
Evaluation of a Market Assessment for Casino Gaming at Dairyland Greyhound Park

City of Kenosha, Wisconsin

September 15, 2004



Executive Summary

The City of Kenosha, Wisconsin has asked Crowe Chizek and Company LLC (“Crowe Chizek”) to review a market assessment for a potential Class III Native American gaming casino proposed for the Dairyland Greyhound Park located at Interstate 94 and Highway 158 in Kenosha. The market assessment was prepared for Kenesah Gaming Development, LLC the would-be developer of the casino. PricewaterhouseCoopers, LLC (“PwC”) authored the assessment in June of this year. The City’s objective is to have an independent and objective review of the market assessment and the reasonableness of the projected net win, or gross gaming revenue, that the casino might produce upon reaching stabilized operations after its intended opening in 2006.

Overall, we have been able to find support through our own methods and data for a net win estimate that falls below that of the Assessment, but only nine percent, or \$43 million under the PricewaterhouseCoopers estimate. The need for the subjective use of estimates and judgmental nature of this type of estimate is such that we do not believe that this numerical difference is sufficient to conclude that the Assessment and our review represent significantly different opinions about the potential market for the casino.

The table below provides a brief view of the key assumptions, underlying characteristics of the casino and its performance, and operating performance that are used or estimated in the PwC assessment and in the Crowe Chizek evaluation of the assessment.

Comparison of PwC and Crowe Chizek Conclusions		
	PwC Assessment	Crowe Chizek Evaluation
Casino Scope	<ul style="list-style-type: none"> Full-scale gaming, including various table games and slot machines 	<ul style="list-style-type: none"> Full-scale gaming, including various table games and slot machines
Gaming Positions (by Phase II)	<ul style="list-style-type: none"> 3,100 slot machines 696 table positions (116 tables) 	<ul style="list-style-type: none"> 3,100 slot machines 696 table positions (116 tables)
Base Catchment Area	<ul style="list-style-type: none"> 100-mile radius from Casino site Primary market: adults in this area for whom the Casino would be the closest gaming facility available Secondary market: adults in this area who have another gaming facility closer to them than would be the Casino 	<ul style="list-style-type: none"> 2-hour drive-time radius from Casino site (effectively only 90-minutes due to competitive constraints) Primary (resident) market: adults in this area for whom the Casino would be the closest gaming facility available Secondary (tourist and transient) markets: overnight guests of the Casino hotel and travelers on passing highways who pause to visit the Casino
Primary Competitors	<ul style="list-style-type: none"> Potawatomi Bingo – Milwaukee, WI Grand Victoria Casino – Elgin, IL Hollywood Casino – Aurora, IL Ho-Chunk Casino – Baraboo, WI Isle of Capri – Rosemont, IL 	<ul style="list-style-type: none"> Potawatomi Bingo – Milwaukee, WI Grand Victoria Casino – Elgin, IL Ho-Chunk Casino – Baraboo, WI Isle of Capri – Rosemont, IL (proposed)

	(proposed)	
Primary Market Population	• 580,000 adults in 2006	• 650,616 adults in 2006
Annual Casino Visitation	• 5,300,000	• 3,340,934
Annual Gaming Revenue	• \$482,000,000 (in 2004 dollars)	• \$438,754,113 (in 2004 dollars)
Win per Visit*	• \$90.94	• \$131.33
Daily Win per Position*	• \$349.80 (363-day operating year)	• \$327.03 (363-day operating year)

*Imputed from PwC figures

While the annual gaming revenue estimates of both the assessment and our evaluation are not substantially different, two other characteristics that form the foundation for the respective net win estimates represent significant variations between the estimates. The PwC assessment anticipates that the casino will achieve 5.3 million visits or admissions annually, whereas the Crowe Chizek evaluation resulted in a figure of only 3.3 million. Conversely, the win per visit figure implicit in the PwC assessment (\$90.94) is lower than that in the Crowe Chizek evaluation (\$131.33). While these two differences, which move in opposing directions, do not completely offset each other, they do comprise the two most significant contrasting opinions about the potential gaming market. Other, less noteworthy distinctions are also discussed in the following narrative, including different interpretations of the secondary market sources for the casino.

Differences do exist in key elements of both calculations of the potential market for the casino. However, the ultimate estimate in the PricewaterhouseCoopers assessment—net win—is not significantly dissimilar from the conclusion that Crowe Chizek would reach through its own analytical methods and understanding of the Kenosha market.

Evaluation of the Assessment

Introduction

Crowe Chizek and Company LLC has been asked by the City of Kenosha to evaluate and comment on a market assessment (“the Assessment”) dated June 14, 2004 prepared by PricewaterhouseCoopers LLP. The Assessment estimates the future gaming revenue that might be generated from the potential development of a Class III gaming facility (“the Casino”) at Dairyland Greyhound Park by Kenesah Gaming Development, LLC.

Our evaluation of the Assessment, reported herein, is based on the thirteen-page *Market Assessment Executive Summary* from PwC dated June 14, 2004, and discussions with the PwC consultants who prepared the Assessment. Also factoring in our evaluation is our own knowledge of the gaming industry based on fifteen years of experience preparing market studies similar to the Assessment; published data from Illinois and Indiana riverboat casinos about their operating performance; United States census data for the Kenosha region; and geographic information system software.

Crowe Chizek Evaluation Findings

Crowe Chizek’s evaluation of the PwC Assessment results in general agreement with the Assessment’s findings. PwC estimated that stabilized operations will produce