
Longview	Cowlitz	79,704	18,378	23.1%	75,864	17,477	23.0%
Mount Vernon-Anacortes	Skagit	93,778	93,778	100.0%	89,338	89,338	100.0%
Olympia-Tumwater	Thurston	208,890	208,890	100.0%	198,722	198,722	100.0%
Portland-Vancouver-Hillsboro, OR-WA	Clark	340,233	0	0.0%	322,509	0	0.0%
	Skamania	9,140	0	0.0%	8,746	0	0.0%
	Total	349,373	0	0.0%	331,254	0	0.0%
Seattle-Tacoma-Bellevue	King	1,644,792	1,644,792	100.0%	1,569,137	1,569,137	100.0%
	Snohomish	586,820	583,846	99.5%	558,616	555,770	99.5%
	Pierce	635,081	635,081	100.0%	601,572	601,572	100.0%
	Total	2,866,693	2,863,719	99.9%	2,729,325	2,726,479	99.9%
Spokane-Spokane Valley	Spokane	379,091	379,091	100.0%	356,893	356,893	100.0%
	Pend Oreille	10,541	4,050	38.4%	10,103	3,891	38.5%
	Stevens	34,426	28,513	82.8%	32,814	27,130	82.7%
	Total	424,058	411,653	97.1%	399,809	387,914	97.0%
Walla Walla	Walla Walla	47,002	0	0.0%	43,473	0	0.0%
	Columbia	3,294	0	0.0%	3,167	0	0.0%
	Total	50,296	0	0.0%	46,640	0	0.0%
Wenatchee	Chelan	56,715	7,991	14.1%	53,870	7,613	14.1%
	Douglas	29,595	4,647	15.7%	27,975	4,352	15.6%
	Total	86,310	12,638	14.6%	81,845	11,966	14.6%
Yakima	Yakima	175,265	166,668	95.1%	164,289	156,147	95.0%
Total for Metropolitan Statistical Areas		4,918,842	4,205,102	85.5%	4,667,126	3,991,860	85.5%
Micropolitan Statistical Area							
Aberdeen	Grays Harbor	56,882	56,048	98.5%	54,386	53,609	98.6%
Centralia	Lewis	59,167	50,604	85.5%	56,365	48,110	85.4%
Ellensburg	Kittitas	35,031	6,161	17.6%	31,427	5,659	18.0%
Moses Lake	Grant	65,652	2,973	4.5%	61,458	2,876	4.7%
Oak Harbor	Island	64,405	64,405	100.0%	61,616	61,616	100.0%
Othello	Adams	12,739	1,939	15.2%	11,851	1,851	15.6%
Port Angeles	Clallam	60,307	52,899	87.7%	58,055	51,047	87.9%
Pullman	Whitman	39,638	2,875	7.3%	32,259	2,752	8.5%
Shelton	Mason	49,563	49,563	100.0%	47,550	47,550	100.0%
Total for Micropolitan Statistical Areas		443,382	287,466	64.8%	414,967	275,068	66.3%
Unassigned Area (by County)							
Unassigned Areas	Ferry	6,258	0	0.0%	5,953	0	0.0%
	Garfield	1,804	0	0.0%	1,727	0	0.0%
	Jefferson	26,474	24,625	93.0%	25,744	23,954	93.0%
	Klickitat	16,663	6,751	40.5%	15,977	6,469	40.5%
	Lincoln	8,252	5,956	72.2%	7,899	5,698	72.1%
	Okanogan	31,959	31,959	100.0%	30,540	30,540	100.0%
	Pacific	17,271	6,055	35.1%	16,678	5,814	34.9%
	San Juan	13,936	13,936	100.0%	13,522	13,522	100.0%
Wahkiakum	3,387	0	0.0%	3,268	0	0.0%	
Total for Unassigned Areas		126,003	89,282	70.9%	121,308	85,997	70.9%
Grand Total - WA		5,488,226	4,581,850	83.5%	5,203,400	4,352,925	83.7%

Sources: Washington State Office of Financial Management, Forecasting and Research Division; The Nielsen Company (US), Inc.

As illustrated, while there are aggregated areas and/or counties that have a vast majority, if not all, adults residing within a one-hour drive of an existing Washington Class III casino location, there are other aggregated areas and/or counties having a material adult population(s) where this is certainly not the case. This shows where there may be gaming business opportunities in the state.

Cardrooms may fill the void in some of the under-penetrated counties by Class III casinos, but because cardrooms cannot offer slot machines there may be – at least from a demand standpoint – gaming-business opportunities in those counties.

The following table (in same format as previous table) shows the projected total 2020 adult population (both 18+ and 21+) for all 39 counties throughout Washington, and grouped according to MSA, McSA, or Unassigned Area, along with respective percentage of such adult population within a one-hour drive of a Washington Class III casino, while this includes the addition of two new casino in Washington. As above, the **shaded rows** show those areas where fewer than half of the adults live within a one-hour drive of a Class III casino, potentially indicating an area underserved with casino gaming.

Figure 71: WA adults by county (2020) and % within one-hour drive of an existing Class III WA casino

Metropolitan Statistical Area (MSA)	County	Total Adults (18+)	Adults (18+), w/in 1-Hour Drive of WA Casino	% w/in 1-Hour Drive of WA Casino	Adults (21+)	Adults (21+), w/in 1-Hour Drive of WA Casino	% w/in 1-Hour Drive of WA Casino
Bellingham	Whatcom	176,722	176,722	100.0%	165,419	165,419	100.0%
Bremerton-Silverdale	Kitsap	209,656	209,656	100.0%	199,428	199,428	100.0%
Kennewick-Richland	Benton	149,317	59,484	39.8%	141,074	56,178	39.8%
	Franklin	66,385	6,044	9.1%	62,175	5,667	9.1%
	Total	215,703	65,527	30.4%	203,250	61,845	30.4%
Lewiston, ID-WA	Asotin	18,375	0	0.0%	17,589	0	0.0%
Longview	Cowlitz	82,365	82,365	100.0%	78,443	78,443	100.0%
Mount Vernon-Anacortes	Skagit	98,412	98,412	100.0%	93,767	93,767	100.0%
Olympia-Tumwater	Thurston	223,352	223,352	100.0%	212,685	212,685	100.0%
Portland-Vancouver-Hillsboro, OR-WA	Clark	368,356	368,356	100.0%	348,818	348,818	100.0%
	Skamania	9,742	3,906	40.1%	9,315	3,729	40.0%
	Total	378,098	372,261	98.5%	358,133	352,547	98.4%
Seattle-Tacoma-Bellevue	King	1,767,510	1,767,510	100.0%	1,687,133	1,687,133	100.0%
	Snohomish	632,636	629,552	99.5%	602,537	599,578	99.5%
	Pierce	673,025	673,025	100.0%	638,335	638,335	100.0%
	Total	3,073,171	3,070,087	99.9%	2,928,005	2,925,046	99.9%
Spokane-Spokane Valley	Spokane	398,228	398,228	100.0%	375,966	375,966	100.0%
	Pend Oreille	10,996	4,199	38.2%	10,526	4,031	38.3%
	Stevens	36,018	29,951	83.2%	34,323	28,495	83.0%
	Total	445,242	432,379	97.1%	420,815	408,492	97.1%
Walla Walla	Walla Walla	49,020	0	0.0%	45,595	0	0.0%
	Columbia	3,382	0	0.0%	3,247	0	0.0%
	Total	52,402	0	0.0%	48,842	0	0.0%
Wenatchee	Chelan	59,228	8,340	14.1%	56,292	7,929	14.1%
	Douglas	31,378	4,864	15.5%	29,636	4,548	15.3%
	Total	90,606	13,204	14.6%	85,928	12,478	14.5%
Yakima	Yakima	183,255	174,417	95.2%	171,958	163,565	95.1%
Total for Metropolitan Statistical Areas		5,247,357	4,918,381	93.7%	4,984,262	4,673,714	93.8%
Micropolitan Statistical Area							
Aberdeen	Grays Harbor	57,417	56,576	98.5%	54,956	54,168	98.6%
Centralia	Lewis	60,803	52,163	85.8%	57,994	49,647	85.6%
Ellensburg	Kittitas	36,881	6,198	16.8%	33,580	5,760	17.2%
Moses Lake	Grant	69,945	3,008	4.3%	65,470	2,895	4.4%
Oak Harbor	Island	66,453	66,453	100.0%	63,613	63,613	100.0%
Othello	Adams	13,538	1,988	14.7%	12,621	1,893	15.0%
Port Angeles	Clallam	62,715	55,145	87.9%	60,419	53,254	88.1%
Pullman	Whitman	41,765	2,871	6.9%	34,556	2,760	8.0%
Shelton	Mason	51,099	51,099	100.0%	49,042	49,042	100.0%
Total for Micropolitan Statistical Areas		460,617	295,501	64.2%	432,253	283,033	65.5%
Unassigned Area (by County)							
Unassigned Areas	Ferry	6,521	0	0.0%	6,220	0	0.0%
	Garfield	1,838	0	0.0%	1,762	0	0.0%
	Jefferson	27,646	25,806	93.3%	26,877	25,091	93.4%
	Klickitat	17,586	7,014	39.9%	16,825	6,722	40.0%
	Lincoln	8,445	6,144	72.7%	8,072	5,869	72.7%
	Okanogan	32,814	32,814	100.0%	31,280	31,280	100.0%
	Pacific	17,517	5,990	34.2%	16,917	5,749	34.0%
	San Juan	14,683	14,683	100.0%	14,229	14,229	100.0%
Total for Unassigned Areas	130,625	92,451	70.8%	125,624	88,942	70.8%	
Grand Total - WA		5,838,599	5,306,334	90.9%	5,542,138	5,045,689	91.0%

Sources: Washington State Office of Financial Management, Forecasting and Research Division; The Nielsen Company (US), Inc.

As illustrated, while the two new casinos in Washington equate to a greater number (and percentage) of Washington adults residing within a one-hour drive of an in-state Class III casino, there remain other aggregated areas and/or counties having projected material adult

population(s) where this is certainly not the case. Again, this may provide context in terms of any additional casino gaming expansion opportunities statewide over the next few years and in potentially locating casinos nearby to underserved areas (from a convenience, or one-hour drive-time perspective).

As noted above, cardrooms may fill the void in some of the under-penetrated counties by Class III casinos, but because cardrooms cannot offer slot machines, there may be – at least from a demand standpoint – an opportunity for State or tribal government in those counties.

VI. Washington Gaming & Tourism

Thanks in large measure to Washington’s diverse attractions across a wide geographic and demographic spectrum, tourism has long been an economic pillar in the state. An examination of tourism from a broad vantage point would put gaming as one in a long list of attractions, and it would not appear to be a major element within the state’s overall tourism industry. That characterization can be attributed to the fact that gaming is geographically diverse, with many smaller properties and only a few casinos that offer the potential to materially attract overnight visitors from outside Washington. At the same time, we note that gaming can hardly be expected to be a major draw from outside of Washington, since 42 states – and all lower Canadian provinces – offer casino gambling, putting the attraction much closer to home and diminishing gaming’s ability to be a tourism magnet.

In that sense, Washington gaming is quite similar to its counterpart in California, where Indian casinos dominates the state’s gaming landscape, with its casinos diffused geographically. This is unlike, for example, states such as Mississippi, Nevada and New Jersey, where casino resorts have developed in clusters that can create their own centers of tourism gravity.

While gaming as an industry – and as an activity – is easily defined, “tourism” is more difficult to pin down. The traditional dictionary definition of tourism is “the activity of traveling to a place for pleasure.”⁴⁷ But much of the historical analysis of Washington tourism has adopted a broader definition, which would include the activity of leisure-spending, whether by in-state or out-of-state residents. Within that broader definition, gaming would seem to be more of a meaningful component, as most of its operating businesses – both Indian casinos and cardrooms – target an in-state population.

Clearly, many casinos and cardrooms near the state’s borders will serve as regional magnets that attract residents from Oregon, Idaho and British Columbia. For example, some cardrooms near the Oregon border report that as much as 70 percent of revenue is derived from Oregon residents.⁴⁸ Additionally, Eastern Washington is home to seven tribal casinos, each of which draws players from out of state. Still, most are dependent on Washington residents. With that in mind, it would make sense to consider the broader definition of “tourism,” which would also comport with the definition adopted by some other studies, and is better positioned to give due consideration to gaming’s role in the state’s economy.

For example, a 2012 study by Oregon-based Runyon Associates noted that 34 percent of visitor spending in Washington was generated by in-state residents. The report further states:

⁴⁷ Merriam-Webster. <http://www.merriam-webster.com/dictionary/tourism> (accessed June 30, 2016)

⁴⁸ Interview with Recreational Gaming Association (“RGA”) board members, June 16, 2016.

“Even though residents of Washington State generate only about one-third of all visitor spending, they comprise almost two-thirds of all trips to destinations within Washington State.”⁴⁹ The Runyon report makes clear that, in the 20-year span from 1991 through 2011, travel spending – encompassing both in-state and out-of-state visitation – grew from \$7.3 billion to \$16.4 billion, and this coincided with employment growth from 134,600 to 150,900 jobs.⁵⁰

More recently, Runyon reported that travel-related employment grew to 163,400 jobs in 2014,⁵¹ while the Washington Tourism Alliance (“WTA”) – which commissioned the Runyon studies – reports that annual travel spending is now approaching \$18 billion, as the most recent 2015 total was \$17.6 billion.⁵²

A. Tourism Organizations Welcome Casinos, Promote Gaming

Gaming is part of the state’s tourism fabric, as casinos are situated throughout the state and prominent tourism organizations include casino gaming in their messaging. The WTA, which formed in 2011 to help fill the void created by the closure of the State tourism office, lists gaming as one of its 10 major categories on the home page of its website dropdown menu. The WTA gaming page lists information and links for 30 casinos and cardrooms.

Figure 72: Screen grab of Washington Tourism Alliance Gaming website page



Source: Washington Tourism Alliance

⁴⁹ Runyon Associates, *Washington State Travel Impacts & Visitor Volume 2001-2011*, 2013, p. 8.

⁵⁰ Ibid. p. 6

⁵¹ Dean Runyan Executive Summary 2015. <http://watourismalliance.com/?p=3217>

⁵² Washington Tourism Alliance, Marketing Opportunities, 2015. http://watourismalliance.com/wp-content/uploads/2015/02/1-Washington-Media-Kit_2015.pdf

Mike Moe, WTA Associate Director, said gaming is a driver of visitation to Washington, with several casinos being “world class.” David Blandford, Vice President of Communications for Visit Seattle, called gaming “definitely a viable part of tourism,” both for leisure and group business, noting that casinos with hotels typically have significant conference space that enhances the Seattle area as a magnet for meetings. Blandford noted that many Western Washington casinos are well situated near urban centers with excellent access from Seattle-Tacoma International Airport and highways.

State tourism leaders said there is no reluctance whatsoever to include gaming in their messaging and that casino operators are welcome members of their organizations. Washington tourism leaders emphasized that they treat casinos no differently than any other partner or potential partner that seeks to promote, and capitalize on, Washington tourism.

The WTA notes that casinos are an important part of the state’s Indian culture, reporting in the “Indigenous Beauty” section of its annual visitors guide: “More modern sightings in the area include Washington’s 32 tribal-run casinos, such as Snoqualmie and Tulalip Resort.”⁵³

That casino gaming has evolved into a mainstream tourist activity in Washington was plainly evident during a June 2016 tour of the Grand Coulee Dam. The dam, which attracts 280,000 annual tourists,⁵⁴ is adjacent to the Coulee Dam Casino, a tiny gaming facility operated by the Colville federation. An official dam tour guide noted the presence of the casino on the shuttle ride through town, telling tourists during the van ride through the town, “There’s even a casino in town. I’m sure they’d like it if you stopped in and made a contribution.”

That organizations such as Visit Spokane, Visit Seattle and WTA welcome casinos as members/partners and include gaming in their messaging is due to several factors:

1. Gaming is mainstream entertainment. Nationally, some 34 percent of Americans visited a casino (and 32 percent gambled in them) in 2012,⁵⁵ and they typically do not have to travel far to find one – there are roughly 1,000 casinos in 42 states.
2. Recognition of the size and importance of the Indian community in Washington. With 36 tribes (29 federally recognized) and a population of more than 127,000,⁵⁶ the Indian presence and culture is prominent throughout the state.

⁵³ Washington Tourism Alliance, “Washington State Visitors Guide 2016,” p. 32.
<http://online.fliphtml5.com/nxcu/bjbx/#p=20>

⁵⁴ June 20, 2016, email response from Lynne Brougher, Public Affairs Officer, Grand Coulee Power Office.

⁵⁵ American Gaming Association, “2013 State of the States,” pp. 23, 25; (last such year survey was conducted).
https://www.americangaming.org/sites/default/files/research_files/aga_sos2013_rev042014.pdf

⁵⁶ Washington Office of Financial Management, “Washington State Population by Race,” 2014.
<http://www.ofm.wa.gov/trends/population/fig306.asp>

3. Gaming has a substantial economic impact. As noted in other chapters of this report, casino/cardroom gaming is a \$2.67 billion industry that Spectrum estimates directly employs 23,329.
4. Many tribal casinos are good marketing partners, as discussed below.

Cheryl Kilday, President and CEO of Visit Spokane, noted that the Kalispel Tribe/Northern Quest Resort & Casino is “very active” in promoting Spokane as a tourism and meeting destination. In fact, Northern Quest is the one and only Legacy Partner in Visit Spokane – the highest partner level. Curt Holmes, director of public and government affairs for the Kalispel Tribe, said Northern Quest is fully vested in promoting the area: “The better Spokane does, we benefit.” Northern Quest promotes downtown Spokane to its guests and provides shuttle service between the casino and downtown. (It should be noted that Visit Spokane’s market reach includes much of eastern Washington as well portions of Idaho and well into central British Columbia. As such, the organization’s partner membership area reaches into Idaho, and the Coeur D’Alene Casino Resort Hotel in Worley, ID, is an active partner in the organization.)

Northern Quest is also a contributing partner of Visit Seattle despite being nearly 300 driving miles away. Seven other casinos are Visit Seattle partners, and the WTA counts nine tribal operators among its members, including two (Squaxin Island and Tulalip) who serve on the WTA Board of Directors.

While tourism organizations promote gaming as one of many attractions, the ability to leverage gaming as a differentiating factor in marketing is limited because casino gambling is now so widespread. Blandford said that Seattle competes with other western states and cities for leisure travelers, along with West Coast cities and Vancouver, BC, for convention business. Most major cities in those states have attractive casinos nearby, though we believe that, as a whole, the size and quality of the gaming product in the Seattle-Tacoma area is superior to that in Washington’s neighboring states and province.

In Eastern Washington, Kilday said leisure competitors for Spokane include Boise, Seattle, Portland and Missoula, and convention competitors include Seattle, Portland, Reno, Sacramento, San Jose, and sometimes Salt Lake and Albuquerque. From a gaming perspective, several of those cities have high-quality casino resorts in or close to their cities but Spokane’s ability to use gaming as a differentiating factor are limited in that it has only one casino resort in Washington as an attraction, that being Northern Quest.

B. Casinos as Tourism Attractions

The ability to draw – and retain – tourists depends in large part on location and the amenities offered at any given gaming property. Washington casino properties that Spectrum classified in Chapter I as “major destination gaming resorts” (of which there five) provide guests

with the potential to stay multiple nights without leaving the property by offering amenities such as first-class hotel rooms, spas, headliner entertainment, multiple eating and drinking venues (including fine-dining options), nightclubs, etc. As such, they have the ability to attract guests who travel from farther away – and are willing to spend more.

Smaller casinos with few amenities and located farther from state or international borders face greater challenges in attracting tourists. Chewelah Casino in rural Eastern Washington, for example, has no amenities beyond minimal food and beverage service and thus is challenged to keep its Canadian visitors on property for longer than a few hours. Its sister casino, Two Rivers, has a marina and RV park from which to draw vacationers for convenience gaming, but has no amenities beyond minimal food and beverage service; the property is open only seasonally.

In Western Washington, some casinos have leveraged their locations near natural attractions to capitalize on tourism potential. For example, the Quinault Indian Nation is clearly an economic pillar within its coastal region, and operates two hotels – one, Quinault Beach Resort & Casino, is fully integrated with its gaming operation – while the other, nearby Ocean Shores, is connected via shuttle service. Notably, the western coastal region has a short prime season – in July and August. That, coupled with environmental and other concerns – including tsunami fears – has limited non-tribal development, thus further enhancing the Quinault nation’s critical status as an employer and as a tourism magnet.

Our mid-June observations of the Quinault region showed that the casino and hotel captured a significant share of its visitor base from Washington residents, which has significant positive implications for the state. As in other states, Washington gaming operations help keep Washington leisure spending in-state, an important consideration in any analysis of economic impacts.

Not surprisingly, Washington cardrooms have limited ability to draw tourists because of their small size and limited amenities. Essentially, they are locals places. Cardroom operators say some newcomers apparently note the signs listing cardrooms as “casinos” but quite often such visitors are disappointed to learn that the gaming offerings are limited and do not include slot machines.

Casino and cardroom operators near the state borders report that they that draw players from Idaho, Oregon or British Columbia, either because they are the most convenient or better gaming option – or, in some cases, because they are including gaming as part of a larger trip. We expect the large Ilani Casino, scheduled to open in 2017, to draw heavily from the Portland, OR, area due to its prime location near the Oregon border, despite having no hotel (at least in its initial development phase). However, we believe the Ilani will lead to the closure of more than one cardroom in the area.

C. Measuring Out-of-State Impact

Spectrum found only one tourism study that quantified visitors' gambling activities. A 2012 study conducted for Visit Spokane underscored that gaming is a small but important component of overall tourism for that region. The study⁵⁷ found that while fewer than 1 percent of Spokane visitors came to the region for the purpose of gaming, between 13 percent and 14 percent did participate in casino/gaming during their stay. Their average daily expenditure (depending on the survey respondent type) was \$29.79 (6.3 percent of their average daily expense) or \$60.64 (10.8 percent of their average daily expense).

That again is rather typical of many gaming states, in which casinos do not serve as magnets for tourism, but benefit from spending by visitors who were attracted by other magnets.

As indicated in Chapter II of this report, out-of-state patrons are a significant source of gross gaming revenue for Washington's Class III casinos. In the table below, we have summarized the Spectrum estimates of GGR imported from out-of-state revenues, most of which we believe is convenience-driven; i.e., from border residents. Note that we project that the percent of out-of-state GGR will more than double by 2018 from its current level, due largely to the planned 2017 opening of the Ilani Casino north of Portland, OR.

Figure 73: Estimated out-of-state gross gaming revenue for Washington Class III casinos, 2015-2020

\$ in Millions	2015	2016	2017	2018	2019	2020
GGR from out-of-state	\$257.8	\$265.0	\$465.1	\$688.7	\$696.8	\$705.2
Pct. of total GGR	11.1%	11.1%	16.9%	22.0%	21.7%	21.3%

Source: Spectrum Gaming Group

D. Retaining In-State Gambling Dollars

Next, we effectively examine this from the inverse perspective: How much revenue would otherwise be spent out of state if Washington did not have casinos or cardrooms? This is a hypothetical exercise, to be sure, and comes with a necessary but highly unlikely assumption: that the gaming landscape around Washington would be the same as it is today. Such an assumption is necessary, however, because we cannot suppose how Oregon, Idaho and British Columbia would react if Washington's 80 casinos and cardrooms were to vanish. At the same time, we recognize the obvious – that those state, provincial and/or tribal governments would seek to fill the void by authorizing more casinos of their own.

Nonetheless, we believe there is value in recognizing the amount of revenue that Washington's casinos and cardrooms potentially keep in state.

⁵⁷ Randall Travel Marketing, *Executive Summary: Visit Spokane 2012 Tourism Research Study*, 2012.
<http://www.visitspokane.com/includes/content/docs/media/RTM-Executive-Summary--Final- 2 .pdf>

To estimate how much Washingtonians would be spending in other gaming markets were casinos not available in Washington, we look to the “Profile of the American Casino Gambler: Harrah’s Survey 2006” with data from 2005. Importantly, this is the last known publicly available report having this type and integrity of data concerning casino participation rates throughout the US. At the time, the percentage of adults who gambled at least once in a casino in the last 12 months (or during 2005) was approximately 25.2 percent.⁵⁸ This figure includes all the US adult population – those who lived nearby to casinos, as well as those who did not.

According to the Harrah’s Survey, the Seattle-Tacoma-Bellingham Designated Market Area (“DMA”) was one of the top 20 largest feeder markets (to casinos) in the US, ranking ninth, and the only such area in the Pacific Northwest region of the US to make the top 20 listing. Moreover, per the same report, Washington was listed as a state with a gambling participation rate higher than the national average, with an estimated casino participation rate of 32 percent for the Seattle-Tacoma-Bellingham DMA. Finally, the same report listed three DMAs in the Pacific Northwest region that generated over 1 million casino trips during 2005, while two of the DMAs were in Washington: Seattle-Tacoma-Bellingham and Spokane (Portland, OR, was the other). We believe it was evident, as it still is, that Washington residents are patronizing casinos within the state, as well as in other jurisdictions (or even in Canada).

In terms of exporting GGR from Washington adults to out-of-state casinos, over the seven-year period from 2006 through 2012 there was a daily average of 17.4 departing, non-stop flights from Seattle-Tacoma International Airport to Nevada, either Las Vegas or Reno. These data are shown in the following table.

Figure 74: Seattle-Tacoma International Airport – scheduled departing, non-stop flights, 2006-2012

Scheduled Flights, by Destination	2006	2007	2008	2009	2010	2011	2012	Annual Avg.
to Las Vegas	4,293	5,354	5,051	4,247	3,956	4,401	4,250	12.3
to Reno	1,699	2,312	2,362	1,736	1,641	1,641	1,643	5.1
to Nevada	5,992	7,666	7,413	5,983	5,597	6,042	5,893	17.4
Total, all	142,765	150,487	149,562	137,270	135,364	135,491	133,550	385.0
% to Nevada	4.2%	5.1%	5.0%	4.4%	4.1%	4.5%	4.4%	4.5%

Source: Port of Seattle

Based on all years, the average enplaned, domestic number of passengers per departing, non-stop flight from Seattle-Tacoma International Airport to any destination was 102.9.⁵⁹ Such statistics for departing non-stop flights are not posted for more recent years, nor for years prior to 2006. However, this indicates that even with an active casino landscape throughout Washington (between 2006 and 2012) that Washington adults were seemingly patronizing casino

⁵⁸ Harrah’s Entertainment, Inc., *Profile of the American Casino Gambler: Harrah’s Survey 2006*.

⁵⁹ Port of Seattle.

destinations in Nevada (as assumed by the volume of scheduled non-stop flights in each of the seven years, as well as in total).

If we assume the current number of departing flights per day to Nevada is 17.4 with 102.9 Washington adult passengers on-board each flight, this yields approximately 1,794 Washington adults per day departing Washington to either Las Vegas or Reno as a final destination, or 654,757 annually (albeit not assumed to be a unique number of adults). According to the most recent *Las Vegas Visitor Profile Study*, for 2011-2015 the average number of nights stayed per visitor was 3.4 (and the percentage of visitors to Las Vegas staying overnight was in excess of 99.6 percent each year); therefore, if we further assume each Washington adult travelling to Nevada stayed an average of only three nights this yields 1.964 million visit-nights (i.e., annual adults at 654,757 multiplied by a three-night stay for each). Assuming average GGR per occupied hotel room of \$214 in 2015 (further assuming two occupants per room, per our gravity modeling in Chapter II of this report) yields at least \$210.2 million of GGR annually to a Nevada casino from a Washington adult flying to either Las Vegas or Reno.

Per our gravity modeling, we estimated approximately \$2.11 billion of GGR was going to a Washington casino (either Class II or Class III) from Washington adults in 2015, while our same modeling (although not shown elsewhere in this report) indicates at least \$106.9 million of GGR from Washington adults is destined for casinos in Idaho and Oregon. Therefore, when combining our aforementioned GGR estimates from our gravity modeling, with our assumed GGR to Nevada casinos, there is at least \$2.43 billion of GGR generated by Washington adults in 2015 (assumed). However, we believe it is reasonable to assume this figure, or annual GGR from Washington adults, is at least \$2.5 billion annually in current dollars (e.g., when factoring other casino locations not indicated herein, including to casinos in Canada).

To estimate GGR from Washington adults – albeit without in-state casinos – we utilize data from the same Harrah’s Survey for 2006, with data from 2005. Per this report, the Atlanta DMA was one of the nation’s top feeder markets and had a casino participation rate of 15 percent.⁶⁰ However, there were (and still are) neither state-sanctioned nor Indian casinos operating in Georgia. The closest casinos to the Atlanta DMA at the time were well beyond a two-hour drive – the most recognizable being Harrah’s Cherokee in North Carolina (and with Class II gaming). Similarly, per the same Harrah’s Survey, the Washington DC DMA was one of the nation’s top feeder markets and had a casino participation rate of 17 percent.⁶¹ The closest casino to the Washington, DC, DMA at the time was beyond a one-hour drive from the bulk of the Washington, DC, DMA (in West Virginia), while there were no other casinos operating within a reasonable four-hour drive at that time. Therefore, when combined, the Atlanta and Washington,

⁶⁰ Ibid.

⁶¹ Ibid.

DC, DMAs had an overall, average casino participation rate of 16 percent – which we will utilize as a benchmark for Washington adults, under the assumption there are no casinos within the state.

The following table shows our build-up of total annual GGR (assumed 2015) from Washington adults, as well as what it may otherwise be absent the presence of casinos in Washington.

Figure 75: GGR from Washington adults – if Washington did not have casinos (est. 2015)

Estimated, total GGR from WA adults in 2015 (GGR in \$M)	
Washington Casinos	\$2,110.5
Idaho and/or Oregon Casinos	\$106.9
Nevada Casinos	\$210.2
All Other	\$72.4
Est. Total GGR in 2015 from WA Adults	\$2,500.0
If no casinos in WA - Estimated, total GGR from WA adults age 21+ in 2015 (GGR in \$M)	
# WA Adults, 21+ (2015)	5,203,400
" " @ 16% Casino Participation	832,544
Est. GGR from WA Adults, 21+ @ \$950/Adult	\$790.9
Variance to 2015, from WA Adults 21+ (if WA had no casinos)	(\$1,709.1)
If no casinos in WA - Estimated, total GGR from WA adults age 18+ in 2015 (GGR in \$M)	
# WA Adults, 18+ (2015)	5,488,226
" " @ 16% Casino Participation	878,116
Est. GGR from WA Adults, 21+ @ \$950/Adult	\$834.2
Variance to 2015, from WA Adults 18+ (if WA had no casinos)	(\$1,665.8)

Source: Spectrum Gaming Group

As illustrated in this flux analysis, we believe it is reasonable to assume \$790-plus million of GGR would be generated by Washington adults in out-of-state casinos annually (or in 2015) even if Washington did not have any casinos in-state (i.e., GGR of \$790.9 million at a gaming age of 21+ and GGR of \$834.2 million at a gaming age of 18+).

VII. National, Regional Casino Gaming Trends

A. The Big Picture

There are approximately 1,000 casinos⁶² in the United States (474 Indian and more than 500 commercial) and in 2015 they generated an estimated \$70.1 billion in gross gaming revenue (“GGR”). Washington currently has 26 Class III casinos that generated an estimated \$2.32 billion in GGR in 2015, or 3.3 percent of the US total GGR.

The following table shows GGR for US Indian and commercial casinos over the last 15 years, along with growth rates and percentage split between the two segments.

Figure 76: US gross gaming revenue, 2001-2015

GGR (\$B)	Native American	Annual Growth	Commercial	Annual Growth	Total US	Annual Growth	% of Total, Native American	% of Total, Commercial
2001	\$12.82	17.0%	\$27.05	3.0%	\$39.87	7.1%	32.2%	67.8%
2002	\$14.72	14.8%	\$28.22	4.3%	\$42.94	7.7%	34.3%	65.7%
2003	\$16.83	14.3%	\$28.73	1.8%	\$45.55	6.1%	36.9%	63.1%
2004	\$19.48	15.8%	\$31.09	8.2%	\$50.57	11.0%	38.5%	61.5%
2005	\$22.58	15.9%	\$32.73	5.3%	\$55.31	9.4%	40.8%	59.2%
2006	\$24.89	10.2%	\$35.35	8.0%	\$60.24	8.9%	41.3%	58.7%
2007	\$26.14	5.0%	\$37.47	6.0%	\$63.61	5.6%	41.1%	58.9%
2008	\$26.74	2.3%	\$36.17	(3.5%)	\$62.91	(1.1%)	42.5%	57.5%
2009	\$26.48	(1.0%)	\$34.31	(5.1%)	\$60.79	(3.4%)	43.6%	56.4%
2010	\$26.50	0.1%	\$34.61	0.9%	\$61.12	0.5%	43.4%	56.6%
2011	\$27.15	2.5%	\$35.66	3.0%	\$62.81	2.8%	43.2%	56.8%
2012	\$27.90	2.7%	\$37.41	4.9%	\$65.31	4.0%	42.7%	57.3%
2013	\$28.03	0.5%	\$37.85	1.2%	\$65.88	0.9%	42.5%	57.5%
2014	\$28.46	1.5%	\$37.94	0.3%	\$66.40	0.8%	42.9%	57.1%
2015	\$29.88	5.0%	\$40.21	6.0%	\$70.09	5.5%	42.6%	57.4%
2010-15	CAGR	2.4%	CAGR	3.0%	CAGR	2.8%	42.9%	57.1%
2005-15	CAGR	2.8%	CAGR	2.1%	CAGR	2.4%	42.4%	57.6%
2000-15	CAGR	6.9%	CAGR	2.9%	CAGR	4.3%	40.6%	59.4%

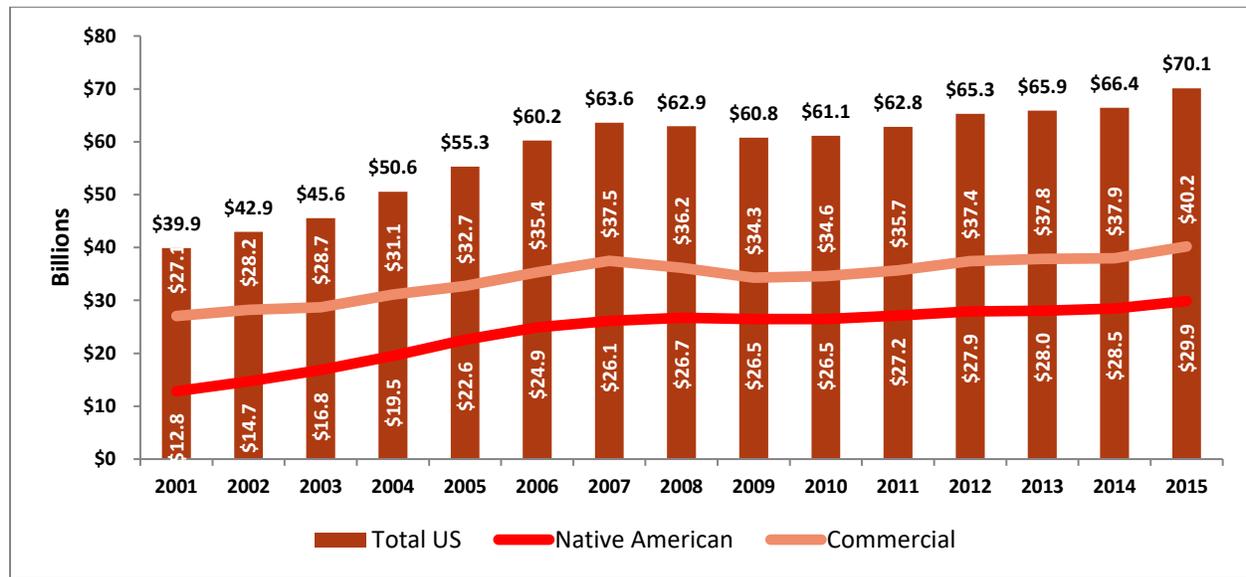
Source: National Indian Gaming Commission; University of Nevada Las Vegas, Center for Gaming Research

As illustrated, last year it is estimated that Indian casinos comprised 42.6 percent of US GGR (and 40.6 percent over the 15-year period), while US GGR had an annual average growth rate of 4.3 percent over the last 15 years, albeit this growth was 2.8 percent over the last five-years.

The trends of US GGR, in total and by segment, are illustrated in the following chart.

⁶² Excluding cardrooms.

Figure 77: US casino gross gaming revenue, 2001-2015



Source: National Indian Gaming Commission; University of Nevada Las Vegas, Center for Gaming Research

The following table shows Washington casino revenue, along with Native American casino revenue on regional basis (and in total) as reported from 2005-15. Figures prior to 2005 are excluded due to availability and inconsistencies in reporting.

Figure 78: Washington and regional Indian GGR, 2005-2015

GGR in billions	Washington	Growth	Portland Region (AK, ID, OR, WA)	Growth	Sacramento Region (CA, N.NV)	Growth	Phoenix Region (AZ, CO, NM, S.NV)	Growth	Total Western US	Growth	Remainder of US	Growth	Total Native American	Growth
2005	\$1.02	15.3%	\$1.83	14.2%	\$2.53	17.1%	\$6.99	20.1%	\$11.35	18.4%	\$11.23	13.5%	\$22.58	15.9%
2006	\$1.19	16.5%	\$2.08	13.7%	\$2.72	7.5%	\$7.67	9.8%	\$12.47	9.9%	\$12.41	10.6%	\$24.89	10.2%
2007	\$1.34	12.2%	\$2.26	8.8%	\$2.87	5.7%	\$7.80	1.6%	\$12.93	3.7%	\$13.21	6.4%	\$26.14	5.0%
2008	\$1.48	10.6%	\$2.38	5.0%	\$2.77	(3.5%)	\$7.36	(5.6%)	\$12.51	(3.3%)	\$14.23	7.7%	\$26.74	2.3%
2009	\$1.57	6.2%	\$2.52	6.1%	\$2.60	(6.3%)	\$6.97	(5.3%)	\$12.09	(3.4%)	\$14.39	1.2%	\$26.48	(1.0%)
2010	\$1.75	11.1%	\$2.66	5.3%	\$2.54	(2.4%)	\$6.79	(2.5%)	\$11.99	(0.9%)	\$14.51	0.9%	\$26.50	0.1%
2011	\$1.95	11.9%	\$2.76	4.1%	\$2.61	3.0%	\$6.90	1.6%	\$12.28	2.4%	\$14.87	2.5%	\$27.15	2.5%
2012	\$2.12	8.6%	\$2.87	4.0%	\$2.72	3.9%	\$6.96	0.8%	\$12.55	2.2%	\$15.35	3.2%	\$27.90	2.7%
2013	\$2.23	4.9%	\$2.90	1.0%	\$2.74	0.8%	\$6.99	0.5%	\$12.63	0.7%	\$15.40	0.3%	\$28.03	0.5%
2014	\$2.24	0.6%	\$2.93	0.8%	\$2.71	(1.1%)	\$7.30	4.4%	\$12.93	2.4%	\$15.53	0.8%	\$28.46	1.5%
2015	\$2.32	3.7%	\$3.02	3.2%	\$2.81	3.7%	\$7.88	8.0%	\$13.71	6.0%	\$16.17	4.1%	\$29.88	5.0%
2010-15	CAGR	5.9%	CAGR	2.6%	CAGR	2.0%	CAGR	3.0%	CAGR	2.7%	CAGR	2.2%	CAGR	2.4%
2005-15	CAGR	8.5%	CAGR	5.1%	CAGR	1.1%	CAGR	1.2%	CAGR	1.9%	CAGR	3.7%	CAGR	2.8%

Source: Washington State Gaming Commission; National Indian Gaming Commission. Note: Western US is sum of the three indicated regions (Portland, Sacramento, Phoenix)

As illustrated, Washington GGR growth (on a last-five-year and last-ten-year basis) has outpaced other western regions, as well as total Native American.

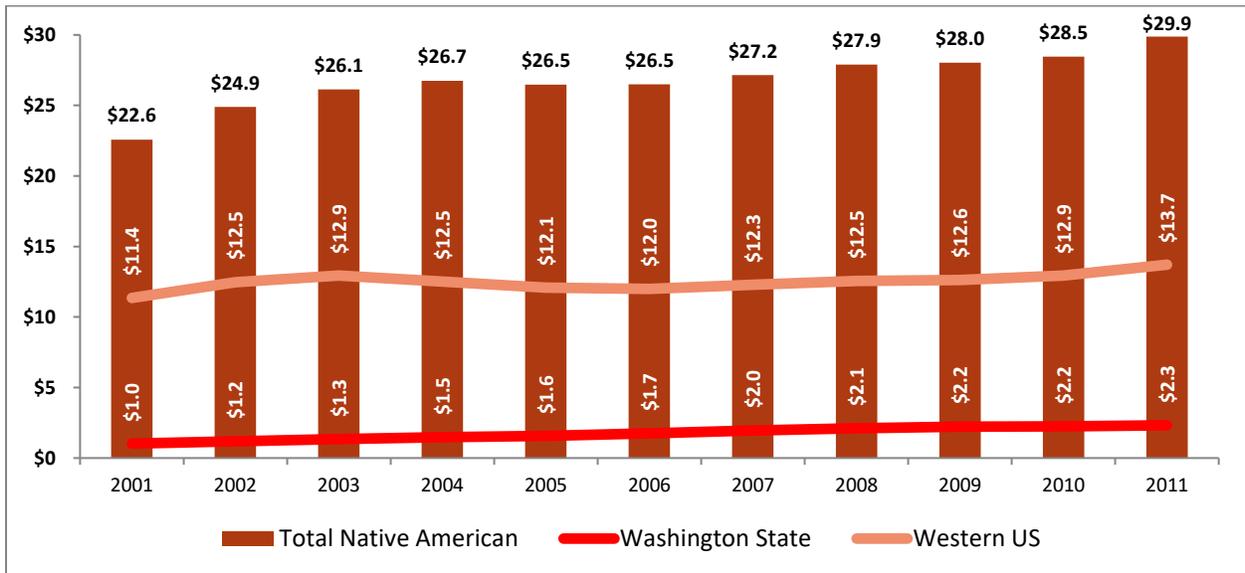
The following table shows Washington GGR as a percentage of other regions and/or US (i.e., Washington market shares), along with total population figures for both Washington and the US and then placing Washington GGR in context with population to establish a fair-share benchmark. Fair share is simply the percent of GGR divided by the percentage of population (for Washington compared to the US); any a result less than 100 percent is less than fair share and a figure exceeding 100 percent is more than fair share.

Figure 79: Washington and regional Indian casino GGR, 2005-2015

	Washington's % of Gross Gaming Revenue (by Segment)									Population (M)		Share and Fair-Share	
	Washington	Portland Region (AK, ID, OR, WA)	Sacramento Region (CA, N.NV)	Phoenix Region (AZ, CO, NM, S.NV)	Western US	Rest of US	Total Native American	Commercial	Total US	Washington	Total US	Washington % of US Population	Washington, Fair-Share of Total US GGR
2005	100%	56.0%	40.5%	14.6%	9.0%	9.1%	4.5%	3.1%	1.9%	6.30	295.52	2.13%	86.9%
2006	100%	57.3%	43.9%	15.5%	9.6%	9.6%	4.8%	3.4%	2.0%	6.42	298.38	2.15%	92.0%
2007	100%	59.1%	46.6%	17.2%	10.3%	10.1%	5.1%	3.6%	2.1%	6.53	301.23	2.17%	97.1%
2008	100%	62.3%	53.3%	20.1%	11.8%	10.4%	5.5%	4.1%	2.4%	6.61	304.09	2.17%	108.2%
2009	100%	62.4%	60.5%	22.6%	13.0%	10.9%	5.9%	4.6%	2.6%	6.67	306.77	2.17%	118.9%
2010	100%	65.8%	68.8%	25.7%	14.6%	12.0%	6.6%	5.0%	2.9%	6.72	309.35	2.17%	131.4%
2011	100%	70.7%	74.7%	28.3%	15.9%	13.1%	7.2%	5.5%	3.1%	6.77	311.72	2.17%	143.3%
2012	100%	73.8%	78.1%	30.5%	16.9%	13.8%	7.6%	5.7%	3.2%	6.82	314.10	2.17%	149.6%
2013	100%	76.7%	81.3%	31.8%	17.6%	14.5%	7.9%	5.9%	3.4%	6.88	316.43	2.18%	155.3%
2014	100%	76.5%	82.7%	30.7%	17.3%	14.4%	7.9%	5.9%	3.4%	6.97	318.91	2.19%	154.3%
2015	100%	76.8%	82.7%	29.5%	16.9%	14.4%	7.8%	5.8%	3.3%	7.06	321.42	2.20%	150.8%

Source: Washington State Gambling Commission, National Indian Gaming Commission

Figure 80: Indian gross gaming revenue: total, Washington and Western Region, 2001-2015



Source: Washington State Gambling Commission, National Indian Gaming Commission

B. National Trends

In this section we discuss important trends that are impacting the gaming industry across the country.

Targeting Key Demographics

Gaming enterprises, like any business, are always seeking to tap into new markets. These new markets may be geographic or demographic. No doubt one of the biggest untapped markets in the gaming industry are the Millennials. Generally speaking, Millennials are those individuals born between 1982 and 2004.⁶³ With the median age in the United States being 37.6 years old, those in the 16-to-36 year-old age group account for over 27 percent of the US population.⁶⁴ Current estimates place the Millennial population at 87 million and account for almost \$1.3 trillion in annual consumer spending, or just under \$15,000 per person.⁶⁵

As discussed in more depth in Chapter VIII of this report, as a group Millennials were the first in the US to fully embrace social media such as MySpace, Facebook and Twitter and, indeed, live their lives online and in a socially interactive environment.⁶⁶ It is this social and interactive aspect that Millennials find lacking in the current gaming paradigm. Since slot machines typically account for at least 80 percent of a casino's gaming revenue in most regional markets, traditional gaming venues would not attract high numbers of Millennials. A study by Roberto Coppola of YWS Design & Architecture asserts that members of Generation Y, particularly males, prefer table games such as blackjack and poker because of their interactive nature and the skill level required to do well.⁶⁷ In addition, the interactive nature of table games and the control over the result makes them much more attractive to members of this group.

In light of this seismic, ongoing change in the gaming demographic, casino operators across the country face a critical challenge: How to attract large numbers of members of Generation Y, while not alienating the ever-increasing numbers of the 50-plus age group, a group long considered to be the bedrock of casinos patrons.⁶⁸ Many gaming executives are planning wholesale renovation and reorganization of their gaming floors. However, there is a danger that

⁶³ Richard Fry, "Millennials Overtake Baby Boomers as America's Largest Generation," Pew Research. April 25, 2016. www.pewresearch.org/fact-tank/2016/04/25/millennials-overtake-baby-boomers/

⁶⁴ Roberto Coppola, "Is Your Casino Optimized for Millennials? Reshuffling the Deck on Gaming Layouts that Win," YWS Design & Architecture, p. 3, February 5, 2015. <https://ywsinternational.com/thoughts/2015/02/05/your-casino-optimized-millennials/>

⁶⁵ Coppola, p. 3.

⁶⁶ Coppola, P. 4.

⁶⁷ Coppola, p. 5-6.

⁶⁸ Coppola, p. 5-6.

bringing in large numbers of newer, more interactive skill-based games in order to attract Millennials will disaffect older gamblers who enjoy traditional slot machines and that is a demographic that operators cannot afford to alienate. The number of people who are age 50 and older has grown since 2010. In 2010, according to the US Census Bureau, those in the 50-plus age group made up 32.1 percent of the US population. By 2015, the number had increased to 34.5 percent. Similarly, in 2010 in Washington State, those 50-plus accounted for 32.1 percent of the state’s population; by 2015, that number had risen to 34.2 percent.⁶⁹

Timothy Wilmott, CEO of Penn National Gaming, which operates 27 gaming and racing facilities in 17 jurisdictions nationwide, argues that the casino industry is too fixated on Millennials and should instead retain its focus on the more lucrative Baby Boomers. At the East Coast Gaming Congress in May 2016, he presented the following comparative table and said, “The lower earnings Millennials receive combined with higher debt relative to the Baby Boomer generation convinces us the gaming industry should wait another 15 years before focusing a disproportionate amount of energy on Millennials.”

Figure 81: Penn National Gaming comparison of Baby Boomers vs. Millennials

Baby Boomers	Born	Millennials
1946 – 1964		1980 – 2000
52 – 70	Age Today	16 – 36
74.9M	Population Size	75.4M
\$12.5K	Avg. Student Loans*	\$25.5K
\$35.8K	Full Time Earnings*	\$33.9K
22.9%	Live with Parents	30.3%
32	Age when First Purchased Mutual Funds	23
“Wait Another 15 Years”		
<small>* In today's dollars Source: American Council on Education, College Board, Investment Company Institute, U.S. Census Bureau</small>		

Source: Penn National Gaming CEO Timothy Wilmott presentation to East Coast Gaming Congress, May 25, 2016

Transformation from Casinos to Resorts with Casinos

The changing demographics, coupled with robust casino expansion nationally, have affected the nature of the gaming and hospitality industry. When legalized casino gambling was restricted to Nevada for 47 years (1931-1978), gambling was the primary reason to visit Las Vegas. After New Jersey proved, starting in 1978, that casino gambling could be operated cleanly (i.e., without the influence of organized crime) and could generate substantial revenues for state

⁶⁹ From US Census data. www.census.gov/2010census

programs, other states – as well as tribal governments – began in the early 1990s to capitalize on the economic benefits of the industry. As a result, today 42 states have casinos of some sort.

This rapid, widespread expansion caused Las Vegas casino owners to give patrons other reasons to drive past or fly over their local casinos for new experiences – and often gambling has nothing to do with their trip. Despite Las Vegas being, by far, the largest casino gambling market in the country, since 2004 only between 4 percent and 15 percent of visitors annually have cited gambling as their primary reason for visiting the city.⁷⁰ The city’s transformation from gambling places with hotels and entertainment to resorts with gambling as an amenity is widely considered to have started in 1989, with the opening of Steve Wynn’s Mirage casino resort. Its instant success spawned a seemingly nonstop wave of development of destination gaming resorts on the Las Vegas Strip.

As shown in the following table, the gaming revenues at the largest Las Vegas Strip casino hotels (those with at least \$72 million in annual revenue) have gradually become a smaller and smaller piece of their overall revenue pie – while still growing in their own right. Last year, the Strip properties generated nearly three-quarters of their total revenue from non-gaming sources.

⁷⁰ Las Vegas Convention and Visitors Authority, annual Visitor Profile Study. <http://www.lvcva.com/stats-and-facts/visitor-statistics/>

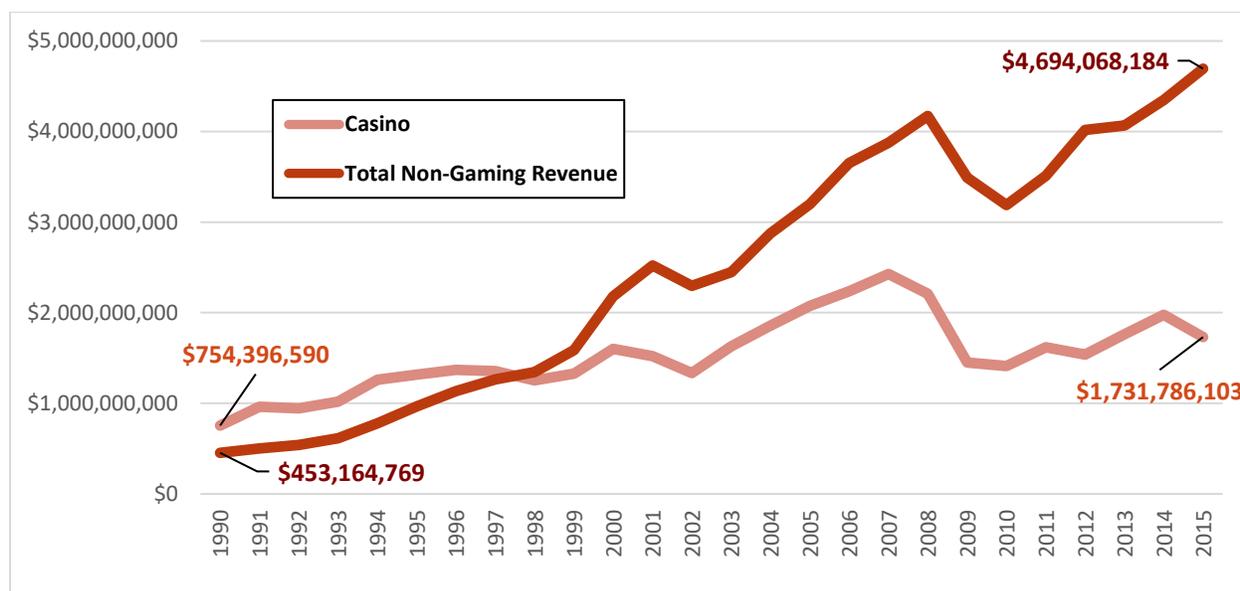
Figure 82: Revenue by type at largest Las Vegas Strip casino hotels, 1990-2015

Year	Gaming Revenue	Non-Gaming Revenue				Total Non-Gaming Revenue	Non-Gaming Revenue as % of Total Revenue	Total Revenue
	Casino	Rooms	Food	Beverage	Other			
1990	\$754.4	\$298.4	\$(20.5)	\$72.1	\$103.1	\$453.2	37.5%	\$1,207.6
1991	\$961.3	\$342.4	\$(25.8)	\$72.4	\$114.0	\$503.1	34.4%	\$1,464.4
1992	\$944.1	\$344.1	\$(14.8)	\$66.3	\$144.1	\$539.7	36.4%	\$1,483.9
1993	\$1,019.7	\$405.6	\$(20.2)	\$68.9	\$158.6	\$612.8	37.5%	\$1,632.5
1994	\$1,260.6	\$538.1	\$(41.8)	\$79.8	\$201.8	\$777.9	38.2%	\$2,038.5
1995	\$1,318.0	\$709.5	\$(36.6)	\$91.6	\$199.7	\$964.3	42.3%	\$2,282.3
1996	\$1,368.3	\$788.7	\$(22.3)	\$94.1	\$273.2	\$1,133.8	45.3%	\$2,502.1
1997	\$1,354.7	\$895.9	\$(34.6)	\$96.7	\$304.6	\$1,262.6	48.2%	\$2,617.3
1998	\$1,254.2	\$940.5	\$(24.8)	\$105.5	\$322.8	\$1,344.0	51.7%	\$2,598.2
1999	\$1,325.6	\$1,063.3	\$(21.8)	\$125.2	\$421.4	\$1,588.2	54.5%	\$2,913.8
2000	\$1,600.0	\$1,433.6	\$27.3	\$180.9	\$539.7	\$2,181.6	57.7%	\$3,781.5
2001	\$1,520.4	\$1,621.3	\$74.1	\$196.7	\$631.0	\$2,523.1	62.4%	\$4,043.4
2002	\$1,334.8	\$1,420.6	\$92.1	\$189.9	\$594.1	\$2,296.6	63.2%	\$3,631.4
2003	\$1,630.3	\$1,516.6	\$94.9	\$198.3	\$637.2	\$2,446.9	60.0%	\$4,077.2
2004	\$1,856.0	\$1,795.2	\$141.4	\$225.0	\$715.3	\$2,876.9	60.8%	\$4,732.9
2005	\$2,073.8	\$2,068.5	\$168.3	\$238.6	\$725.4	\$3,200.8	60.7%	\$5,274.5
2006	\$2,236.0	\$2,388.0	\$241.9	\$302.1	\$720.1	\$3,652.0	62.0%	\$5,888.0
2007	\$2,427.1	\$2,603.5	\$209.4	\$333.0	\$730.1	\$3,876.0	61.5%	\$6,303.1
2008	\$2,207.5	\$2,565.8	\$371.2	\$303.9	\$931.9	\$4,172.8	65.4%	\$6,380.2
2009	\$1,449.4	\$1,977.7	\$334.2	\$320.4	\$857.4	\$3,489.7	70.7%	\$4,939.0
2010	\$1,413.0	\$1,679.2	\$283.8	\$341.3	\$886.2	\$3,190.6	69.3%	\$4,603.5
2011	\$1,619.9	\$1,838.3	\$329.9	\$374.3	\$970.0	\$3,512.4	68.4%	\$5,132.3
2012	\$1,537.6	\$2,103.8	\$375.0	\$426.6	\$1,112.2	\$4,017.5	72.3%	\$5,555.1
2013	\$1,764.4	\$2,165.3	\$380.8	\$446.3	\$1,074.3	\$4,066.8	69.7%	\$5,831.2
2014	\$1,975.3	\$2,411.0	\$409.0	\$423.7	\$1,105.4	\$4,349.0	68.8%	\$6,324.3
2015	\$1,731.8	\$2,540.9	\$448.3	\$434.2	\$1,270.7	\$4,694.1	73.0%	\$6,425.9

Source: Nevada Gaming Control Board

The following chart shows the growth in gaming vs. non-gaming revenue at the largest Las Vegas casino hotels, with the prominent dips to the impacts of 9-11 in 2001-2002 and the Great Recession beginning in 2008.

Figure 83: Growth of gaming, non-gaming revenue at largest Las Vegas Strip casino hotels, 1990-2015



Nevada Gaming Control Board

Clearly, Las Vegas has evolved into much more than a gambling hub; it has become a tourist magnet, with the Strip ranking as the fourth among America’s most-visited tourist attractions⁷¹ and Las Vegas ranking 22nd among all cities worldwide for international arrivals.⁷² As a result, state legislators from across the country routinely visit Las Vegas and wonder if their state’s gaming industry should or could be “more like Las Vegas.”

Some early-legalization gaming jurisdictions, such as New Jersey and Mississippi, adopted a low-gaming-tax model (with rates less than 10 percent of GGR) that encouraged owners to develop full-scale gaming resorts that would maximize economic impacts such as construction, direct employment and, to varying degrees, tourism. No jurisdiction has been able to replicate the Las Vegas experience in terms of attracting significant national visitation, let alone international visitation. Being “like Las Vegas” remains a quixotic dream, as no jurisdiction could realistically challenge Las Vegas in terms of size, scale and mass of attractions.

More recently approved jurisdictions – most notably Pennsylvania – have opted for a high-gaming-tax model (with rates above 50 percent) in which the state government maximizes the amount of tax receipts for designated purposes. Such policy necessarily limits the return on investment a casino operator can achieve, thus results in smaller, casino-centric facilities that appeal primarily to the close-in market. This appears to be the model of choice today out of

⁷¹ April Orcutt, “America’s Most-Visited Tourist Attractions,” Travel+Leisure, 2016.

<http://www.travelandleisure.com/slideshows/americas-most-visited-tourist-attractions>

⁷² Euromonitor International, Top 100 City Destination Rankings, 2016. <http://blog.euromonitor.com/2016/01/top-100-city-destinations-ranking-2016.html>

economic practicality, as there are so many casinos in so many states that creating a central mass of casino resorts is not viable.

Still, some states have sought a sweet spot somewhere in between, with Massachusetts being the most notable – and most recent – example. It established a gaming tax of 25 percent while offering exclusivity in each of three regions. The result of competitive bidding is two major destination gaming resorts under construction – the \$2.1 billion Wynn Boston Harbor casino and the \$950 million MGM Springfield; the third license award remains in limbo (see below).

Commercial Gaming versus Indian Gaming

As shown earlier in this chapter, Indian gaming in 2015 accounted for almost 43 percent of the US gaming industry – up 10 percentage points from 2001. Fueling the growth is the continued expansion of Indian gaming, which is supported by, in some respects, regulatory advantages over commercial gaming. Once a state authorizes gaming within its borders, Indian tribes have the right to begin Class II gaming operations (per the Indian Gaming Regulatory Act) on their reservation lands and are not obligated to pay a state tax on GGR. However, tribes may negotiate a compact with the state to operate a Class III gaming facility. Those compacts, which require US Bureau of Indian Affairs approval, may result in for a more favorable effective tax rate (via revenue sharing) than that charged to commercial casino operators. The BIA has continued to voice concerns over compacts that are “overly generous” to states.⁷³

The growth of Indian gaming – and the innumerable economic benefits for its host tribes – has caused other tribes to seek the same opportunity while at the same time spawning complex issues regarding public policy, taxation and sovereignty in states that also have commercial casinos. Following are recent examples of legal, regulatory or policy issues arising from the desired expansion of Indian gaming in states that also have commercial casinos:

- The Massachusetts Gaming Commission in 2016 denied a gaming license in Region C (southeastern Massachusetts) to a proposed commercial operator while the Mashpee Wampanoag Tribe sought to develop its First Light Casino on newly acquired tribal reservation lands in Taunton. The Commonwealth’s GGR tax for resort casinos is 25 percent. The tribe’s compact calls for a 17 percent effective tax on its GGR, but that tax rate is predicated on exclusivity within that region. If a commercial license were awarded in the region, the tribe’s gaming tax would be reduced to zero. The tribe’s development is now in peril, and faces potentially years of litigation, as a federal judge in July 2016 ruled that the US government was wrong to designate the desired land as sovereign. The fate of the unawarded commercial casino license in that region is uncertain.

⁷³ US Department of Interior letter to Massachusetts Governor Deval Patrick, p. 12-17, October 12, 2012. <http://www.bia.gov/cs/groups/webteam/documents/text/idc1-028222.pdf>

- In Indiana, the Pokagon Band of Potawatomi Indians has entered into an agreement with the City of South Bend calling for the construction of a casino and tribal village. This has caused concerns for commercial operators – notably the four in Northwest Indiana – as initial plans call for a Class II casino, which would mean the Pokagon casino would not share any gaming revenue with the state whereas commercial operators pay up to 35 percent on GGR.
- In New York, Governor Andrew Cuomo in a four-week stretch of spring 2013 settled longstanding disagreements between the State and the Oneida, St. Regis Mohawk and Seneca tribes. The agreements established a gaming revenue-share between the State and tribes and created wide-ranging exclusivity zones that shaped the State’s subsequent scheme to authorize four commercial casinos. Their revenue-sharing rate with the State is less than half the effective tax rate paid by the racetrack slot operators in New York.
- In Michigan, the Sault Ste. Marie Tribe of Chippewa Indians recently won a court case relating to its efforts to open a casino in Lansing. The agreement, negotiated with the City of Lansing (which is within the market area of the three Detroit commercial casinos), places it at odds with commercial operators in that state.⁷⁴ Since the State of Michigan violated its exclusivity agreement with the Indian tribes by issuing commercial casino licenses to three casinos in Detroit, the tribe would pay nothing to the State. The local revenue share to the City of Lansing would be 2 percent⁷⁵ of GGR whereas the commercial casinos pay an effective rate of 19 percent.
- In Florida, the State and the Seminole Tribe have yet to renew a compact to allow the tribe’s casinos to continue to offer house-banked table games in exchange for revenue sharing and a measure of exclusivity in the state. Racetrack slot operators, meanwhile, argue they should have parity in taxes and game offerings, and other non-slot pari-mutuel operators are fighting for the right to offer slots pending local approvals. The issue has been simmering for years.

Market Saturation, Substitution and Cannibalization

Nationally, there has been a great deal of discussion on the effects of market saturation in both national and regional casino markets. In economics, saturation is defined as “the act or

⁷⁴ Erin Lacy, “Casino Plan ‘Slowly Clearly the Hurdles,’ Bernero Says,” *Lansing State Journal*, June 16, 2016. <http://www.freep.com/story/news/local/michigan/2016/06/16/casino-plan-slowly-clearing-hurdles-bernero-says/85972692/>

⁷⁵ Ted Roelofs, “Michigan Draws Thin in New, High-Stakes Indian Casino Tax Negotiations,” *Bridge Magazine*, August 28, 2013. http://www.mlive.com/politics/index.ssf/2013/08/michigan_draws_thin_in_new_hig.html

result of supplying so much of something that no more is wanted.”⁷⁶ Carrying that definition through to the gaming industry, the question becomes: Is there too much gaming supply in a given geographic region? “As used in relation to the gaming industry, saturation is intended to indicate that nationally, regionally or locally all of the demand for gaming is satisfied.”⁷⁷

How do we measure market saturation? Professor Clyde Barrow, formerly of the University of Massachusetts at Dartmouth, has developed five statistics used in measuring market saturation. These tools include:

- Gaming machines per 1,000 adult population
- Gaming machines per \$1 billion in disposable personal income;
- Win per machine per day
- Gross gaming revenue per capita
- Gross gaming revenue as a percentage of disposal personal income in aggregate.⁷⁸

Although these measurement tools provide information that can be used over time to measure the relative health of the gaming industry in a given geographic area, they do not yet provide a comprehensive picture of market saturation in that region. However, there is a growing consensus within the industry that \$200 in daily win per slot may indicate a saturated market. By another measure, Spectrum found that fewer than 100 adults per gaming position in a given market indicates an oversupplied market; 200-400 adults per position is appropriately supplied; and more than 400 adults per positions indicates there may be room for growth. Even then, defining the market boundaries is subjective.

Of course, any measure of market saturation is dependent on other factors not so easily quantified, such as the presence of non-casino gambling options, other entertainment options, regulatory restrictions, economic conditions, etc.

An often-asked question is whether the United States has reached the saturation point with respect to casinos. This certainly is true in some markets but, as any large casino operator will advise, attractive untapped markets remain throughout the country. As a result of the widespread expansion of casinos, operators are building smaller facilities to tap smaller markets,

⁷⁶ James Klas, “Saturation vs. Equilibrium: A Distinction with a Difference,” *Indian Gaming*, p. 32, October 2014. http://www.indiangaming.com/istore/Oct14_JimKlas.pdf

⁷⁷ Klas. p. 32.

⁷⁸ Clyde Barrow et al, “An Empirical Framework for Assessing Market Saturation in the US Casino Industry,” *Gaming Law and Economics*, v. 20, n. 5. p. 397, 2016. https://www.researchgate.net/publication/304341485_An_Empirical_Framework_for_Assessing_Market_Saturation_in_the_US_Casino_Industry

with examples being Iowa on a statewide basis and, on a micro basis, the Colville federation's plan to build a small, slots-only facility in Inchelium, WA.

One issue in the assessment of saturation is substitution: "[S]everal scholars argued that the gambling market in the United States has either saturated or is fast reaching saturation ... while other have argued that the expansion of gambling leads to a substitution effect."⁷⁹

Thus far, a majority of the research has focused on expansion across state lines. However, there are axioms that relate to the intrastate expansion of gaming venues as well. "The increased access [to additional casinos] opened opportunities to patrons to participate and may have accomplished the state objectives of capturing out-of-state casino spending. *However, it appears that the expansion has also lowered market share per casino* (emphasis supplied)."⁸⁰

As we approach the market saturation point in certain areas, the issues of substitution and cannibalization come into play. "In general, *saturation* refers to the peak or flattening of all type of gaming activities while *substitution* refers to the shift in spending on one type of activity to another type."⁸¹ A recent study by the Rockefeller Institute of Government breaks down substitution effect into three separate categories:

(1) substitution of spending on one type of gambling activity with another type (for example the shift of spending on lottery to casinos); (2) the substitution of spending on any discretionary spending activity with gambling activity (for example the shift of spending on cinemas to casinos or lotteries); and (3) the substitution of spending on the same gambling activity within different geographic location (for example, the shifting of consumer spending on casinos in New Jersey to casinos in Pennsylvania).⁸²

Substitution effect is also often referred to as cannibalization.⁸³ Cannibalization seems to satisfy the definition above, which is "the substitution of spending on the same gambling activity within different geographic location (for example, the shifting of consumer spending on casinos

⁷⁹ Lucy Dadayan, "State Revenues from Gambling – Short-Term Relief, Long-Term Disappointment," *The Blinken Report*, p. 23, The Nelson A. Rockefeller Institute of Government, State University of New York, April 2016. http://www.rockinst.org/pdf/government_finance/2016-04-12-Blinken_Report_Three.pdf

⁸⁰ Andrew Economopoulos and Uli Luxem, "Examining the Impact of competition on Casino Revenues and Prices in the Mid-Atlantic States," *University of Nevada Las Vegas Gaming Research & Review Journal*, Vol 19:1. p. 11, Spring 2015. <http://digitalscholarship.unlv.edu/cgi/viewcontent.cgi?article=1310&context=grrj>

⁸¹ Dadayan. p. 22.

⁸² Ibid.

⁸³ Ibid.

in New Jersey to casinos in Pennsylvania).”⁸⁴ Such an effect is entirely foreseeable when multiple gaming venues open in close proximity to one another. “Evidence suggests cannibalization effects do indeed exist and are largely a function of new casino development, not the expansion of pre-existing casinos. These effects also attenuate rather quickly with distance.”⁸⁵ That type of cannibalization is temporary in nature and depends on the distance between the competing venues, a key factor in Spectrum’s gravity model.

Over the years, casinos have developed a number of strategies to combat substitution and cannibalization, including adding non-gaming amenities, developing new forms of promotions (notably free play, which Spectrum has found to be, by far, the most effective marketing incentive), increasing slot payout percentages, and adding new and more varied forms of entertainment.

⁸⁴ Ibid.

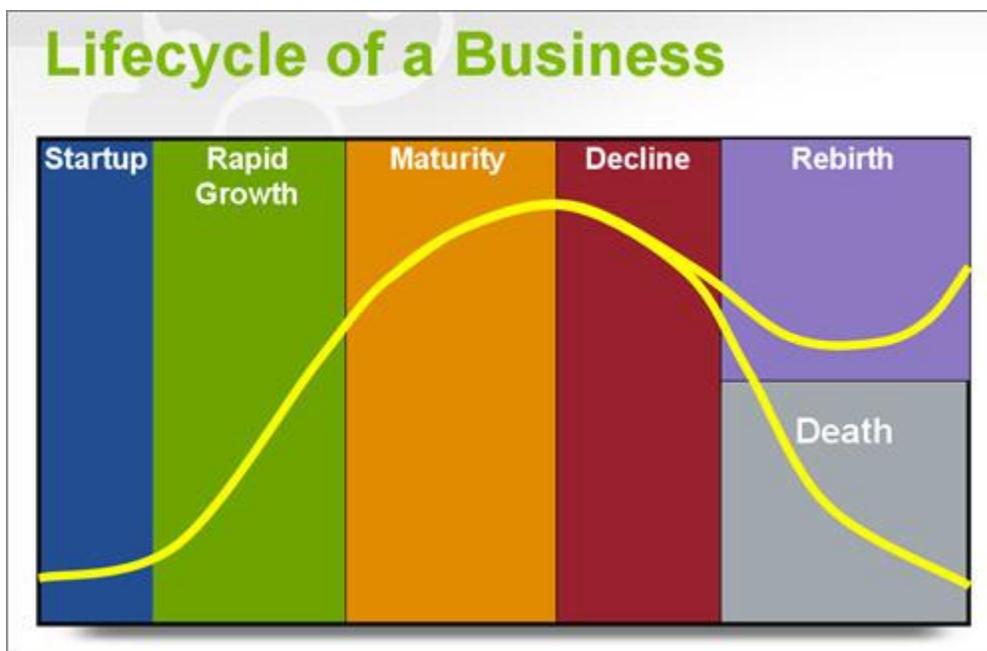
⁸⁵ Dadayan, p. 23, citing Douglas Walker and Todd Nesbit, “Casino Revenue Sensitivity to Competing Casinos: A Spatial Analysis of Missouri,” *Growth & Change*, p. 21, 1, 2014.

VIII. New Forms of Gaming and Technology Impacts

When analyzing the US casino gaming industry lifecycle, Spectrum believes that casino gaming – in its current form – is in the late Mature stage. This stage is characterized by high market competition and declining profit margins. Companies will focus on cost minimization and building brand loyalty. At this stage the challenge for industry participants is to innovate and stage a rebirth, thus avoiding a decline. In our view, brick-and-mortar casinos can use new and improved technologies, such as online gaming and mobile technologies, to increase wallet share from existing customers, identify new customers, and capture valuable data on the customers that can be used to develop more effective marketing campaigns.

The casino industry has historically been effective in reinvesting in itself to extend the lifecycle. Most notably, has been the investment in non-gaming amenities, as many casino properties have evolved into integrated resorts.

Figure 84: The business lifecycle



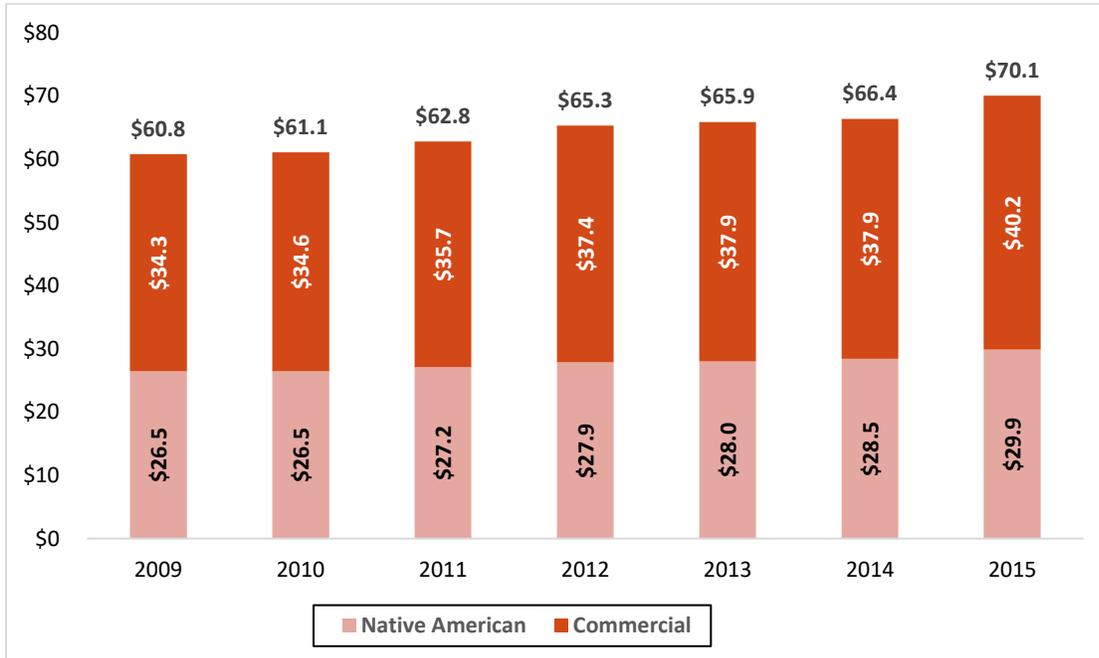
Source: The President's Council Foundation

As casino gaming has expanded across the country, and globally, most people continue to have a favorable view of the industry. According to the American Gaming Association, 87 percent of voters state that gambling is an acceptable activity.⁸⁶ The casino industry has prolonged the maturity phase of its lifecycle due, we believe, to this wide acceptance of gaming

⁸⁶ American Gaming Association, "New Poll: Voters View Casino Gaming More Favorably Than Ever Before," April 6, 2014. http://www.gettoknowgaming.org/sites/default/files/AGA_G2KG_ExecutiveSummary_natlpoll.pdf

easy comparison against steep revenue declines during the global recession from late 2007 to mid-2009. According to the National Bureau of Economic Research, the recession in the US began in December 2007 and ended in June 2009. Further, given the severity of the recession and the impact the recession had on the gaming industry, many economists would expect the recovery to follow “a pronounced V-shape pattern: a sharp decline followed by an equally quick recovery.”⁸⁸

Figure 86: US gross gaming revenue by segment, 2009-2015



Source: National Indian Gaming Commission; University of Nevada Las Vegas, Center for Gaming Research

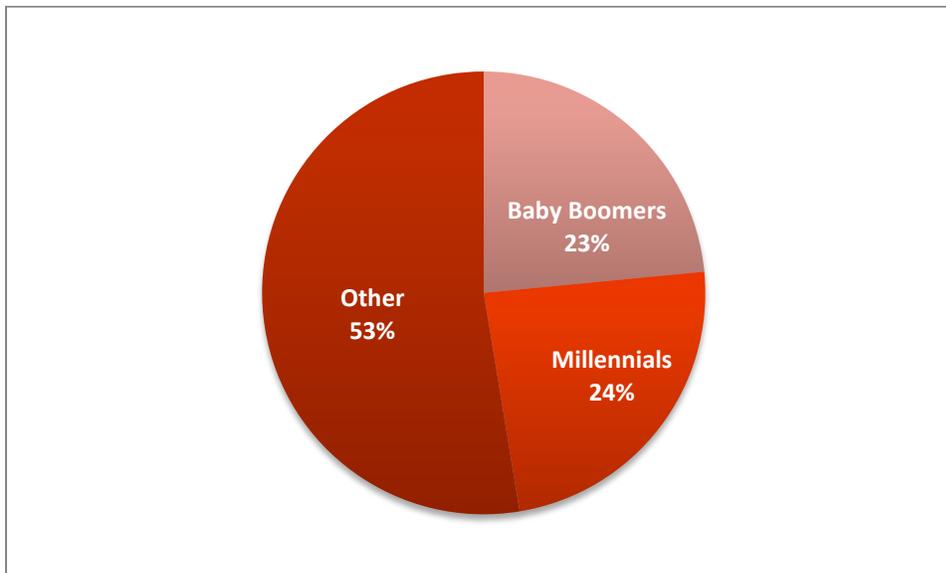
In the following sections we discuss the outlook for, and potential impacts of, technology in various aspects of the gaming industry. We project the potential revenues for Washington State for three forms of gaming that have an established performance record: Internet gaming, daily fantasy sports, and sports betting.

⁸⁸ Martin Neil Baily and Barry Bosworth, “The United States Economy: Why such a Weak Recovery?” Brookings Institution, September 11, 2013. <http://www.brookings.edu/~media/research/files/papers/2013/09/united-states-economy-why-weak-recovery-baily-bosworth/united-states-economy-why-weak-recovery-baily-bosworth.pdf>

A. Generational Shift in Customers to Millennials Creates New Challenges

While the casino industry is struggling under “the slowest recovery in more than 50 years”⁸⁹ it is also experiencing a generational shift to Millennials as customers. It is important to note that the expansion of gaming outside of Nevada and New Jersey starting in the early 1990s occurred in step with the maturing of the Baby Boomer generation and new casino developments and improvement projects have been designed and built to cater to the needs and desires of the Baby Boomers. However, at 75.4 million people, Millennials are a larger cohort than Baby Boomers.^{90, 91} This is also true in Washington, where Millennials outnumber Baby Boomers and represent 24 percent of the state’s population, according to US Census Bureau data.

Figure 87: Analysis of population data by cohort for Washington State



Source: US Census Bureau

In fact, according to a study by Zillow (based in Seattle) of the cities with the highest concentration of wealthy Millennials, Seattle was ranked fifth.

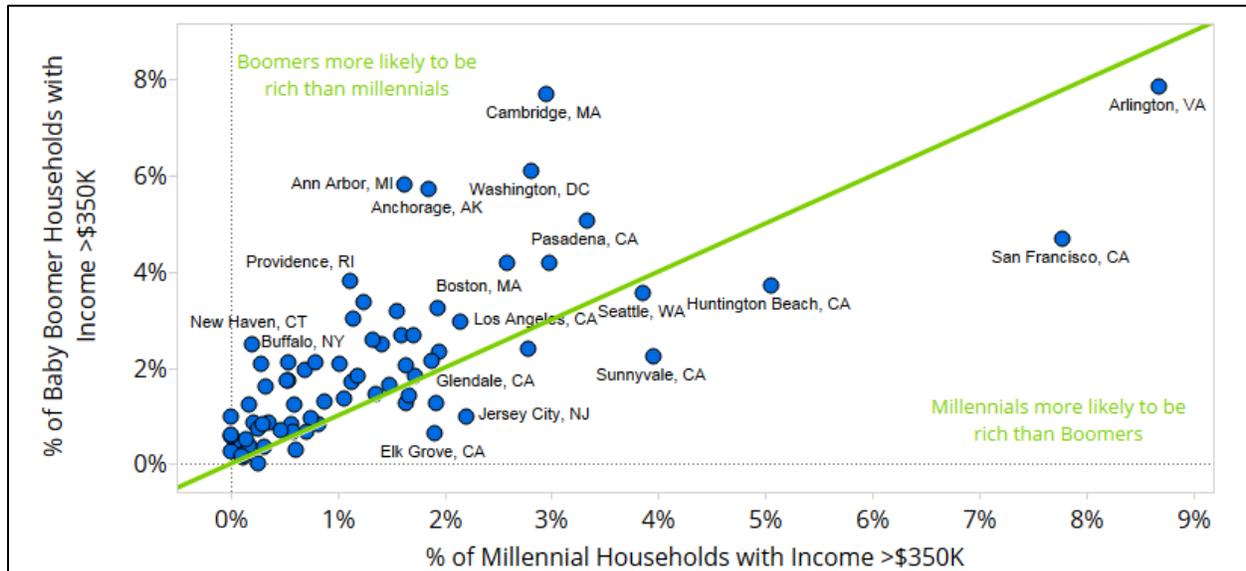
⁸⁹ Olivera Perkins, “Slowest Economic Recovery In Decades, According To Several Indicators,” *Cleveland Plain Dealer*, November 10, 2014.

http://www.cleveland.com/business/index.ssf/2014/11/slowest_economic_recovery_in_d.html

⁹⁰ Richard Fry, “Millennials Overtake Baby Boomers as America’s Largest Generation,” Pew Research Center, April 25, 2016. <http://www.pewresearch.org/fact-tank/2016/04/25/millennials-overtake-baby-boomers/>

⁹¹ For purposes of this report, Millennials are defined as people born between 1982 and 2004; Baby Boomers between 1946 and 1964; and Matures born between 1927 and 1945.

Figure 88: Cities with the highest concentration of wealthy Baby Boomers and Millennials



Source: Zillow Inc. analysis of US Census Bureau, American Community Survey 2014, made available by the University of Minnesota, IPUMS-USA.

In the figure above, we note that Seattle is among the top five cities for wealthy Millennials, but is in the middle of the pack for wealthy Baby Boomers. As such, it is important for the Washington gaming industry – casinos and cardrooms – to understand the Millennials and devise a strategy to market the property to them as an entertainment and leisure destination.

In general, Millennials are more tech-connected than previous generations. According to research by Zogby Analytics, “90 percent of Millennials say their phones never leave their sides and 78 percent spend more than two hours a day texting, surfing, talking, tweeting and – more importantly for businesses – shopping, banking and more.”⁹² Taking into account other forms of accessing the Internet, Millennials “spend on average more than seven hours a day online, on their smartphones or on multiple devices at the same time (PC, laptop, tablet and wearables).”⁹³ Because Millennials have always had technology they are more apt to multi-task. In fact, “those age 16-24 years are three times as likely as those age 55-64 years to ‘second-screen’ on a

⁹² Lisa Kiplinger, “Millennials LOVE Their Smartphones: Deal With It,” *USA Today*, September 27, 2014. <http://www.usatoday.com/story/money/personalfinance/2014/09/27/millennials-love-smartphones-mobile-study/16192777/>

⁹³ World Economic Forum, “Digital Media and Society: Implications in a Hyperconnected Era,” January 2016. <http://reports.weforum.org/human-implications-of-digital-media-2016/section-1-user-behaviour-preferences-and-concerns>

mobile.”⁹⁴ Likewise, “14 percent wouldn’t do business with a company that doesn’t have a mobile site or app.”⁹⁵

At the January 2016 Florida Gaming Congress, keynote speaker Peter Yesawich, Chairman of MMGY Global, noted that:⁹⁶

- 69 percent of Millennials took one or more weekend trips in 2014, 13 percent higher than other age categories
- Only 9 percent of Millennials took a gaming vacation in 2014, fewer than Baby Boomers (13 percent) and Matures (11 percent)
- Millennials view gaming as an amenity and not the primary purpose of demand

According to Greg Carlin, CEO of Rush Street Gaming, the Millennial segment is the only segment where table games revenue is greater than slot machine revenue.⁹⁷ As noted by Daniel Sahl of UNLV, “Millennials, especially, think of leisure activities as a social experience that you share with friends.”⁹⁸ Unfortunately, slots are viewed by Millennials as “anti-social, non-intuitive and generally boring.”⁹⁹ As a result, the view of slot machines and video poker is less favorable for Millennials than for older generations. As noted by the Pew Trusts, “Only 51 percent said slot machines and video poker were their preferred form of gambling compared to 61 percent of all casino-goers.”¹⁰⁰

Stated another way, “Millennials want to be part of defining the experiences they consume. They are not passive consumers; they are explicitly active participants. This desire to influence an outcome within a highly social and interactive environment is in direct conflict with the traditional layout of casinos, designed as they are around gaming’s most significant historical money-maker: slot machines.”¹⁰¹ The successful casino of the future will create open spaces that

⁹⁴ Ibid.

⁹⁵ Kiplinger.

⁹⁶ Presentation by Peter Yesawich at Florida Gaming Congress, January 2016.

⁹⁷ Paul Doocey, “Attracting Millennials to Gaming Industry,” *Casino Journal*, November 6, 2015. <http://www.casinojournal.com/articles/90152-attracting-millennials-to-gaming-industry>

⁹⁸ Elaine Povich, “State Gambling Revenue Takes Hit as Millennials Bring New Habits to Casinos,” The Pew Charitable Trusts, September 15, 2015. <http://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2015/09/15/state-gambling-revenue-takes-hit-as-millennials-bring-new-habits-to-casinos>

⁹⁹ Roberto Coppola, “Is Your Casino Optimized for Millennials,” Marketing Research Association, April 28, 2015. <http://www.marketingresearch.org/article/your-casino-optimized-millennials>

¹⁰⁰ Povich.

¹⁰¹ Ibid.

have an excitement not apparent to Millennials in the current casino layout. And this will include offering games “mimicking the types of games Millennials play on the Internet.”¹⁰²

Below, we describe and analyze opportunities to offer casino games through new distribution channels that will resonate with Millennials. These new channels represent more than an enhanced revenue opportunity for the casinos. Failure to embrace new casino games that appeal to Millennials, such as social interaction and skill-based outcomes, will lead to the inevitable decline of the casino industry, instead of rebirth, as depicted in Figure 84: The business lifecycle Spectrum believes that online gaming opportunities can mimic the hub-and-spoke strategy¹⁰³ of the large, regional casino companies, such as Caesars Entertainment and Penn National Gaming, by enabling customers to earn player reward points online to redeem at a land-based casino. In this way, the new technologies should be viewed as a marketing initiative, enabling the casino to gather additional information on loyal customers to facilitate more targeted marketing programs, as well as a profit engine. Spectrum believes that branded online gaming options can be used to increase brand awareness, attract new customers and drive customers to existing casino properties.

Figure 89: Online gaming opportunities mimic the hub-and-spoke strategy



Source: Spectrum Gaming Group

¹⁰² Ibid.

¹⁰³ In the hub-and-spoke strategy for casinos, loyal customers earn rewards at smaller, regional casinos (the spokes) that can be redeemed at the destination resorts. For Caesars Entertainment, rewards are earned at the local casino, which then moves the traffic along to its Las Vegas properties.

Accommodating Millennials

As we noted previously, Millennials are the most tech-connected generation and 24 percent of Millennials ranked technology use as the trait that makes the generation unique.¹⁰⁴ Likewise, “more than 74 percent feel that new technology makes their lives easier, and 54 percent feel new technology helps them be closer to their friends.”¹⁰⁵ In identifying the characteristics of an attractive leisure destination or activity, “Millennials prioritize: free Wi-Fi (71 percent); access to a charging port for my phone (68 percent); allow me to influence/co-create the experience (40 percent); provide a way for me to ask and answer questions (34 percent); demonstrate something good my money is going toward (33 percent); incorporate compelling/interactive online content (28 percent); and connect me to other consumers of this experience (24 percent).”¹⁰⁶

All of the above statistics highlight the need of the gaming establishment to use technology as a method to more actively interact and engage with the consumer. According to Mary Meeker, partner at Kleiner Perkins Caufield and Byers, Millennials preferred method to interact with businesses are Internet/web chat (24 percent) and social media (24 percent) while telephone is the least-preferred method (12 percent). Likewise, Millennials also prefer electronic messaging (21 percent) and mobile apps (19 percent).¹⁰⁷

More strategic usage of technology will also benefit the gaming establishment with their older customers. According to a study of digital usage prepared by We Are Social, there are 3.4 billion Internet users worldwide, roughly 46 percent of the worldwide population.¹⁰⁸ Of the 3.4 billion Internet users, 2.3 billion are active social media users.¹⁰⁹ It should be noted that North America has 5 percent of the global population, but 9 percent of active social media users,¹¹⁰ which is indicative that the US has a higher penetration of Internet and social media users.

Below we profile technology that gaming establishments can use to engage Millennials:

¹⁰⁴ Oliver Lovat, “Elvis Who? Understanding, Attracting and Retaining the Next Generation of Las Vegas Customers,” UNLV Center for Gaming Research, June 2016. http://gaming.unlv.edu/papers/cgr_op35_lovat.pdf

¹⁰⁵ Ibid.

¹⁰⁶ Roberto Coppola, “Is Your Casino Optimized for Millennials,” Marketing Research Association, April 28, 2015. <http://www.marketingresearch.org/article/your-casino-optimized-millennials>

¹⁰⁷ Mary Meeker, “Internet Trends 2016 – Code Conference,” Kleiner Perkins Caufield and Byers, June 1, 2016. <http://www.kpcb.com/internet-trends>

¹⁰⁸ Simon Kemp, “Digital in 2016: We are Social’s Compendium of Global Digital, Social, and Mobile Data, Trends, and Statistics,” We are Social, January 26, 2016. <http://www.slideshare.net/wearesocialsg/digital-in-2016>

¹⁰⁹ Ibid.

¹¹⁰ Ibid.

- Relax restrictions on the use of mobile phones in casino properties:** According to a study by Deloitte, the average American checks his or her cellphone 46 times per day. For the younger generation, the number of times per day they check their cellphones is higher – 74 times per day for those aged 18 to 24. Further, 75 percent of Millennials have a profile on a social networking site and 86 percent are “willing to share information about their brand preferences online.”¹¹¹ Many casinos restrict the use of mobile phones at tables or taking pictures on a casino floor, due to concerns about cheating or privacy. Spectrum believes modern security technology has improved such that the concerns about cheating from the use of cellphones have likely receded. Meanwhile, a property can benefit from improved and active engagement with customers by allowing them to take photos and post them to their social network sites, such as Instagram, Twitter and Facebook. This is particularly important as advertising influences only 1 percent of Millennials, but 33 percent rely on blogs, or other peer reviews.¹¹²
- More places to charge mobile phones:** As 68 percent of Millennials identified a charging port for phone as an important characteristic for a leisure destination, Spectrum believes gaming establishments could cost-effectively add more charging stations so that all customers, not just Millennials, could recharge mobile phones, thus increasing time on property. As noted in a study prepared by LG Electronics, 90 percent of people suffer from low battery anxiety when “their phone battery drops to 20 percent or lower.”¹¹³ The study also found that “32 percent of smartphone users will even drop everything and make a U-turn to head back home to charge their phone.”¹¹⁴ There have been no studies, to our knowledge, about low-battery anxiety and casino visitation, but we believe that a percentage of casino patrons with limited battery life remaining will choose to leave the casino to charge their phones. Thus, more places to charge phones, including at casino tables or built into slot machines, could lead to more time on device and thus more revenue for casino companies.
- Use of indoor location technology:** There are a number of technologies that offer indoor location technology, including WiFi, iBeacon, Near Field Communications

¹¹¹ Lovat.

¹¹² Dan Schawbel, “10 New Findings About the Millennial Consumer,” *Forbes*, January 20, 2015. <http://www.forbes.com/sites/danschawbel/2015/01/20/10-new-findings-about-the-millennial-consumer/#4ee71a4128a8>

¹¹³ LG Electronics USA, “Low Battery Anxiety Grips Nine out of Ten People,” May 19, 2016. <http://www.prnewswire.com/news-releases/low-battery-anxiety-grips-9-out-of-ten-people-300271604.html>

¹¹⁴ Ibid.

(“NFC”) and GPS. The benefit of indoor location technology is “to bring the power of web analytics into the physical world, giving us real-time insights into human behavior and habits on a massive scale.”¹¹⁵ In other words, and as we have stated throughout this report, indoor location technology will enable the gaming establishment to more actively engage with its customers and offer real time offers to entice customers to stay on property longer and spend more on property. For example, using indoor location technology, a casino can text a customer standing near a table, but not playing, a notification that the table has an open seat and a \$15 minimum, thus prompting the customer to play.

- **Increased access to digital pay:** According to a study performed by MasterCard, “merchants carry an 88 percent positive rating with many touting mobile acceptance as a competitive advantage. As consumers increasingly turn to mobile options, merchants reluctant to accept these payments may find themselves at a disadvantage.”¹¹⁶ Thus, gaming establishments can drive reputational improvements by beginning to accept mobile payments. And, “56 percent of consumers are willing to use their mobile device to pay for products they are shopping for.”¹¹⁷ As in our other recommendations, the adoption of mobile payments will be most beneficial in enhancing the appeal of the property to Millennials as “high-income respondents (38 percent) and Millennials (23 percent) are most likely to pay this way.”¹¹⁸
- **In-property mobile wagering:** In property mobile wagering has been legal in Nevada since 2006 and in New Jersey since 2012. In July 2016, MGM Resorts International launched a new mobile gaming platform that is the first in the nation to allow guests at their Nevada casinos to compete against other guests in a variety of tournament games. As CNBC noted, “mobile betting is one way MGM is hoping to draw in younger customers, who are more attached to their smartphones and online platforms and less into playing card games or slot

¹¹⁵ Tony Costa, “Indoor Venues are the Next Frontier for Location-Based Services,” *Forbes*, January 23, 2013. <http://www.forbes.com/sites/forrester/2013/01/23/indoor-venues-are-the-next-frontier-for-location-based-services/#337de77e22f1>

¹¹⁶ MasterCard, “13 Million Social Media Conversations Show What Consumers Think About Mobile Payments,” February 24, 2014. <http://newsroom.mastercard.com/press-releases/13-million-social-media-conversations-show-what-consumers-think-about-mobile-payments/>

¹¹⁷ Giselle Abramovich, “15 Mind-Blowing Stats About Mobile Payments,” CMO.com, December 10, 2014. http://www.cmo.com/features/articles/2014/12/9/15_stats_mobile_payments.html

¹¹⁸ Robert Flynn, et al, “2015 North America Consumer Digital Payments Survey,” Accenture Consulting, October 2015. https://www.accenture.com/t20151021T165757_w_us-en/acnmedia/Accenture/next-gen/na-payment-survey/pdfs/Accenture-Digital-Payments-Survey-North-America-Accenture-Executive-Summary.pdf

machines on casino floors.”¹¹⁹ It should be noted that the majority of revenue at Las Vegas casino properties is non-gaming, thus mobile wagering on property will enhance engagement with consumers for the highest margin business unit in a casino, and using the mobile phone, which is the preferred method of gaming for Millennials.

- **Improve mobile app:** A robust mobile app “offers a way to increase engagement and potentially generate revenue.”¹²⁰ In particular, “a substantial number of travelers of all ages use their smartphones and tablets to research and sometimes book activities and restaurants during their trip.”¹²¹ As you would expect, Millennials are more likely to research and book their trips using their mobile device, but Cornell researchers found that older customers will do their trip research on their mobile device, but are less likely to make reservations using the mobile device. Duetto Research, a software as a service revenue-management company, noted in a blog post that “those using your app are your most loyal customers.”¹²² As such, a robust mobile app is a way to more actively engage your best customers, thus enhancing their customer experience and increasing brand loyalty. This will lead to new revenue opportunities.

B. Internet Gaming Can be Successful in Washington

The rapid penetration of smartphones in the US has laid the foundation for the future success of iGaming in Washington. According to eMarketer, “More than two-thirds of mobile phone users and nearly 56 percent of the US population will play games on their phone at least monthly in 2016.”¹²³ It should be noted that iGaming is more than a smartphone technology and that tablets are also another method for casino customers to access their favorite games – “more than 120 million people, or 72.5 percent of tablet users, will play games on a tablet at least once per month in 2016.”¹²⁴ As we noted earlier, Millennials spend more than seven hours a day

¹¹⁹ Jeff Daniels, “MGM Woos Millennials With Cell Phone Gambling at 9 Vegas Properties,” CNBC, July 13, 2015. <http://www.cnn.com/2016/07/13/mgm-woos-millennials-with-cell-phone-gambling-at-9-vegas-properties-.html>

¹²⁰ Heather Linton and Rob Kwortnik, “The Mobile Revolution is Here: Are You Ready?” Cornell University, April 2015. <http://scholarship.sha.cornell.edu/cgi/viewcontent.cgi?article=1203&context=chrrpubs>

¹²¹ Ibid.

¹²² Sarah McCay, “Hotels Need to Embrace the Mobile Revolution, Or Get Left Behind, Duetto Research, June 15, 2016. <http://duettoresearch.com/hotels-need-embrace-mobile-revolution-get-left-behind/>

¹²³ “Growing Number of Smartphone Users is Driving Mobile Gaming Consumption,” eMarketer.com, March 9, 2016. <http://www.emarketer.com/Article/Growing-Number-of-Smartphone-Users-Driving-Mobile-Gaming-Consumption/1013686>

¹²⁴ Ibid.

online. This statistic highlights the need to deliver new gaming experiences where the target customer can, and will, access it – on their smartphone.

There are currently three states that have authorized real-money iGaming – Delaware, Nevada and New Jersey. Key items of note in Figure 90 below are the types of games offered and the tax rates in each jurisdiction. Other states that are considering, or have recently considered, iGaming legislation include Pennsylvania, California and New York.

Figure 90: Comparison of US regulated online gaming industry

Activity	Delaware	Nevada	New Jersey
Type of iGaming Offered			
Poker	x	X	x
Casino/Bingo	x		x
Regulation			
Intrastate	x		x
Interstate	x	x	x
Regulator			
Lottery	x		
Gaming Commission		x	x
Gaming Control Board		x	x
Age requirements			
Poker	21	21	21
Casino/Bingo	21	NA	21
Advertising			
Permitted	x	x	x
Tax rate detail*			
Table games	33.9%	6.75%	15.0%
Slots/VLTs	56.5%	NA	15.0%

Source: Spectrum Gaming Capital. *First \$3.75 million in GGR is paid to the State of Delaware

New Jersey, to date, has been the most successful of the three states in terms of iGaming revenue and tax revenue to the state. This is due, we believe, to three factors:

1. Type of games offered;
2. Population; and
3. Tax rate conducive to reinvestment

Breadth of iGaming Offering Leads to Success

In particular, both New Jersey and Delaware iGaming sites can offer both casino games – slot machines and certain table games like blackjack – and poker. While online poker was a popular offering before the “Black Friday” events of April 15, 2011 (when the US Department of Justice issued its indictments against the three largest online poker sites), it is far less popular than other types of online gaming. A review of iGaming revenue for both Delaware and New Jersey shows that online poker generates approximately 15 percent of total iGaming revenue for

each state and that casino games, especially slot machines, are the more popular online gaming option. Meanwhile, Nevada’s iGaming industry has been relatively unsuccessful because Nevada iGaming operators can offer only poker.¹²⁵

Figure 91: Delaware, New Jersey iGaming revenue by game type, 12 months ending April 2016



Source: Delaware Lottery, New Jersey Division of Gaming Enforcement.

Large Population Can Make iPoker Successful without Need to Pool

Spectrum believes the biggest issue impacting revenue generation for online poker is liquidity, as Delaware (population 0.9 million) and Nevada (population 2.9 million) are the seventh and 17th smallest states in the US, respectively.¹²⁶ Both states, at the time legislation and regulations were drafted, recognized that their small population base posed a challenge in offering a compelling online poker product and “both states incorporated provisions into their laws to allow for interstate pooling agreements.”¹²⁷

The importance of liquidity cannot be overstated. From the players’ perspective, a large base of players – i.e., ample liquidity – ensures players will “be able to log on and play the game they want, at the time that they want, without having to wait.”¹²⁸ Consider a hypothetical situation in which a player in Delaware wants to play iPoker at 1 a.m. EST, but because of the late hour and the small population of Delaware, he or she may be challenged to find his or her desired online poker game with enough players to make the game entertaining. However, Nevada and Delaware agreed to pool liquidity, thereby allowing interstate play. Because of interstate sharing, the pool of potential opponents for an iPoker player in Delaware has increased 300 percent.

¹²⁵ Nevada stopped reporting online gaming revenue in November 2014 when one company ceased online operations, resulting in two active operators. The Nevada Gaming Control Board requires three operators to be actually dealing cards in order to report revenue data.

¹²⁶ US Census Bureau.

¹²⁷ Sarah Koch, “Liquidity Pooling Critical to the Success of Online Poker,” May 2015, Ifrah Law. <http://www.ifrahlaw.com/wp-content/uploads/2015/05/document.pdf>

¹²⁸ “The Importance of Liquidity for the US States Offering iPoker,” *World Online Gambling Law Report*, December 1, 2013. <http://igcouncil.org/the-importance-of-liquidity-for-the-us-states-offering-i-poker/>

Likewise, because of the time difference between Delaware and Nevada there is also more likely to be potential poker players online and playing at that time of night.

In February 2014, the governors of Nevada and Delaware signed an agreement to share online poker liquidity. Despite the agreement, it took more than a year (March 2015) to launch the merged player pools. Under the agreement reached between Nevada and Delaware:

- Online poker players log in to their local site and then are part of a shared player pool
- Revenue generated from Delaware players is taxed in Delaware and revenue generated in Nevada is taxed in Nevada.
- Players are subject to the laws and regulations in their home state

Likewise, earlier this year New Jersey and the United Kingdom reached an agreement in principle with the UK Gambling Commission to share liquidity.¹²⁹ David Rebuck, director of the New Jersey Division of Gaming Enforcement, has asked iPoker operators that “operate both in that state and the United Kingdom asking them to recommend how a system sharing liquidity between the two jurisdictions would work.”¹³⁰

Without liquidity, players will simply choose other forms of entertainment, which it seems poker players have done in New Jersey, Delaware and Nevada. For both the site and the host state, better liquidity means more players and, thus, more revenue. Online poker revenue for New Jersey is nearly 2.5 times as much as for Delaware and Nevada combined. At this point, we note that with a population of 7.2 million Washington is more comparable to New Jersey (population 9.0 million) than it is to Delaware or Nevada.

Two states currently debating iGaming legislation are considering a poker-only option, but New York (population 19.8 million) and California (population 39.1 million) have large enough populations to ensure enough liquidity for a successful launch of iPoker.

Establishing Appropriate Tax Rate is Most Important Consideration

Based on conversations with land-based operators about iGaming, as well as testimony from regulators and operators, Spectrum believes that tax rates are a primary consideration in ensuring that iGaming in Washington is successful, delivering returns to the operators and generating incremental tax revenue to the State. The iGaming tax rate in Nevada is 6.75 percent. By comparison, Delaware’s tax rate is substantially higher. In fact, the first \$3.75 million of iGaming revenue is paid to the State of Delaware. With iGaming revenue of \$2 million for the last

¹²⁹ “NJ, UK Reach Liquidity Accord,” *Global Gaming Business*, July 9, 2016. <http://ggbnews.com/issue/vol-14-no-28-july-11-2016/article/nj-uk-reach-liquidity-accord>

¹³⁰ Ibid.

12 months ended April 2016, the tax rate on iGaming revenue in Delaware is 100 percent. As such, despite offering only poker, compared to the more comprehensive offerings in Delaware, Nevada iGaming revenue is over four times larger than iGaming revenue in Delaware.

We also look at the difference in iGaming revenue for Delaware and New Jersey. The population of New Jersey is just under 10 times larger than the population of Delaware and both states offer the same type of games to its population. All else being equal, the iGaming revenue for New Jersey should be approximately 10 times more than Delaware. However, New Jersey iGaming revenue is almost 74 times greater than that of Delaware. New Jersey casinos have more incentive to advertise their games because of the difference in tax rates.

Below we provide comments from operators and regulators on taxation of iGaming revenue:

- Mark Lipparelli, former Chairman of the Nevada Gaming Commission, testimony before the California Assembly Governmental Organization Committee: “A rate in the high single digits would be optimal, while anything approaching double-digits would drive players into the arms of grey market sites.”^{131, 132}
- Robert Pickus, chairman of the board of Valley Forge Casino Resort, testimony to the Pennsylvania Senate: “We believe that a tax rate more than 15 percent of revenue would make it difficult for online operators here in the Commonwealth to perform economically.”¹³³
- David Licht, CEO of All American Poker Network, testimony to Pennsylvania House of Representatives: “People won’t invest proper marketing dollars to drive revenue if the tax rate’s too high.”¹³⁴
- David Satz, SVP of Government Relations for Caesars Entertainment, testimony before the New York Senate: “Tax rates higher than 15 percent stifle growth and adversely affect business sustainability.”¹³⁵

¹³¹ Steven Stradbrooke, “California Online Poker Hearing Dares Not Whisper the Name of PokerStars,” Calvinayre.com, April 24, 2014. <http://calvinayre.com/2014/04/24/business/california-online-poker-hearing-dares-not-whisper-pokerstars-name/>

¹³² Lipparelli’s testimony is in relation to online poker, as Nevada does not offer other casino games online and the legislation in California will, if passed, legalize online poker.

¹³³ Testimony of Robert M. Pickus to the Community, Economic and Recreational Development Committee, Senate of Pennsylvania, June 3, 2014. <http://community.pasenategop.com/files/2014/06/Robert-M.-Pickus-Testimony.pdf>

¹³⁴ Mark Gruetze, “High Tax Could Scuttle Online Gaming in PA, CEO Says,” *Pittsburgh Tribune Review*, July 5, 2015. <http://triblive.com/aande/gambling/8658341-74/online-says-million#axzz3xolUr6xi>

¹³⁵ Testimony of David Satz to the New York Senate Committee on Racing, Wagering and Gaming, September 8, 2015.

We point out a study by the accounting firm PricewaterhouseCoopers (“PwC”) in its *Global Gaming Outlook* report that also argued against a high tax rate. “These concerns reflect the experience of France, which also opted for a high stake tax when introducing licenses for online gaming in 2010, and found that take-up of regulated services was much lower than expected.”¹³⁶

The comments above present a common theme about taxation. It should also be noted that we included comments from a gaming regulator as well as from the operators. As such, the comments from the operators cannot be dismissed as justifying the low tax rate for purely profit motives. Instead, the comment from Lipparelli and the PwC study highlight that a high tax rate will limit potential prize payouts and make untaxed, illegal operations more attractive to players. We highlight that iGaming has additional costs involved in operations including fees to third-party platform providers, including remote gaming servers, geolocation services and content fees.

Washington iGaming can Reach Nearly \$100M

In our opinion, Washington has similar demographic factors to New Jersey, such as household income and population over 21 years old. As such, with a reasonable tax rate (15 percent or less) and an offering that includes slot machines, table games and poker, Spectrum estimates the potential for Washington iGaming GGR to be approximately \$100 million. It should be noted that Washington tribes, as per their compacts with the State, do not pay taxes but instead make charitable contributions. Likewise, the cardrooms in Washington do not pay a State tax, but pay a negotiated tax rate to the host community. As such, our discussion of an iGaming tax rate should be seen as general and not as a recommendation or assumption that the activity would or should be taxed by any particular authority in Washington.

In preparing our estimate for the Washington iGaming opportunity we reviewed the performance of New Jersey’s industry, notably the \$25 in last-12-months iGaming revenue for every resident over the age of 21. To arrive at our Base case scenario, we applied a 10 percent discount to the per-capita revenue to reflect the lower household income and adult population in Washington. However, this discount might prove too conservative because the cost of living in Washington is lower than New Jersey, suggesting that Washington residents have more disposable income. Another reason we believe our 10 percent discount might not apply is because certain factors that affected the early penetration of iGaming among New Jersey residents – notably overly wide geolocation protections and payment processors incorrectly declining legal iGaming transactions – have been corrected since New Jersey, Nevada and

https://www.nysenate.gov/sites/default/files/Testimony%20Submitted%20by%20Caesars%20Entertainment%20Corporation%20for%209.9.15%20Public%20Hearing%20on%20Online%20Poker_0.pdf

¹³⁶ PricewaterhouseCoopers, “Global Gaming Outlook,” 2015.

<https://www.pwc.com/gr/en/publications/assets/global-gaming-outlook-2011-2015.pdf>

Delaware went live. We further assumed an Optimistic and Conservative case scenario assuming iGaming revenue per capita at plus or minus 25 percent of the Base case scenario. We also assumed a 15 percent cannibalization of GGR from the land-based casinos.

Figure 92: Comparison of demographic attributes – New Jersey and Washington

Attribute	New Jersey	Washington
Median household income	\$71,629	\$59,478
Population 21+ (millions)	6.59	5.20
Cost of Living Index	120.3	108.6

Source: Source: Bureau of Labor Statistics, US Census Bureau; Missouri Economic Research and Information Center. Note: Cost of Living Index is relative to the US Average and based on a scale of 100.

However, the experience in New Jersey has been little to no cannibalization of existing revenue. iGaming revenue should, in our opinion, be predominantly incremental to overall GGR for land-based casino operators if the regulations require iGaming operations to be provided by licensed Washington Indian casinos or cardrooms. In fact, researchers conducted a statistical study that found “economic concerns around the cannibalization of traditional gambling industries should be reconsidered, and provide support for prior research showing that Internet based firms can be complementary to brick and mortar businesses.”¹³⁷ In his testimony before the New York Senate, Caesars Entertainment’s David Satz stated, “Since legalization of iGaming in New Jersey, the overwhelming majority of our online players are either new customers who had never played in our brick/mortar casinos, or inactive brick/mortar casino players who revisited our casinos *after* [emphasis in original] playing with us online.”¹³⁸ As a point of fact, Satz also testified before the Pennsylvania House Democratic Policy Committee in 2014 where he declared, “91 percent of Caesars’ online gambling players in New Jersey weren’t listed in any of Caesars brick-and-mortar casino databases. What’s more, the 9 percent who were existing customers increased their brick-and-mortar spending by 11 percent following New Jersey’s online gambling launch.”¹³⁹ In the table we below, we calculate the potential net iGaming GGR for Washington real-money online gaming assuming a range of GGR/adult between \$17 and \$28 and assuming a cannibalization rate between 10 percent and 15 percent of brick-and-mortar

¹³⁷ Kahill Philander, et al, “Consumer Spending In The Gaming Industry: Evidence Of Complementary Demand In Casino And Online Venues,” prepared for the UK Gambling Commission, October 28, 2014.

<http://www.gamblingcommission.gov.uk/pdf/board-minutes-and-papers/GCP1558-Quarterly-research-briefing.pdf>

¹³⁸ Satz testimony.

¹³⁹ Steven Stradbroke, “Caesars Says Online Gambling No Cannibal; Parx Wants Mobile on Casino Floor,” calvinayre.com, May 2, 2014. <http://calvinayre.com/2014/05/02/business/caesars-says-online-gambling-is-no-cannibal/>

GGR. Based on our forecast we believe the Washington tribal casinos and cardrooms could generate between \$78 million and \$123 million in iGaming revenue.

Figure 93: Spectrum estimate of potential iGaming revenue in Washington

Land-based Casino Cannibalization rate	iGaming GGR per Adult		
	\$17	\$22	\$28
10%	\$78M	\$104M	\$130M
13%	\$76M	\$101M	\$126M
15%	\$74M	\$98M	\$123M

Source: Spectrum Gaming Group

Acceptance in Other Jurisdictions

In Figure 94 below, we present data for certain international iGaming jurisdictions, as well as for New Jersey, Delaware and Nevada. Earlier in this chapter, we highlighted that adoption by consumers of online gaming is a function of population, tax rate and the types of games offered. Clearly, iGaming has made far greater inroads in European markets, where it has been available longer. We expect that iGaming as a percentage of total jurisdictional revenue will continue to grow in US states with continued exposure and acceptance.

Figure 94: Comparison of iGaming in select US and European markets

	Adult Population (M)	Effective Gaming Tax Rate	LTM GGR (M)				iGaming GGR per capita (actual)
			Land-based	iGaming	Total	iGaming %	
New Jersey	7	15%	\$2,424	\$172	\$2,596	7%	\$26
Delaware ¹	1	100%	\$406	\$3	\$409	1%	\$4
Nevada ²	2	7%	\$11,225	\$10	\$11,235	0%	\$5
United Kingdom	54	15%	\$5,976	\$2,849	\$8,824	32%	\$53
Denmark	5	20%	\$317	\$257	\$574	45%	\$56
Belgium	9	11%	\$652	\$129	\$780	17%	\$14
France	53	46%	\$2,473	\$589	\$3,061	19%	\$11
Spain ³	37	25%	\$3,990	\$274	\$4,264	6%	\$7
Italy	52	20%	\$12,324	\$778	\$13,103	6%	\$15

Note: European country results converted from euro to US dollars at 1.13

(1) The Delaware Lottery retains the first \$3.75 million of iGaming revenue so the effective tax rate is 100% until the market exceeds \$3.75 million; (2) Nevada GGR is LTM November 2014 when the state stopped publishing iGaming data

(3) iGaming in Spain is taxed at 25% at the federal level, but additional taxes up to 20% can be applied at the regional level

Source: H2 Gambling Capital, Spectrum Gaming Group, New Jersey, Delaware and Nevada gaming commissions, Census Bureau, Gallup

C. Online Live Dealer Gaming Emerges in US

A hybrid of online gaming and land-based gaming popular in certain jurisdictions around the world made its US debut in August 2016 at the Golden Nugget Atlantic City. Online live dealer gaming combines the true-casino element of a human dealing cards on a felt-covered table with the security and convenience of an online transaction from a home computer or mobile device.

As opposed to taking place on a casino's gaming floor, the games are dealt from a special studio equipped video cameras, microphone and proper lighting. (See recorded examples of online live dealer gaming here: <http://www.livedealer.org/live-casino-games/recorded-videos/>)

Figure 95: Photo of online live dealer studio at Golden Nugget Atlantic City



Source: Ezugi

Golden Nugget, which ranks second in Atlantic City iGaming revenue, offers online live dealer gaming for blackjack, baccarat and roulette from 5 p.m. to 1 a.m. daily. The games are offered on the casino's online gaming portal, alongside the regular digital online games.

Players who choose online live dealer games over regular online games do so for trust and social engagement, according to Kfir Kugler, CEO, Ezugi, the Tel Aviv-based provider of the Golden Nugget's online live dealer system. Many players prefer to see actual cards being dealt by a human instead of having a faceless computer decide the outcome of a game, he said. Dealers interact with players by providing voiced game directions and responding by voice to players' written questions.

Whereas the Golden Nugget employs an online live dealer system open to any person in New Jersey, a variant system restricted to on-premises players is being implemented at Chickasaw Nation casinos in Oklahoma. Ezugi and the Chickasaw Nation developed a live-dealer studio at the tribe's Ada Gaming Center; soon, players present at two other Chickasaw casinos can play the games – broadcast from the Ada Gaming Center – on tablets via a closed system. Kugler said such a closed system has allowed live table gaming at small Chickasaw casinos where table games otherwise would not be viable due to the small market size/low volumes. Such a system could be implemented among different tribal operators as well, he said, subject to inter-tribe agreements and regulatory approvals.

Online live dealer gaming is in a rapid-growth mode, generating estimated 2015 gross gaming revenue of \$2.3 billion – more than double the amount three years earlier and a figure expected to nearly double yet again by 2021.¹⁴⁰ In North America, online live dealer gaming generated \$111.7 million in GGR in 2015.¹⁴¹

D. Daily Fantasy Sports is Smaller, but Appeals to Millennials

When discussing fantasy sports, there are two primary types – seasonlong and daily fantasy (“DFS”). There are differences between the two that need to be addressed prior to our discussion of the economic rationale for drafting enabling legislation in Washington State. Seasonlong fantasy sports is considered to be over 50 years old as it is presumed, according to *Entrepreneur* magazine, to have been created by Harvard University sociologist William Gamson in 1963. Using football as an example, seasonlong fantasy is a competition between a group of people organized in a league, typically between 10 to 12 teams. The league will organize a draft for the team managers to draft players for their team. Drafts can be in a variety of formats, including auction, dynasty and snake. Because the league is available to only those league members once a player is drafted, that player is taken off the board and no other team may draft that same player. In other words, no player can be on more than one team in a seasonlong fantasy football league. In general, this will be a player’s team for the duration of the season, with the exception of making trades with other managers or claiming undrafted players on the waiver wire. Teams will match up in head-to-head competitions on a weekly basis with the winning team determined by the number of points earned by the players on a player’s fantasy sport team.

DFS, by contrast, has been in existence for just under 10 years, as Spectrum believes Fantasy Sports Live is the first DFS site, having launched in June 2007. DFS also has a draft but participants pick players on a weekly basis as their roster is reset after the last game of the week. The contest can be as small as head-to-head or in contests of thousands. The largest contest on the FanDuel website, as of September 20, 2016, has nearly 295,000 participants. As such, it is possible for NFL players to be on numerous rosters competing in the same tournament. In fact, the “insider trading” scandal involved concerns that DraftKings employees had an unfair advantage because of knowledge of the ownership percentage of players on the DraftKings site and using that information in entering contests on the rival FanDuel site. Because the contests involve many more participants the prize pools are larger in DFS, but the competition is more intense.

There have, since its inception, been a number of states in which DFS sites have not operated. Some sites have been more conservative in interpreting the state laws and have

¹⁴⁰ H2 Gambling Capital, Global Summary, Live Dealer iCasino Gross Win, January 9, 2016.

¹⁴¹ Ibid.

avoided operating in states in which other DFS sites operate. However, all DFS sites have avoided operating in the same five states – Arizona, Iowa, Louisiana, Montana and Washington – as these five states define a contest as gambling if the “outcome depends on a material degree of chance.”¹⁴² The precedence for material degree of chance in Washington State is based on the court’s ruling in *Seattle Times v Tielsch*. In this case, the court ruled that the *Seattle Times* contest “requiring participants to forecast the results of football games, held an illegal lottery.”¹⁴³ As the court opined, “no one will ever win the contest without skill but neither will anyone win without chance.”¹⁴⁴ In other words, no matter how skilled the contestant participating in the contest, there are many unknown variables that will affect the outcome, including “weather, the physical condition of the players, the psychological attitude of the players and the sociological problems between and among the members of a football team.”¹⁴⁵

Despite prohibitions against fantasy sports in the state, we note one section of WSGC study of fantasy sports: In the segment titled “Moving Forward with Fantasy Sports” the authors discuss the pros and cons of authorizing “some form of low volume fantasy sports played mainly for social purposes.”¹⁴⁶ In the discussion of the pros for this approach, the report notes “this would appease a large group of Washington citizens who are currently playing an activity that isn’t specifically authorized because the law isn’t clear.”¹⁴⁷ In other words, the WSGC’s study notes that Washington residents are already playing and have some familiarity of fantasy sports, albeit in the seasonlong format and not the daily fantasy format.

State Legislatures Moved to Address the Ambiguities

The question of legality of DFS outside of the five “material degree of chance” states became a national headline in late September 2015, when an employee of DraftKings, one of the largest DFS companies, accidentally released ownership data before lineups were locked for that week and subsequently won a large pot on a competing DFS site. This raised questions about inside information, as advanced knowledge of rosters can be perceived to give an advantage. Due, in part, to the controversy the Attorneys General in 12 states issued opinions that DFS

¹⁴² Kirk A. Soderquist, et al, “No Game-Changer For Fantasy Sports In Washington State,” *Law360*, March 23, 2015. <http://www.law360.com/articles/634703/no-game-changer-for-fantasy-sports-in-washington-state>

¹⁴³ Rochelle Alpert, et al, “Best Practices: Prizes, Sweepstakes, Contest and Awards,” Morgan, Lewis & Bockius LLP, September 18, 2015. <https://www.morganlewis.com/events/~/media/10952dfa8dd74af98cc06abe3e1adb76.ashx>

¹⁴⁴ Tulane Law School Moot Court briefs. [http://www.law.tulane.edu/uploadedFiles/Student_Org_Sites/Moot_Court/Briefs/Team%2019\(1\).pdf](http://www.law.tulane.edu/uploadedFiles/Student_Org_Sites/Moot_Court/Briefs/Team%2019(1).pdf)

¹⁴⁵ Ibid.

¹⁴⁶ Dan Frey and Tyson Wilson, “Fantasy Sports: A Brief Look at Fantasy Sports and Daily Fantasy Sports,” November 2015, Washington State Gambling Commission. via: <http://www.wsgc.wa.gov/agenda/2015/nov-fantasy-sports-report.pdf>

¹⁴⁷ Ibid.

violated that state's gaming laws. These states included states where the legislature eventually passed enabling legislation for DFS, such as New York, Tennessee and Mississippi. In other states where the Attorney General opined that DFS is illegal, no legislation has been passed and the sites stopped accepting participants from players located; those states include Alabama, Idaho and Texas. Highlighting that the legal definition of gaming in each individual state is relevant to the legality of DFS, the Attorneys General in Massachusetts, Rhode Island, West Virginia and Kansas issued legal opinions that DFS is legal under their state laws.

As the legal status of DFS became an issue of confusion, many state legislatures addressed the topic by holding hearings and drafting legislation. As of June 15, 2016, legislation making DFS legal had been passed in Virginia, Indiana, Missouri, Mississippi, Colorado and New York.

Figure 96: Legal status of daily fantasy sports, by state (through July 25, 2016)

State	Population	Current legal status ¹	Basis	Legislation introduced (2016)	Passed	Tax rate ²	Annual fee	Regulator	College sports prohibited
New York	19,795,791	Legal	Authorizing law (2016)	Yes	6/16	15.00%	NA	New York State Gaming Commission	Prohibited
Virginia	8,382,993	Legal	Authorizing law (2016)	Yes	2/16	NA	\$50,000	Department of Agriculture and Consumer Services	NA
Massachusetts	6,794,422	Legal	AG published regulations (2016)	NA	NA	NA			
Indiana	6,619,680	Legal	Authorizing law (2016)	Yes	3/16	NA	\$50,000	Indiana Gaming Commission	Prohibited
Tennessee	6,600,299	Legal	Authorizing law (2016)	Yes	4/16	NA			
Missouri	6,083,672	Legal	Authorizing law (2016)	Yes	5/16	11.50%	Lesser of \$10,000 or 10% of revenue	Missouri Gaming Commission	Prohibited
Colorado	5,456,574	Legal	Authorizing law (2016)	Yes	5/16	NA	NA	Professions and Occupations	Prohibited
Mississippi	2,992,333	Legal	Authorizing law (2016)	Yes	4/16	NA	NA	NA	
Kansas	2,911,641	Legal	Authorizing law (2015)	NA	5/15	NA			
West Virginia	1,844,128	Legal	Positive AG opinion (2016)	Yes	No	NA			
Rhode Island	1,056,298	Legal	Positive AG opinion (2016)	Yes	No	NA			
California	39,144,818	Operational	No formal determination	Yes	No	NA			
Pennsylvania	12,802,503	Operational	Predominance test	Yes	No	NA			
Ohio	11,613,423	Operational	Predominance test	No	NA	NA			
North Carolina	10,042,802	Operational	Predominance test	No	NA	NA			
New Jersey	8,958,013	Operational	Requires a bet or wager	Yes	No	NA			
Wisconsin	5,771,337	Operational	Predominance test	Yes	No	NA			
Minnesota	5,489,594	Operational	Predominance test	Yes	No	NA			
South Carolina	4,896,146	Operational	No formal determination	Yes	No	NA			
Kentucky	4,425,092	Operational	Predominance test	Yes	No	NA			
Oregon	4,028,977	Operational	Material element test	No	NA	NA			
Oklahoma	3,911,338	Operational	No formal determination	Yes	No	NA			
Connecticut	3,590,886	Operational	Predominance test	Yes	No	NA			
Utah	2,995,919	Operational	Predominance test	No	NA	NA			
Arkansas	2,978,204	Operational	No government inquiry	No	NA	NA			
New Mexico	2,085,109	Operational	Predominance test	Yes	No	NA			
Nebraska	1,896,190	Operational	Predominance test	Yes	No	NA			
New Hampshire	1,330,608	Operational	Predominance test	No	NA	NA			
Maine	1,329,328	Operational	Requires a bet or wager	No	NA	NA			
North Dakota	756,927	Operational	No formal determination	No	NA	NA			
Alaska	738,432	Operational	Material element test	No	NA	NA			
Wyoming	586,107	Operational	Predominance test	No	NA	NA			
Texas	27,469,114	Challenged	Negative AG opinion (1/16)	No	NA	NA			
Florida	20,271,272	Challenged	Negative AG opinion (1991)	Yes	No	NA			
Illinois	12,859,995	Challenged	Negative AG opinion (12/15)	Yes	No	NA			
Georgia	10,214,860	Challenged	Negative AG opinion (2/16)	Yes	No	NA			
Michigan	9,922,576	Challenged	Executive Director of Gaming Control Board opined that DFS is illegal (2016)	Yes	No	NA			
Maryland	6,006,401	Challenged	Authorizing law (2012); AG opinion (2016) that legislation should have been subject to referendum	Yes	No	NA			
Nevada	2,890,845	Challenged	Negative AG opinion (10/15); requires licensing	No	NA	NA			
South Dakota	858,469	Challenged	AG asked legislature for guidance	No	NA	NA			
Vermont	626,042	Challenged	Negative AG opinion (1/16)	Yes	No	NA			
Washington	7,170,351	Banned	Original banned state	Yes	No	NA			
Arizona	6,828,065	Banned	Original banned state	Yes	No	NA			
Alabama	4,858,979	Banned	Negative AG opinion (4/16)	Yes	No	NA			
Louisiana	4,670,724	Banned	Original banned state	No	NA	NA			
Iowa	3,123,899	Banned	Original banned state	Yes	No	NA			
Idaho	1,654,930	Banned	Negative AG opinion (5/16)	No	NA	NA			
Hawaii	1,431,603	Banned	Negative AG opinion (1/16)	Yes	No	NA			
Montana	1,032,949	Banned	Original banned state	No	NA	NA			
Delaware	945,934	Banned	Negative AG opinion (7/16)	No	NA	NA			

1) We use the Operational label where DFS has not been challenged, but the legislation has been passed and most DFS sites continue to operate in the state

2) Unless otherwise noted, tax rates are based on gross revenue after prize payouts

GLOSSARY

Predominance Test: Means chance must predominate over skill for a game to constitute legal gaming

Material Element Test: Means chance must be a material element in determining the outcome of a contest to constitute illegal gambling

Source: Spectrum Gaming Capital (as of July 25, 2016)

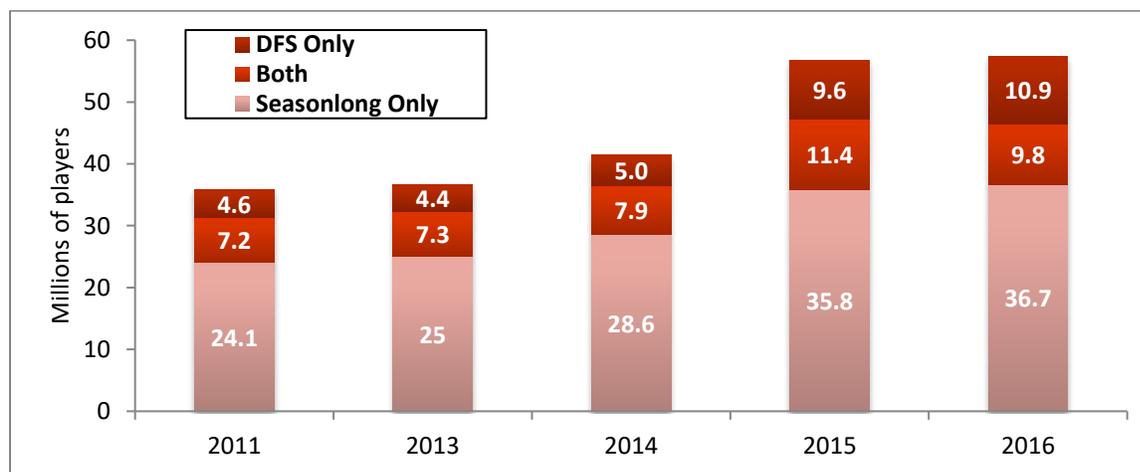
The legislation in Mississippi did not promulgate regulations. Instead, the law is self-repealing as of July 1, 2017, and creates “the Fantasy Contest Task Force to undertake a comprehensive review of the offering of fantasy contests with a fee within this state and to recommend the proper oversight and regulation of the offering of fantasy contests with a fee.”¹⁴⁸ Further, the Task Force “shall prepare and submit a final report that contains a detailed statement of findings, conclusions and recommendations of the task force to the Legislature by October 15, 2016.”¹⁴⁹

Likewise, the Colorado legislation did not include fees or taxes in the legislation. The Division of Professions and Occupations, the regulatory body overseeing DFS, will draft “reasonable rules for the identification, licensing and fingerprinting of applicants for licensure.”¹⁵⁰ Colorado Governor John Hickenlooper signed the bill into law in June 2016.

Daily Fantasy Sports is the Growth Vehicle for Fantasy Sports

According to data from the Fantasy Sports Trade Association, there are 57 million fantasy sports players. This is up from 500,000 in 1988, a compound annual growth rate of 20 percent. The participation figures represent exclusively seasonlong and exclusively daily fantasy players, as well as players who participate in both seasonlong and DFS.

Figure 97: Growth of participation in fantasy sports, 2011-2015



Source: Fantasy Sports Trade Association

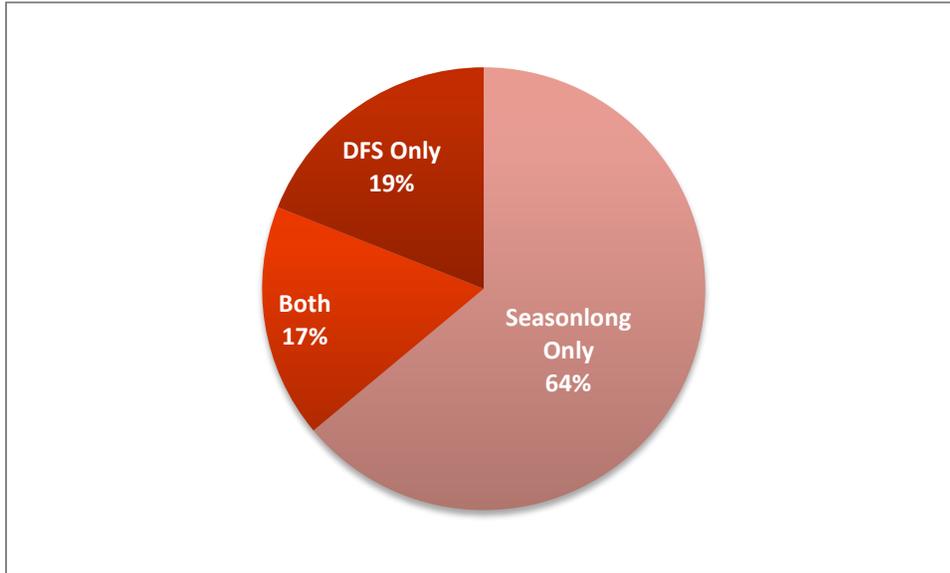
¹⁴⁸ Text of Mississippi Senate Bill No. 2541, signed into law by Governor Phil Bryant. <http://billstatus.ls.state.ms.us/documents/2016/pdf/SB/2500-2599/SB2541SG.pdf>

¹⁴⁹ Ibid.

¹⁵⁰ Text of Colorado House Bill 16-1404. http://www.leg.state.co.us/Clics/clics2016a/csl.nsf/fsbillcont3/4F153CC1C580418687257F780057F3FD?Open&file=1404_enr.pdf

Spectrum estimates that of the 57 million fantasy sports participants, 21 million (36 percent of participants) play DFS, up from an estimated 12 million (32 percent of participants) in 2013. Since 2013, DFS participation has increased by 159 percent, compared with an increase of 25 percent for seasonlong fantasy sports.

Figure 98: Breakdown of fantasy sports participation by type of game, 2015



Source: 2015 Fantasy Sports Market Study

The population of the United States is about 319 million people, according to the US Census Bureau. In estimating the participation rate of fantasy sports players from the US population we make certain adjustments to arrive at a more accurate estimate. In particular, we reduce the sample population size by the populations of the five states – Arizona, Iowa, Louisiana, Montana, and Washington – previously mentioned as states in which no fantasy sports company operates. Because DFS sites will not accept entries from people under 18, we calculated an adjusted US population of 228 million people. As such, we calculate participation in DFS among the adult population of the US to be 9 percent.

Figure 99: Analysis of participation rate of fantasy sports in the United States

Metric	Measurement
Total population of US	319 million
18+ population of US	245 million
18+ population, ex five banned states	228 million
Estimated number of fantasy sports participants	57 million
Seasonlong (exclusive)	37 million
Both	10 million
Daily fantasy (exclusive)	11 million
Estimated penetration of fantasy sports	25%
Seasonlong (exclusive)	16%
Both	4%
Daily fantasy (exclusive)	5%

Source: US Census Bureau, Fantasy Sports Trade Association

Spectrum Estimates DFS Revenue in Washington at \$9M to \$13M

The 21 million DFS players in 2015 generated an estimated \$3 billion in entry fees (approximately \$143/person), according to our estimates, based on conversations with multiple DFS operators. This amount is artificially low because many DFS operators stopped accepting entry fees from users in such states as New York, Nevada and Florida during the football season. Approximately 60 percent of all DFS entry fees are on football games (college or professional). The \$3 billion in entry fees would imply revenue for the industry of approximately \$270 million.¹⁵¹ By comparison, iGaming revenue generated approximately \$175 million in only three states – New Jersey, Delaware and Nevada. It is for this reason that we believe iGaming represents a larger revenue opportunity for Washington State.

As such, we estimate DFS revenue in Washington to be between \$9 million and \$13 million. Our analysis of the potential revenue for DFS is related to entry fees from Washington residents less prizes paid to winners.

We are not differentiating between the revenue for the DFS operator and the revenue that would be to the benefit of the providing casino or cardroom. That analysis is dependent on a number of still-uncertain factors, including if the legislation would allow DFS sites to operate in the state without partnering with one of the land-based locations. Further, if the DFS sites are required to partner with a Washington casino, then the revenue share between the DFS operator and the casino would be subject to commercial negotiations and agreements as to which costs would be netted against the gross revenue.

¹⁵¹ The SGC revenue estimate is based on an estimate of between 8.5 percent and 9 percent of the total entry fees convert to revenue.

In the figure below, we present our analysis in arriving at our estimate. We highlight key facts and assumptions, we used in arriving at our estimate.

- **Adult population:** The population of Washington is over 7 million, according to data from the US Census bureau, while the population 18 years or older is 5.5 million. More than 50 percent of the population is between 18 and 54.
- **Participation rate:** We estimate participation rate at 9 percent to 13 percent, yielding between 500,000 and 720,000 participants. This is higher than the national average, which we believe can be achieved in Washington. Our optimism about the participation rate in the state is based on an expectation of latent demand for fantasy sports, more awareness of DFS given the scandals and publicity, consumer comfort with the activity due to new state regulations, and aggressive marketing by the DFS sites in the state as Washington is one state that all DFS operators have avoided. As noted previously, the WSGC in its November 2015 report suggested that Washington residents are participating in seasonlong fantasy despite the State's prohibitions. Given the familiarity with the concept of fantasy sports, we believe Washington residents would be receptive to DFS participation. We do not believe Washington will achieve these participation rates on Day One after the passage of legislation, but should reach its potential within approximately 18 months.
- **Entry fees per participant:** We estimate annual entry fees per participant at \$180, or roughly \$15 per month. Again, this would be higher than the estimated national average of \$143 annual entry fees in 2015. But, as we previously indicated, we believe the calculation of the average annual entry fees per user last year were artificially low given the legal challenges to DFS. If we were to adjust the number of users to reflect the states where the legal status is in question and the sites stopped accepting entry fees from users in those states, we believe the average annual entry fees per user would be closer to \$200. We also note that the average household income in Washington is more than 10 percent higher than the national average of \$53,482.¹⁵² Another factor that contributes to our belief that average annual entry fees will be higher than the national average is due to the fan loyalty to the Seattle Seahawks. According to a study prepared by DirecTV, Seahawks fans

¹⁵² US Census Bureau.

are among the most loyal in the NFL, ranking No. 7, and, as we noted, previously, football is approximately 60 percent of all DFS entry fees.¹⁵³

Figure 100: Spectrum estimate of potential DFS revenue in Washington

	Conservative	Base	Aggressive
Participation rate	9%	11%	13%
Daily fantasy participants	495,626	604,803	713,979
Entry fees @ \$180/participant	\$89,212,764	\$108,864,476	\$128,516,189
Revenue @ 10% rake	\$8,921,276	\$10,886,448	\$12,851,619

Source: Spectrum Gaming Capital

Despite the small size, we believe legislation enabling DFS in Washington can have a positive benefit to the state’s casinos and cardrooms because DFS appeals to a different demographic than the typical casino patron. In fact, fantasy sports patrons are largely younger, wealthy males. According to data provided by the Fantasy Sports Trade Association, we highlight that approximately 66 percent of fantasy sports participants are male, compared to 49 percent for casinos, and almost half (47 percent) have household incomes greater than \$75,000, compared with nearly one-third (32 percent) of casino customers.

Figure 101: Demographics of fantasy sports players vs. casino patrons

Attribute	Fantasy sports	Casino Patron
Gender (male)	66%	49%
Average age	37	45
Attained college degree or higher	57%	48%
Household income >\$75,000	47%	32%
Full-time employment	66%	64%

Source: Fantasy Sports Trade Association; Las Vegas Visitor Profile 2014

Think Differently in Determining Best Way to Tax DFS Revenue

While many of the states that have passed legislation have taxed revenue, we caution Washington against a revenue tax on DFS. In particular, the prize pool for fantasy sports has to be established before the contest starts. As stated in the Unlawful Internet Gaming Enforcement Act, “All prizes and awards offered to winning participants are established and made known to the participants in advance of the game or contest and their value is not determined by the number of participants or the amount of any fees paid by those participants.”¹⁵⁴ Stated plainly, the prize cannot be reduced if entry fees do not match the prize payout. This is called “overlay” and can result in a contest generating negative revenue. In the figure below, we present three

¹⁵³ “The Best Fans in the NFL,” DirecTV Entertainment Blog. <http://www.directvdeals.com/entertainment/nfl-loyal-fans/>

¹⁵⁴ Safe Port Act that included UIGEA, US Code Title 31, Subtitle IV, Chapter 53, Subchapter IV. <https://www.law.cornell.edu/uscode/text/31/5362>

scenarios for a typical DFS contest – full participation, 93 percent participation and 85 percent participation, which shows the revenue to the DFS operator if participation in a contest falls below 90 percent. In the scenario below, we present a contest with 10,000 positions and a \$5 entry fee. Assuming a 10 percent rake then the prize payout must be \$45,000 regardless of the number of actual entrants to the contest.

Figure 102: Mathematical illustration of DFS revenue if contests are less than 100 percent filled

	100% participation	93% participation	85% participation
Number of positions in contest	10,000	10,000	10,000
Entry fee	\$5	\$5	\$5
Actual participants	10,000	9,300	8,500
Entry fees	\$50,000	\$46,500	\$42,500
Prize payouts	45,000	45,000	45,000
DFS Revenue	\$5,000	\$1,500	(\$2,500)

Source: Spectrum Gaming Capital

As shown in the above figure, it is possible that there will be overlay in individual contests. In other words, the DFS operator will generate negative revenue. In fact, ESPN reported that DraftKings “had an estimated total of \$2 million to \$4 million of overlay”¹⁵⁵ in Week One of the 2016 NFL season. Thus, under a typical tax regime based on GGR it is possible that the DFS operator could pay zero tax, or even claim a refund. This is a particularly important distinction in the first one to two years that DFS would be available in Washington. Fantasy sports, like online poker, rely on liquidity to generate interest in participation. In other words, large prize opportunities excite players and lead to new user signups. The use of overlay can be an effective marketing strategy. Not only will the participant be attracted to the contest because of the large prize potential, but also the participant has better odds of beating the competition and earning the prize money.

Using the example above with 10,000 positions, we will also assume it is a 50/50 contest. In other words, each of the top 5,000 finishers earn prize money. If each user submits one entry to the contest, then he or she has a 50 percent chance of finishing in the money (5,000/10,000). Now, let us look at the overlay situation with only 8,500 participants in the contest. Now, the customer has a 59 percent chance of finishing in the money (5,000/8,500). Because Washington has not previously allowed legal fantasy sports, we would expect all DFS operators in the state to offer some games in the state that are designed to have overlay, which would entice faster player signups and because the typical player will earn prize money, that player will also be more likely to enter more contests the following week.

¹⁵⁵ David Purdum and Don Van Natta Jr., “DraftKings Paid Millions To Cover Shortfalls Last Weekend; Company Says It’s Part Of Marketing,” September 17, 2016, ESPN.com.
http://www.espn.com/chalk/story/_/id/17564436/draftkings-paid-millions-cover-shortfalls-unfilled-daily-fantasy-guaranteed-contests-sources-say

In the figure below, we present the estimated tax revenue to the state for the same contest in Figure 102. In one scenario, we tax revenue at 15 percent, while in the second scenario we tax entry fees at 1.5 percent. Under both scenarios, the tax revenue would be \$750 where there is full participation in the contest. But where we present a scenario where participation in the contest is 85 percent, the DFS operator would be due a refund when tax is on revenue, but the State would still capture taxable revenue when tax is due on entry fees.

Figure 103: Analysis and evaluation of tax revenue to Washington State

Alternative Tax Structures	Taxes Paid (Refunded)		
	100% participation	93% participation	85% participation
15.0 percent of GGR	\$750	\$225	(\$375)
1.5 percent of entry fees	\$750	\$698	\$638

Source: Spectrum Gaming Capital

Spectrum notes that in the 2016 WSGC report, the authors suggested a flat fee for DFS operators with annual renewals. At the time of drafting the report, the authors had not suggested an amount of the fee. Instead, they suggested that licenses be issued to operators that “paid in full an Initial License Fee of not less than \$XXX and a Responsible Fantasy Sports Fee of \$XXX.”¹⁵⁶ We believe an annual fee would also be a reasonable fee structure that would ensure the cost of regulation is justified by the fees generated. However, Spectrum notes that some of the states that have passed regulations with a flat fee, such as Virginia and Indiana, have also potentially stifled competition by imposing onerous fees. Both states include a \$50,000 annual fee to regulate DFS. The two largest operators – DraftKings and FanDuel – have the financial capability to pay such a fee, but smaller DFS sites operating at a loss have less access to capital than the two largest sites and cannot afford the annual fee. By comparison, the WSGC study suggested considering “a sliding scale fee based on percentage of revenues to allow for smaller companies to enter the Washington market if the flat fees are at such a level that only the big companies will want to enter.”¹⁵⁷

E. Social/Mobile Gaming is Enhanced Marketing Opportunity for Casinos

Free-to-play social casinos, typically played on mobile devices, can be a valuable initiative for land-based casino operators by expanding the customer base and deepening the customer relationship. The social casino industry is legal in all 50 states and is larger than real-money online gaming. According to data from SuperData Research, the social casino industry in North America

¹⁵⁶ Frey and Wilson.

¹⁵⁷ Ibid.

is estimated to reach \$1.7 billion¹⁵⁸ in 2016, nearly 10 times larger than real-money online gaming. Because the industry is legal in all 50 states, Spectrum believes that the WSGC will not need to promulgate new regulations. Instead, the WSGC and State will benefit from higher land-based GGR as the casinos can cross-market their land-based casinos to their social casino customers.

Figure 104: Social casino revenue (mobile plus desktop), 2016 estimated



Source: SuperData Research

Online Social Games Can Drive Visitation to Land-based Casinos

Spectrum believes that social gaming can be a significant driver of visitation to land-based casinos, even if paired with legislation allowing real-money iGaming. Numerous other casino operators have invested in or acquired social casino companies due to the large size of the industry, profit potential and ability to cross-market to the land-based casino. Moreover, by operating social gaming sites, casinos already have a system in place with a database of players that could, with minimum expense, be converted to real-money gaming. As also noted in academic research, “An increasing number of land-based gambling venues are also now offering social casino games, often linked with player loyalty programs, for marketing and customer engagement purposes.”¹⁵⁹ In Figure 105 below, we show the social casinos owned by 10 casino companies. Of the 10 casinos, eight are land-based companies.

¹⁵⁸ While social casinos are free to play, the developers generate revenue as players purchase virtual currency (chips) to extend playing time. Players can also purchase an upgrade to a locked level of the game.

¹⁵⁹ Sally M. Gainsbury, et al. “Migration from Social Casino Games to Gambling: Motivations and Characteristics of Gamers Who Gamble,” ScienceDirect, October 2016.
<http://www.sciencedirect.com/science/article/pii/S074756321630348X>

Figure 105: Land-based casino companies have taken ownership interest in social casino companies¹⁶⁰

Company	Social Casino Site	Acquisition Date	Performance	Notes
Penn National	Rocket Games	Jul-16	NA	Rocket Games is the fastest growing social casino in 2015
Delaware North	Ruby Seven	Mar-16	NA	Acquisition of a B2B social casino developer with other casino clients
Scientific Games	Williams Interactive	Jan-16	LTM (ended March 2016) revenue and EBITDA of \$236M and \$52M, respectively	8M monthly active users
Crown Resorts	DGN Games	Aug-15	NA	Acquisition of 60% stake in developer of Old Vegas Slots app
Tropicana	TropWorld App	Jul-15	NA	Free mobile app featuring slots, poker & bingo; Ruby Seven is the developer
Mohegan Sun	Via SGMS play 4 fun platform	Jul-15	NA	Customized social casino platform offering free to play casino titles, SGMS is provider
Churchill Downs	Big fish Games	Dec-14	LTM (ended March 2016) revenue and EBITDA of \$444M and \$103M, respectively	Acquisition intended to gain leading position in mobile and online games industry
MGM/Station	MyVegas	Aug-12	~\$75M in EBITDA	MGM claims 11K redemptions per week at its casinos from MyVegas customers
IGT	Double Down	Jan-12	LTM (ended March 2016) revenue of \$316M	Double Down has been a top 5 most downloaded social casinos, according to AppAnnie
Caesars ¹	Caesars Interactive	May-11	LTM (ended March 2016) revenue and EBITDA of \$817M and \$296M, respectively	Number one in the social casino industry by revenue

Source: Spectrum Gaming Capital; Company reports. Note: Shaded boxes reflect land-based casinos with Ownership of social casinos. 1) Caesars agreed to sell Playtika, its social casino to Giant Interactive Group for \$4.4B in August 2016

At the 2015 East Coast Gaming Congress, Timothy Wilmott, President and CEO of Penn National Gaming, noted that 44 percent of the company’s customer database played online social games once a month over the prior six months. Of the customers that played online social games, 82 percent played online social casino games.¹⁶¹ Ownership of online social casinos can deliver additional benefits to the land-based casino operator, including expanding the database of known customers, including their spending habits. Likewise, social casino customers are a younger demographic than the typical casino-goer, again, providing casinos with enhanced knowledge of the Millennial. In fact, of the top 15 social casinos, land-based casino or gaming

¹⁶⁰ In Figure 106, Penn National, Delaware North, Crown Resorts, Churchill Downs and Caesars Entertainment have control positions, which is defined as an ownership interest greater than 50 percent. MGM owns less than 50 percent of MyVegas, and is not considered to have a controlling interest

¹⁶¹ Presentation of Timothy Wilmott, President and CEO of Penn National Gaming, at the 2015 East Coast Gaming Congress, May 2015.

equipment companies own eight. Further, land-based casino companies have made acquisitions of smaller social casino companies. Delaware North acquired Ruby Seven Studios in March 2016, while Crown Resorts purchased a 60 percent interest in DGN Games in August 2015.

Another Aspect of Mobile Gaming is On-Premises Mobile Wagering

On-premises mobile wagering is legal in Nevada, as it “was first approved in public spaces of Nevada casinos in 2006.”¹⁶² Access to mobile wagering was expanded to non-public spaces, such as hotel rooms, in 2011. The allure of on-premises mobile wagering is using a mobile device with a similar delivery method to other online, or mobile, social games that appeal to Millennials. In 2012 New Jersey also allowed mobile wagering on premises, but the introduction of Internet gaming from anywhere in the state has rendered that method of gambling obsolete.

F. Skill-Based Slots Are Designed to Entice Millennials

Before we begin our discussion of skill-based slots, it is important to note that slot machines remain the primary profit driver of casinos because they remain the game of choice for Baby Boomers and the profit margin on slot play is higher than for other games in the casino, as slot machines are not labor-intensive. However, as noted earlier, Millennials are less likely to play slots than either play table games or visit a casino’s nightclub, as “the passive experience of a slot machine does not resonate with them.”¹⁶³ As was noted by the chief marketing officer for Gamblit Gaming, “You have as much chance getting a Millennial into slot machines as you do getting your grandmother into playing ‘Halo.’”¹⁶⁴ Chris Davidson, EVP of Global Strategy at MMGY, wrote, “Millennials value social engagement and interaction with others when traveling. Thus, expecting a Millennial to sit stagnant at a gaming device for an extended period of time is probably unrealistic.”¹⁶⁵

Legislation that allows casinos to offer skill-based slot machines has passed in both Nevada and New Jersey, and slot manufacturers are developing slot machines with a skill-based, arcade-style component. Meanwhile, other states are prepared to also draft and pass legislation allowing skill-based gaming, including Massachusetts and Maryland. In an article in the *Baltimore*

¹⁶² Rachel Hirsch, “The Future of Mobile Gaming in the US,” *iGaming Business North America*, October/November 2014. http://www.ifrahlaw.com/wp-content/uploads/2014/11/thefutureofmobile_iGamingBus.pdf

¹⁶³ Laura Parker, “Casinos Look to Video Games as a Draw for Millennials,” *New York Times*, July 6, 2016. http://www.nytimes.com/2016/07/07/technology/personaltech/casinos-look-to-video-games-as-a-draw-for-millennials.html?_r=0

¹⁶⁴ Drew Harwell, “Vegas’s New Bet on Grabbing Millennials: Turning Slots Into Video Games,” *The Washington Post*, February 11, 2015. <https://www.washingtonpost.com/news/the-switch/wp/2015/02/11/vegass-new-bet-on-grabbing-millennials-turning-slots-into-video-games/>

¹⁶⁵ Chris Davidson, “Are Millennials Just Slot Players in Waiting,” MMGY Global, February 19, 2016. <http://www.mmgycglobal.com/news/news-ice-totally-gaming-conference/>

Sun, Charles LaBoy, assistant director for gaming, was quoted, “We are aware that the industry is starting to look at increasing the skill factor in gaming, and we are reviewing (the) statute to determine to what extent that is permitted under current law.”¹⁶⁶ Likewise, the Massachusetts Gaming Commission released draft regulations in February 2016. Other states that have considered skill-based slots legislation include Pennsylvania and New York.

The appeal of skill-based games is the primary driver of the push for skill-based slot machines. The current generation of slot machines are based on a random number generator to determine the winning outcome, and thus slots are entirely games of chance. The slot machines of today lack many elements that are attractive to Millennials, including interaction and challenging decision points. As noted in an article in the *Baltimore Sun*, “experts say an important lure is missing from the games of chance: skill-based tasks allowing players to compete against each other rather than passively playing only against the house.”¹⁶⁷ It is this view of slots that has contributed to the polling that we noted earlier in this report. Namely, that slot machines are the preferred form of gambling for 51 percent of Millennials compared with 61 percent for all casino patrons.

By contrast, skill-based and arcade-style slots incorporate many of the attributes of the games that Millennials are already playing online. To put it succinctly, it would be “like playing Angry Birds, but for cash.”¹⁶⁸ As the Chairman of the Nevada Gaming Control Board noted, “The old style of slots simply needs to change. ... This means adding skill and social elements to the slot mix.”¹⁶⁹ In essence, the slot machine of the future could incorporate any of the types of video, or mobile games, in a real money platform. Examples of potential games include:

- First-person shooter – Video games centered on using guns or other projectiles. Examples include Counter Strike: Global Offensive, Doom, Call of Duty or Overwatch
- Fighting – Player controls an on-screen character engaged in close combat. Examples include Street Fighter, Mortal Kombat or Tekken
- Racing – Video games with a racing competition. Can either be first person or third-person perspective. Examples include Need for Speed, Gran Turismo or Super Mario Kart

¹⁶⁶ Jeff Barker, “Newfangled Machines Will Aim to Hook Younger Casino Players,” *The Baltimore Sun*, July 24, 2015. <http://www.baltimoresun.com/business/bs-bz-slots-millennials-20150724-story.html>

¹⁶⁷ Barker.

¹⁶⁸ Harwell.

¹⁶⁹ Ibid.

- Multiplayer online battle arena (“MOBA”) – Strategy video games in which a player controls a character in one of multiple teams. Examples of MOBA games include League of Legends, DOTA 2 and AirMech
- Sports – Sports games emulate the play of traditional physical sports. Examples of sport games include FIFA 16, Madden NFL 16 or WWE 2K16
- Puzzle – Genre of video game that involves solving puzzles. Tetris is perhaps the best-known puzzle video game
- Match 3 – This is essentially a sub-genre of puzzle games in which players manipulate an item so that three items of the same type, usually color, align. Examples of Match 3 games include Candy Crush and Bejeweled.

The population of Washington State is tech-savvy given the presence of numerous technology companies in the state, and Millennials comprise 24 percent of the population. Introduction of skill-based games would, in our opinion, drive increased visitation to the state’s gaming facilities from Millennials.

G. Sports Betting Attracts Patrons to the Casino

Sports betting is illegal in Washington. Because of the Professional and Amateur Sports Protection Act of 1992 (“PASPA”), sports betting is banned in all states except Nevada, Oregon, Montana and Delaware. Oregon is granted an exemption from the ban on sports betting because it offered Sports Action, a parlay game for NFL and NBA games from 1989 to 2007. States that offered sports betting prior to the 1992 passage of PASPA were grandfathered and are able to continue to offer or reintroduce sports betting to the extent it was offered before PASPA. It should be noted that when Delaware initially reauthorized sports betting the sports leagues sued on the grounds that PASPA prohibited “any type of betting beyond what it had offered in a failed National Football League lottery in 1976.”¹⁷⁰

Oregon phased out Sports Action in 2007 because the “NCAA had said as long as there were sports betting games being offered in Oregon, they would not permit a site in Oregon to host an NCAA men’s or women’s basketball tournament game.”¹⁷¹ In 2007, (the year Sports Action ceased operating in the State) the NCAA announced that Oregon would host the first and second rounds of the 2009 NCAA men’s basketball tournament. We highlight Oregon because if the state determines to reauthorize Sports Action, or a similar sports betting game, then the

¹⁷⁰ Frederic J. Frommer, “Delaware Sports Betting Dealt Legal Blow,” Associated Press, August 31, 2009. <http://www.cbsnews.com/news/delaware-sports-betting-dealt-legal-blow/>

¹⁷¹ Kevin Hays, “Oregon Says Goodbye to Betting on NFL Games,” *Salem News*, February 4, 2007. http://www.salem-news.com/articles/february042007/oregonnflbetting_020407.php

Oregon casinos near the border with Washington could have a competitive advantage against Washington casinos and cardrooms.

In surveying the potential legal status of sports betting in the US, we note that New Jersey has passed legislation to repeal the State's prohibition on sports betting. Thus far, New Jersey has been stymied in its efforts because the professional sports leagues and the NCAA have prevailed in their legal claims that the New Jersey legislation violates PASPA. The State was granted a rare *en banc* hearing by the Third Circuit Court of Appeals, and oral arguments were heard in February 2016 and the court rendered its opinion on August 9, 2016, which ruled that the State's legislation violated PASPA. Court watchers have speculated that the New Jersey sports betting appeal will eventually be heard by the US Supreme Court.

Daniel Wallach, an attorney following the New Jersey case has speculated "the best option, I believe, is for another state, such as California, to join the fray and challenge PASPA in another federal judicial circuit in an attempt to create a circuit split."¹⁷² Griffin Finan, a gaming attorney with Ifrah Law, also espoused this legal theory. He concluded his remarks by noting "that could create a circuit split, which could inspire the Supreme Court to take the case."¹⁷³ Washington, like California, is in the Ninth District of the US Court of Appeals.

The American Gaming Association over the last years has vigorously advocated for the legalization of sports betting, arguing that the activity is already widespread and that legalizing it and regulating it will make it safer for both participants and sports leagues and a source of tax receipts for states.

The addition of sports betting to casinos and cardrooms in Washington can reduce seasonality and benefit other areas of the property, including increased volumes on other types of casino games and incremental revenue to restaurants and nightclubs. As noted by David Farahi, Chief Operating Officer of Monarch Casino and Resorts, "Sports books are not much of a money maker for casinos in general, but it is a way to attract traffic to the property."¹⁷⁴

We note that the traffic to Nevada casinos with sports books spikes around major sporting events such as the Super Bowl, March Madness, World Cup soccer, and World Series. For example, wagering on the Super Bowl was a record \$132.5 million in 2016, up from \$116 million in 2015. In relative terms, sports book wagering on all sporting events at Nevada sports books

¹⁷² David Purdum, "Pol Doubles Down on Sports Wagering," ESPN, June 25, 2014, ESPN. http://espn.go.com/espn/story/_/id/11126621/despite-supreme-court-decision-nj-politician-pushes-legislation-decriminalize-sports-betting

¹⁷³ Ibid.

¹⁷⁴ Anne Knowles, "Sports Betting in 2014 Big Winner in Nevada Gaming Industry," *Tahoe Daily Tribune*, February 9, 2015. <http://www.tahodailytribune.com/news/14994342-113/sports-betting-in-2014-big-winner-in-nevada-gaming-industry>

was \$4.2 billion and \$4.4 billion in 2016 and 2015, respectively, suggesting wagering on the Super Bowl is 3 percent of all wagers.

Sports book revenue for all Nevada casinos in 2015 equated to 2.1 percent of gross gaming revenue. If assume a similar percentage to Washington casinos and cardrooms – which we believe is reasonable given the convenience of the facilities to adults throughout the state (as noted in Chapter V) – sports betting in Washington could generate in the range of \$50 million to \$60 million in incremental win statewide. Washington casinos and cardrooms would benefit from the convenience of being locals properties, offset by the benefit that Nevada casinos, especially on the Las Vegas Strip and Downtown Las Vegas, receive from tourism during high-profile betting events like March Madness and the Super Bowl. But, we aver that the incremental increase in direct revenue is not the whole story, as the other types of games would see an uplift from increased visitation to the casino. Likewise, illegal sports betting is prevalent and a legal option would attract new gamblers to the casino who previously couldn't wager on sports.

H. Embracing eSports is Key to Attracting Millennials

The Governor of Nevada convened a task force on eSports in May 2016 to “discuss economic development opportunities for Nevada in eSports.”¹⁷⁵ Many in the gaming industry do not understand eSports and the panel got a “crash course on professional video gaming.”¹⁷⁶ eSports are “organized video game competitions that pit world class players against each other for cash prizes.”¹⁷⁷

The market for eSports is global and caters to a younger demographic. In North America, the eSports market is estimated at \$224 million, the second-largest of the estimated worldwide market of \$748 million.¹⁷⁸ According to SuperData Research, of the \$748 million revenue for the eSports industry, the vast majority (\$579 million, or 77 percent) are indirect revenue, meaning they are sponsorship and advertising dollars. The remainder (\$169 million, or 23 percent) are direct revenue to the industry, sourced from eSports betting and fantasy sites, prize pools, amateur and micro-tournaments, merchandise and ticket sales. However, by 2018 direct revenue

¹⁷⁵ Associated Press, “Sandoval Getting Crash Course in Pro Video Gaming,” *Las Vegas Sun*, May 13, 2016. <http://lasvegassun.com/news/2016/may/13/sandoval-getting-crash-course-in-pro-video-gaming/>

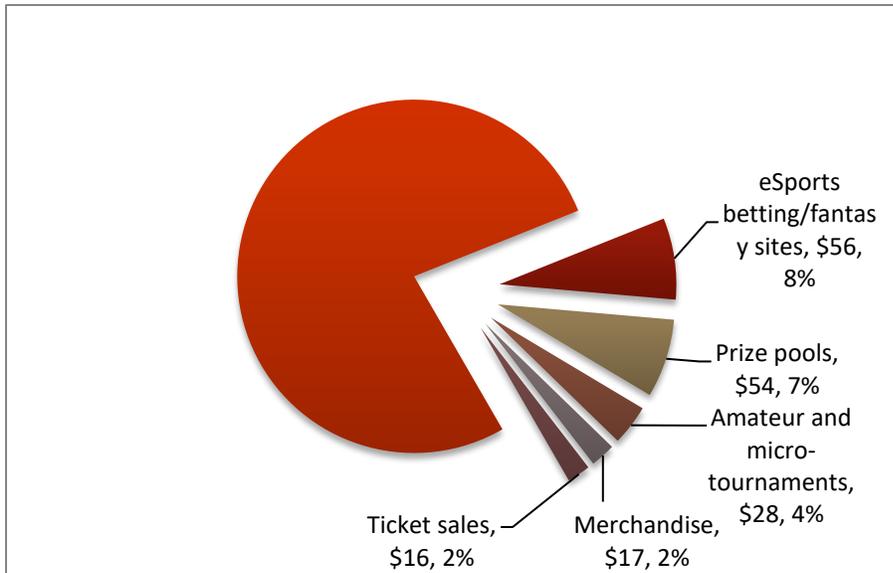
¹⁷⁶ Ibid.

¹⁷⁷ Kevin Morris, “Gamers are Not Only Athletes, But the Internet has Changed the Definition of ‘Sports,’” *Wired.com*, December 23, 2013. <http://www.wired.com/2013/12/are-esports-really-sports-who-cares-its-here-to-stay/>

¹⁷⁸ Stephanie Llamas and Ravon James, “Esports the Market Brief: 2015/2016 Update,” SuperData Research, October 2015.

is expected to grow 400 percent, to \$845 million, or roughly 44 percent of the estimated \$1.9 billion eSports market by 2018.

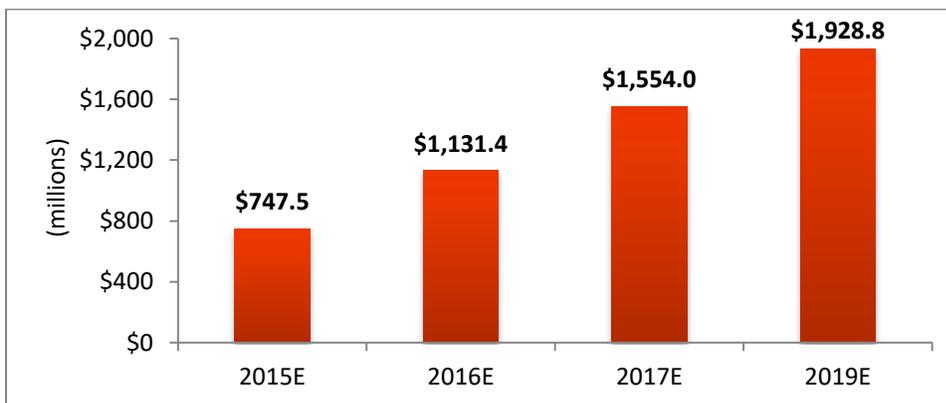
Figure 106: Breakdown eSports revenue by type, 2015



Source: SuperData Research. Dollar amounts in millions.

North America is a smaller eSports market than Asia, but because of an increase in investments the growth rate of the North American market is expected to outpace Asia.¹⁷⁹ In Figure 107: Total worldwide market for eSports we provide estimates for the eSports market through 2019 when the market is expected to reach nearly \$2.0 billion, 37 percent compound annual growth rate.

Figure 107: Total worldwide market for eSports, est. 2015-2019



Source: SuperData Research

¹⁷⁹ Ibid.

eSports Can Do Well Outside of Major Cities and Las Vegas

eSports events in major cities are well attended. In August 2015, an average of 11,000 eSports enthusiasts attended a League of Legends eSports tournament in Madison Square Garden; the following depicts the event:

Figure 108: Photo of League of Legends Tournament, August 2015



Source: Mashable.com

Smaller regional markets should host eSports tournaments and contests. In particular, attendees at eSports events “love to attend as many gaming events as possible.”¹⁸⁰ Up to 30 percent of eSports event attendees will attend three or more events per year and “67 percent want more events, more often.” While most events are in major cities “40 percent of respondents would like to see more live eSports events outside major cities.”¹⁸¹

Washington is an example of a very attractive regional eSports gaming market because it has a relatively large population, and is home to several high-profile technology companies, such as Microsoft and Amazon, as well as video game companies, such as PopCap, a subsidiary of Electronic Arts. Likewise, Unikrn, a leading eSports platform and community, is based in Seattle.

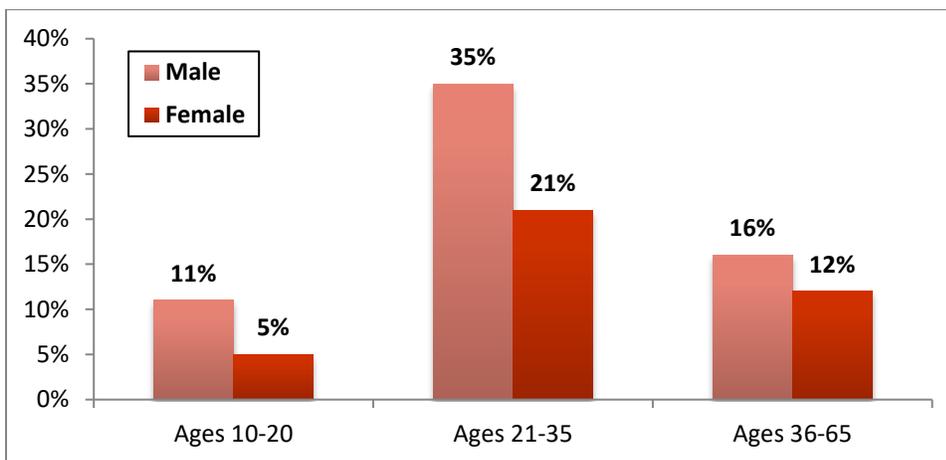
¹⁸⁰ “The eSports Effect: Gamers and the Influence of Live Events,” Eventbrite, February 2015. http://eb-blog-bloguk.s3.amazonaws.com/wp-content/uploads/ESports_Eventbrite_FINAL-REPORT.pdf

¹⁸¹ Ibid

eSports will Provide Access to Millennials Willing to Spend in Casino

In our conversations with casino operators throughout the country, many expressed optimism about eSports and view it as an opportunity to increase the appeal of the casino to Millennials. In particular, more than 50 percent of eSports fans are between the ages of 21 and 35. And despite other stereotypes about gamers, “more than half of American eSports fans are employed full-time, 44 percent are parents.”¹⁸² In fact, according to SuperData Research, the average household income for eSports viewers is \$76,000, a figure higher than both the national and State average. Thus, casino involvement in eSports can introduce the property to a younger, wealthier and primarily male customer.

Figure 109: Demographics of eSports fans



Source: ESPN

Importantly, the eSports enthusiast is actively engaged and willing to spend after attending an eSports event as “thirty-eight percent also said they are likely to purchase products and services they saw being used or showcased at an eSports tournament.”¹⁸³ Casinos, in our opinion, are good venues to address the other desires of eSports enthusiasts, such as ticketed access to pro-player team meet and greets (43 percent), organized cosplay and cosplay competitions (22 percent).¹⁸⁴ Hosting an event can also be a source of revenue for the casino as enthusiasts are willing to pay to attend the event.

- 41 percent are willing to pay up to \$49
- 18 percent are willing to pay up to \$99

¹⁸² Ben Casselman, “Resistance is Futile: eSports is Massive...And Growing,” ESPN May 22, 2015. http://espn.go.com/espn/story/_/id/13059210/esports-massive-industry-growing

¹⁸³ “The eSports Effect.”

¹⁸⁴ Ibid.

- 19 percent are willing to pay up to \$200¹⁸⁵

Spectrum believes casino operators can offer VIP, or reserved seating, to guarantee proximity to the stage at the higher ticket prices.

However, while casino operators understand the reason to get involved in eSports, many remain unsure about methods to become involved in the industry. Spectrum believes there are a number of opportunities for casinos to participate in eSports.

- **Offer wagering on eSports:** For Washington casinos and cardrooms to offer wagering on eSports a number of events would need to occur. Notably, the state would need to pass legislation authorizing sports betting in the state and the state’s law would either 1) not violate PASPA or 2) Congress would pass legislation to revoke PASPA. Further, the State would also have to pass regulations for sports betting. As important, the sports betting regulations would have to include eSports in the definition of the “type of sporting events one could place a wager on.”¹⁸⁶ While many debate whether eSports are, in fact, a sport, we note that the US Department of State appears to recognize eSports as a sport because it has granted visas to foreign nationals to enter the United States to compete in eSports competitions. And the visas was issued “under the category of ‘internationally recognized athletes.’”¹⁸⁷
- **Host an event:** As previously noted, eSports enthusiasts want more events and are willing to travel to smaller, regional markets. With venues to host meetings, concerts and other events, as well as safe parking, the casino is an ideal location to host an eSports event, which will bring enthusiasts to the casino. Properly staged, the casino can benefit from bringing people to the property.
- **Sponsor a team:** While tournaments are well attended, the majority of eSports events are streamed online, as eSports viewership is expected to grow from 101 million in 2014 to 238 million in 2017.¹⁸⁸ Thus, sponsorship of a team will enable a gaming establishment to generate worldwide recognition.
- **Provide residency for a team:** According to an article on Business Insider, professional gamers on Team Liquid, a professional League of Legends team,

¹⁸⁵ Ibid.

¹⁸⁶ Arash Markazi, “Rolling the Hard Six: Las Vegas Bets on eSports,” ESPN.com, April 23, 2016. http://www.espn.com/esports/story/_/id/15304672/las-vegas-bets-esports

¹⁸⁷ Morris.

¹⁸⁸ Stephanie Llamas and Ravon James, “Esports the Market Brief: 2015/2016 Update,” SuperData Research, October 2015.

“practice together for eight hours a day, scrimmaging against other pro and Challenger-level teams.”¹⁸⁹ While this option is only viable for a casino with sufficient hotel capacity, it provides the casino with numerous opportunities to monetize the residency, including team meet-and-greets and the sale of reserved spaces to be a scrimmage opponent against the team.

I. Technology and Responsible Gambling

It is apparent that digital, or technologically-driven, formats of gaming are more capable of protecting against underage and problem gaming than land-based alternatives. For example, to sign up for an online gaming site, the customer must provide at least two forms of government-issued identification, including Social Security Number. By contrast, land-based casinos will typically ask for a driver’s license. The problem with this form of age verification is that it is dependent upon employees of the casino recognizing an underage gambler and asking for the identification, as well as recognizing if the driver’s license is valid. In fact, this method of age verification has not proven to be foolproof; Howard Freed, chief municipal prosecutor for Atlantic City, once noted that four to six underage-gambling cases per week – most involving 18-, 19- and 20-year-olds – were referred to the city.¹⁹⁰ We believe this online method of identity verification, combined with the need to log on to a website each time, is also more effective to prevent access to gaming for patrons that have voluntarily signed up for a self-exclusion list.

Likewise, online gaming sites use complex computer algorithms to track player behavior that can be used to identify players at risk of problem gaming and suggest appropriate resources. In fact, there will be more data available in online formats than in the land-based casino environment because 100 percent of online players are tracked, while some customers of land-based casinos elect not to sign up for loyalty cards and their play is not tracked. Further, wagering on table games is better tracked online than on tables at casinos or cardrooms, as player tracking is still subject to observation by casino employees. As such, there is more available and accurate data on the online gaming customer, which can be used in predictive analytics to identify and intervene in problem gaming. As noted by the Responsible Gambling Council (“RGC”), a Toronto-based global leader in problem-gambling research, “The introduction of a mandatory player card presents opportunities for gaming providers to more effectively reduce the risk of access by

¹⁸⁹ Harrison Jacobs, “Here’s the Insane Training Schedule of a 20-Something Professional Gamer,” *Business Insider*, May 11, 2015. <http://www.businessinsider.com/pro-gamers-explain-the-insane-training-regimen-they-use-to-stay-on-top-2015-5>

¹⁹⁰ Suzette Parmley, et al, “Underage Gaming Called Widespread Atlantic City Casinos Say They Are Vigilant. Some People Believe They Could Do More,” *Philadelphia Enquirer*, February 22, 2008. http://articles.philly.com/2008-02-22/news/25266053_1_underage-gamblers-underage-patrons-trump-entertainment-resorts

patrons who are self-excluded or young people under legal age limit.”¹⁹¹ Evidence of the efficacy of tracking play information can be seen in the experiences in certain international jurisdictions, such as Sweden and Norway, where it is mandatory to use a player card for online gaming. These systems use the following features to protect online gaming customers:¹⁹²

- Play activity report: A historical record of the amount of time and/or money the player has spent within a given time period
- Current session feedback: A running total of time and/or money spent during an active session
- Limit setting: The opportunity to set time and/or money limits prior to participation in gambling
- Timeouts: The ability for players to ban themselves from gambling for a certain period
- Risk assessment: An assessment of a gambler’s risk level based on play patterns or a self-administered test

Keith Whyte, Executive Director of the National Council on Problem Gambling, said the nature of Internet gaming is well suited to help gamblers control their activities:

The graphical and interactive structure of the internet provides an opportunity to create informed consumers with access to a variety of information designed to encourage safe choices and discourage unsafe behavior. The technology also exists to allow players and operators to set limits on time, wagers, deposits, etc. ... as well as to exclude themselves. A number of studies have found such programs to be effective. These programs can be improved by utilizing the data collected by these websites to develop profiles of general online wagering behavior. From this information medians and benchmarks could be created to allow the development of predictive programs for abnormal usage as well as publicized norms, an important prevention tool. Operators should, as a condition of licensure, provide public access to de-identified data on player behavior for research purposes. Overall, the amount of online information and possible interventions are essentially unlimited. Responsible gaming regulations must be mandatory and enforceable.¹⁹³

¹⁹¹ “Play Information and Management System,” Responsible Gambling Council, 2009.

<http://www.responsiblegambling.org/docs/research-reports/play-information-and-management-systems.pdf?sfvrsn=10>

¹⁹² “RGC, 2009.

¹⁹³ Keith S. Whyte, Executive Director, National Council on Problem Gambling , testimony before Pennsylvania House Democratic Policy Committee, Thursday, May 1, 2014.

To be certain, “very little has been published in the peer-reviewed research literature”¹⁹⁴ about the effectiveness of these programs. However, the RGC published a review of player algorithms in 2009, including focus group studies that suggested “there would be many benefits for the introduction of some form of player card system that used technological innovations to help reduce the risk of gambling problems.”¹⁹⁵

The study by the RGC did draw valid conclusions as it relates to the types of features. While discussing the current session feedback feature the study declared, “The ability to view their current session information appeared to have helped some individuals with gambling problems to stay on budget and reduce the amount spent per session.”¹⁹⁶ Likewise, limit setting was found to be effective in the study of gaming habits in Sweden. As noted in the RGC paper, “of the players who had reached their limits, 63 percent reported that they did not play with another poker website and 68 percent did not change their limits.”¹⁹⁷

Massachusetts’ Vanguard Program

The enabling legislation that approved expanded gaming in Massachusetts (chapter 194 of the Acts of 2011, M.G.L. chapter 34K; the “Gaming Act”) includes the most comprehensive state-sanctioned responsible gaming program of any jurisdiction in the United States. In 2014, the Massachusetts Gaming Commission (“MGC”) published “The Responsible Gaming Framework” as a guide to inform regulators so that they have the supports to effectively implement the underlying responsible gaming principles of the Gaming Act.

The MGC’s mandated responsible gambling program includes groundbreaking economic and social baseline research studies as well as a play management program known as PlayMyWay. The program is designed to let “social” or “recreational” gamblers make informed decisions about their gambling and is not designed for “at risk” or problem gamblers.

The program utilizes the “GameSense – The Smart Way to Track Your Play” program first used by the British Columbia Lottery Corporation. The Massachusetts program, launched as a pilot program at Plainridge Park Casino, is a simple and entirely voluntary budgeting tool to personalize one’s gambling activity. Situated in a central location of the casino, the prominent, green-colored GameSense Information Center (“GSIC”) provides patrons an opportunity to communicate with GameSense advisors and to discuss responsible gaming issues. The MGC has

¹⁹⁴ Bo J. Bernard and Brett L.L. Arbabanel, “Diagnostic Algorithms and Problem Gambling,” International Gaming Institute, March 2011. <http://www.stopthefobts.org/wp-content/uploads/2015/12/Active-Interventions-Diagnostic-Algorithms-and-Problem-Gambling-FINAL3.pdf>

¹⁹⁵ “RGC, 2009.

¹⁹⁶ Ibid

¹⁹⁷ Ibid.

contracted with the Massachusetts Council on Compulsive Gambling to staff the GSIC (from 9 a.m. to 1 a.m.) every day. The program goal is to explain how the games are played and to get patrons to voluntarily set reasonable spending gaming limits. Advisors instruct patrons on how to budget their time while in a casino, which helps to maintain spending limits.

To enroll in PlayMyWay, a patron must enroll in the casino's player rewards program. Patrons can register at the GSIC or by using a slot machine and answering on-screen prompts upon inserting the card into any slot on the casino floor. The card serves as the tracking system for applying the limits voluntarily set by the patron.

Upon enrollment, a patron selects spending limits on a daily, weekly or monthly basis. Once 50 percent, 75 percent and 100 percent of a patron's voluntary spending limit is reached, a pop-up box appears on the slot machine screen. The patron can choose to continue play after receiving a notification, and notifications continue after the limits have been exceeded. Currently, patrons can only sign up and set/change betting limits at the casino because the technology is not yet in place to be able to do that online from one's personal computer.

Marlene Warner, Executive Director of the Massachusetts Council on Compulsive Gambling, said the program serves as a "calorie counter" and is a simple way to keep track of a patron's spending while gambling. Warner said over 5,000 patrons have signed up in the three months since the program began in June 2016. She said the number of patrons that have enrolled in PlayMyWay thus far is "beyond expectations" and noted that many regular Plainridge patrons can be seen at the GSIC throughout the day and evening. She added that the casino industry "embraced the program" once they realized the public relations benefits of being associated with the highly visible program.

Mark Vander Linden, the MGC's Director of Research and Responsible Gaming, said the program is an innovative way to communicate to patrons how to make informed gambling choices. He said advances in technology "have been instrumental in being able to implement a program such as PlayMyWay." He added that the program matches well with the casino industry's approach of having casinos "personalize the gaming experience."

Whyte called the Massachusetts' PlayMyWay program groundbreaking in that it is "the first real commitment to a player management program in the United States." He said the program is a tool for the recreational gambler, not those with gambling problems, and is well liked by the patrons currently using it. Whyte said the program is a test of the balance between the theory that a healthy gambler will set a limit before starting to play and then maintain those limits and the pressure to exceed those limits and obtain additional funds. Whyte said PlayMyWay is applicable to other jurisdictions and can be replicated since they all have the advanced technology and player rewards tracking systems in place. He added that it would be an effective tool to compliment current problem gaming programs in other states.

Replicating a PlayMyWay program in other, established gaming jurisdictions may not be as easy. Daniel Heneghan, Public Information Officer for the New Jersey Casino Control Commission, who also serves as Vice President of the New Jersey Council on Compulsive Gambling, said this type of program would be a “difficult sell in New Jersey because trying to introduce such a program long after gaming has started would require a change in the mind-set of the industry.”

New Jersey’s Internet Gaming Tools

The evolution of technology required some states, including iGaming leader New Jersey, to take a new look at responsible gaming programs. New Jersey has developed a program to permit patrons to sign up for the voluntary self-exclusion list for land-based casinos or online gaming, or both. George Rover, Deputy Director for the New Jersey Division of Gaming Enforcement, said the advent of technology and the authorization of online gaming required New Jersey regulators to implement effective controls to ensure compliance as well as introduce new problem gambling programs. Rover said the DGE requires Internet gaming operators to include in all approved games the following responsible gaming controls to limit losses and potentially reduce problem gambling behavior:

- Limits on amount of deposits
- Limits on amount of losses
- Limits on the amount of time you can play
- Voluntary 72-hour cooling-off period
- Voluntary self-exclusion from one to five years

Players have the choice of whether to utilize these tools when beginning game play each time they log in.

Appendix 1: Accepted Scope of Services for this Study

Following is the contracted scope of services Spectrum Gaming Group is to provide for the Economic Market Study on Gambling for the Washington State Gambling Commission, as provided in our Response, Section 3.2.2 (RFP language in highlighted in gray):

- 1) Describe your proposed solution, methodology and overall approach. Indicate explicitly whether or not the following requirements are met and describe how each requirement will be satisfied. Number each response with 1, 2, or 3 as it coincides with the requirement.

Spectrum will provide the WSGC with a comprehensive and transparent report – suitable for public consumption – that will address the following aspects of legal gambling in Washington (other than lottery and horse racing). **For all aspects cited in the narrative outline provided below, Spectrum asserts that it will perform/has the ability to complete/is knowledgeable of requirements 1, 2 and 3 as follows and as provided in the RFP:**

1. Bidder must be able to perform research that places dual emphases on quantitative as well as qualitative impacts.
2. Bidder must be able to effectively consult with personnel employed in various roles by WSGC and its licensees.
3. Bidder must be fully knowledgeable regarding all phases of the study process, and able to implement that process without extensive supervision. This process includes (but is not limited to):
 - Identification of issues to be addressed
 - Development of an actionable study plan
 - Technically sound implementation, tabulation and analysis
 - Clear, timely, professional reporting, presentation, and explanation of findings and conclusions.

1. **Employment:** Through public-sector, private-sector and research sources, Spectrum will estimate the number of employees working in Washington casinos and cardrooms based on public data and industry interviews, and we will estimate their gross wages based on industry information and/or Department of Labor data. We will endeavor to provide these data on an annual basis so as ascertain the employment trends in the state’s gaming industry. To the extent relevant and possible, we will determine the employment data for non-profit gambling as well. These data will be critical inputs to the economic-impact model we will develop, as described in No. 9 below.
2. **Introduction of New or Modernized Gambling Activities/Games:** Due to rapid changes in technology and the parallel changing demographics and behavioral trends, the gaming industry beyond land-based casinos is becoming prominent in many forms. As such, Spectrum will provide an examination of the trends, results (where available/relevant, using other jurisdictions as examples as appropriate) and future of the following forms of gambling, based on the following outline:
 - a. Spectrum will prepare an analysis of the potential benefit to Washington tribal casinos and cardrooms from the introduction of new or modernized gambling activities. We will compile data from publicly available resources. Based on our over 30 years’ experience in the gaming industry we will also compile data and information from proprietary sources.

Utilizing this information we will benchmark performance of new or modern gambling activities to assess the revenue potential to Washington gaming entities, where appropriate. We will also prepare a qualitative review of the different activities, including the current regulatory environment, tax rates and assessment of key operators, where appropriate.

- b. Our review and analysis will focus on areas identified in the RFP:
 - i. Fantasy sports
 - ii. Internet gaming
 - iii. Mobile games
 - c. We will also provide an assessment of other new or modern gambling activities not mentioned in the RFP to include:
 - i. Skill-based slots
 - ii. Sports betting
 - iii. eSports
3. **Gambling Facilities:** Spectrum will visit numerous Washington casinos and cardrooms and evaluate how, generally, they compare to facilities in other states, including California. We will examine such aspects as the breadth and quality of non-gaming amenities, the modernity and offerings of the gaming floor, and the general condition. We will provide examples of best practices and examples of where facilities have room for improvement to meet patron expectations. Relying on industry and operator data to the extent available, we will provide a catalog showing the quantifiable aspects (number of slots, tables, restaurant seats, hotel rooms, etc.) of each facility.
 4. **Gambling Trends:** This aspect will focus on the land-based casinos and cardrooms, as we will have discussed the trends for other forms of gambling in No. 2 above. Spectrum will qualitatively examine such issues as demographic shifts among casino patronage, expansion/saturation, and commercial gaming vs. Indian gaming. (Technology trends will be addressed in No. 2 above.) Quantitatively, we will analyze trends in gross gaming revenue, visitation and annual spend per visitor. We will provide our examination of trends nationally as well as in Washington and in the West to the extent data allow.
 5. **Population Trends:** Spectrum will analyze both statewide and regional (e.g., agglomeration of countywide and/or metropolitan/micropolitan statistical areas) of population data for Washington since 2000 to determine where growth may or may not have occurred, while we would expand upon this and evaluate current population levels, as well as near-term population projections (i.e., within the next five years). We will then place these data points in the context of the availability of casino gaming and the like through Washington, as well as examine trends between population growth/projections and available gaming-related metrics for Washington. We will then seek then illustrate any salient findings in regard to the population dynamics (past, present and future) in the context of the casino gaming landscape throughout the State of Washington.
 6. **Revenues:** Through public-sector, private-sector and research sources, Spectrum will tabulate the annual Washington gaming revenues – through 2015 – for Indian casinos, cardrooms, and non-profit gambling based on public records and industry data and interviews, as well as estimate the non-gaming revenue at casinos. These data will determine our baseline. We will then project future revenues based on all known, firm expansion plans – most notably the Cowlitz Casino

Project near Vancouver, WA – factoring in inflation and other known factors. These data will be critical inputs to the economic-impact model we will develop, as described in No. 9 below.

7. **Technology Impacts:** Spectrum will analyze data related to the use of technology in other gaming markets, including New Jersey, Nevada, Delaware and certain European markets. Based on this analysis, we will provide a qualitative assessment of the key opportunities and risks associated with the advances in technology and their use in the gaming industry. Such assessment to include a discussion of revenue opportunities, Millennial outreach, cannibalization of existing gaming facilities, underage and responsible gaming.
8. **Tourism Effects:** Spectrum’s qualitative analysis will include meetings with tourism officials throughout Washington in person, and via telephone and email. We will ask certain questions, including but not limited to the following:
 - What surveys do you have of visitors to your state and region, and what demographic data is available as to their place of origin, age, income and other relevant demographic data?
 - Have any visitors – or convention and meeting planners – indicated a preference for visiting casinos during their visits?
 - Are there cross-marketing programs with local casinos, or other efforts to integrate casinos into marketing programs?

For larger markets, such as Seattle and Spokane, we will provide a specific focus on how casinos and other gaming attractions are brought in to marketing programs, and we will want to know which markets the DMO leaders and other tourism officials view as their competition, as we will need to focus on which competitive markets might – or might not – offer gaming.

From a quantitative standpoint, we will extrapolate from our modeling and research how much gaming revenue is being derived from out-of-state visitors, and we will also develop estimates as to gaming’s impact on keeping Washington dollars in state; i.e., how much revenue would otherwise be spent out of state if there were no gaming options available for Washington residents.

9. **Economic Impacts of Indian and Cardroom Gaming:** In what could be the focal point of the study, Spectrum will calculate the economic impacts of Washington’s primary – and most visible – gambling industries (other than lottery and horse racing). Spectrum will use many of the inputs from our research and analysis for an economic-impact model developed for this engagement by IMPLAN. The modeling will be managed by the Economic and Public Policy Research (EPPR) group of the University of Massachusetts Donahue Institute (UMDI), which will provide expertise and analysis on population trends and economic impacts. EPPR provides economic impact analysis, market studies, strategic advice, and policy evaluation services to public and private clients around the country and has been doing so for nearly 50 years. EPPR also serves as the U.S. Census Bureau’s State Data Center and produces the official population forecasts for the Commonwealth of Massachusetts. This expertise will be brought to bear on questions surrounding the evolving gaming market in Washington. Using the data noted above, our economic impact model will measure the total economic contributions of gaming to the state. EPPR will also provide population forecasts to form the basis for future gaming market expectations.

EPPR anticipates conducting both the population and economic analyses at the state level. The population forecast will be performed at the lowest level of disaggregation that the

source data will allow. EPPR expects, at a minimum, to be able to provide forecasts by age and likely by race and gender as well.

EPPR is highly experienced in building complex economic impact models and has used economic modeling software to complete impact analyses and assess the economic contributions of many different types of facilities and industries, including casinos. The IMPLAN model is the most widely used economic impact model available and is accepted by both the economics and policymaking communities.

The IMPLAN software generates realistic estimates of the total regional effects of specific initiatives. Model simulations allow users to estimate comprehensive economic effects created by economic events such as the development and operation of a casino within a region. IMPLAN allows economists to assess a variety of effects including economic impact analysis; improvements to local infrastructure; and state and local tax policy changes.

The model has an enormous database of economic variables and relationships including over 400 industry sectors, employment, wages, output, gross state product, and other metrics such as labor productivity and tax revenues. Some of this data may be appropriate for baseline analysis in addition to the impact modeling capabilities.

The findings will be presented in the final report using tables and charts as needed. The list below provides a non-exhaustive list of results expected to be produced as part of the economic analysis.

- New jobs, business activity, value added, and more by sector
- New personal income
- Offsetting losses in employment and revenues due to the reallocation of existing spending away from other sectors to casinos
- Changes in tax revenue from both gaming taxes and new economic activity
- Changes in revenues and jobs for the retail, accommodations, and restaurant sectors

Appendix 2: Individuals Interviewed

In addition to many staff at the Washington State Gaming Commission, Spectrum interviewed the following individuals for this study.

Last	First	Organization	Title
Allen	Ron	Jamestown S'Klallam Tribe	Tribal Chairman
Anderson	Jim	Shoalwater Bay	Gaming Commission Chair
Beckett	Bruce	Washington Restaurant and Washington Lodging	Director, Government Affairs
Blandford	David	Visit Seattle	VP Communications
Brougher	Lynne	Grand Coulee Power Office	Public Affairs Officer
Carrroll	Robert	Washington Amusement & Music Operators Association	Past President
Chiechi	Dolores	Recreational Gaming Association of Washington	Executive Director
Coleen	Berry	7 Cedars	CFO
Dykstra	Bonnie	Salmon Creek American Legion Post 176	Bookkeeper
Eliason	Denny	Alliances Northwest	Partner
Fitzgerald	Dwayne	Spokane Tribe	Assistant General Manager
Fretz	David	Great American Casinos	RGA VP
Gallegos	Raelynn	Lucky Bridge Casino	General Manager
Gregg	Mean	Macau Poker Room	General Manager
Grove	Chris	Narus Advisors	CEO
Heneghan	Daniel	New Jersey Casino Control Commission	Public Information Officer
Herschlip	Josh	Buzz Inn Casino	Owner
Hill	David	Fortune Casino, Freddie's Casino	Owner
Holmes	Curt	Kalispel Tribe of Indians	Director of Public & Government Affairs
Jabara	Michael	oneLIVE	CEO
Jerry	Allen	7 Cedars	General Manager
Julnes	Dennis	Shoalwater Bay	Councilman
Kerns	Larry	Shoalwater Bay	Controller
Kilday	Cheryl	Visit Spokane	President & CEO
Kugler	Kfir	Ezugi	CEO
Letsch	Scott	Lilac Lanes & Casino	Casino General Manager
Levine	Jeremy	Draft	CEO
Loucks	Barbara	40 et 8 Bingo	HR Manager/Bookkeeper
MacClain	John	Confederated Tribes of the Colville Reservation	COO, Gaming
Magee	Dave	Hawk's Prairie Casino	General Manager
McMullen	Sam	FiveGen	CEO
Mena	Victor	Recreational Gaming Association of Washington	President
Moe	Mike	Washington Tourism Alliance	Associate Director
Murray	Barry	Iron Horse Casino	Owner
Nelson	Charlene	Shoalwater Bay	Tribal Council Chair
Nicholson	Gene	Confederated Tribes of the Colville Reservation	Board Member, Colville Tribal Federal Corporation
Padveen	Corey	t2 Marketing International	Director, Global Social Business Strategy
Riley	Ian	Black Pearl Casino and Poker Room	Co-Owner
Roberts	Rich	DraftDay	CEO
Rogers	Rayna	Silver Dollar SeaTac	Casino Operations Manager
Rover	George	New Jersey Division of Gaming Enforcement	Deputy Attorney General
Ruddy	Tom	Nob Hill Casino	General Manager
Shadd	Wayne	Warner Hospitality	Senior Vice President Operations - Spokane
Teeny	George	Last Frontier Casino	Owner
Tosch	Dave	Wenatchee Senior Center	Executive Director
Vander Linden	Mark	Massachusetts Gaming Commission	Director of Research and Responsible Gaming
Walford	Harold	Crazy Moose and Coyote Bob's casinos	Regional Operations Manager
Warner	Marlene	Massachusetts Council on Compulsive Gambling	Executive Director
Whyte	Keith	National Council on Problem Gambling	Executive Director
Winokur	Johnny	Shoalwater Bay	General Manager
Winsor	Aaron	WOW Distributing	President and CEO
Wride	Philip	Cheesecake Digital	CEO

Source: Spectrum Gaming Group

Appendix 3: Site Visits

Spectrum visited the following Class III casinos and cardrooms in performing this study:

Property	Location	Date
Tribal Casinos		
7 Cedars	Sequim	June 6, 2016
12 Tribes	Omak	June 9, 2016
Angel of the Winds	Arlington	June 8, 2016
Chewelah	Chewelah	June 10, 2016
Coulee Dam	Coulee Dam	June 10, 2016
Emerald Queen at I-5	Tacoma	June 7, 2016
EQC at Fife	Fife	June 7, 2016
Legends	Toppenish	June 8, 2016
Little Creek	Shelton	June 16, 2016
Lucky Dog	Shelton	June 16, 2016
Lucky Eagle	Rochester	June 16, 2016
Mill Bay	Manson	June 9, 2016
Muckleshoot	Auburn	June 7, 2016
Muckleshoot II	Auburn	June 7, 2016
Northern Quest	Airway Heights	June 7, 2016
Quil Ceda Creek	Tulalip	June 7, 2016
Quinault Beach	Ocean Shores	June 15, 2016
Red Wind	Olympia	June 14, 2016
Shoalwater Bay	Tokeland	June 17, 2016
Silver Reef	Ferndale	June 8, 2016
Skagit Valley	Bow	June 8, 2016
Snoqualmie	Snoqualmie	June 21, 2016
Suquamish Clearwater	Suquamish	June 6, 2016
Swinomish	Anacortes	June 6, 2016
The Point	Kingston	June 6, 2016
Tulalip	Tulalip	June 7, 2016
Two Rivers	Davenport	June 10, 2016
Cardrooms		
Aces Casino	Spokane	June 7, 2016
Black Pearl	Spokane Valley	June 10, 2016
Casino Caribbean	Yakima	June 9, 2016
Coyote Bob's	Kennewick	June 8, 2016
Crazy Moose	Pasco	June 8, 2016
Fortune Casino	Tukwila	June 9, 2016
Freddie's Casino	Renton	June 9, 2016
Great American	Tukwila	June 9, 2016
Hawk's Prairie	Lacey	June 14, 2016
Joker's	Richland	June 8, 2016
Lilac Lanes & Casino	Spokane	June 7, 2016
Lucky Bridge	Kennewick	June 8, 2016
Macau Casino	Tukwila	June 9, 2016
Nob Hill	Yakima	June 8, 2016
Riverside Casino	Tukwila	June 9, 2016
Silver Dollar Sea-Tac	SeaTac	June 21, 2016

Source: Spectrum Gaming Group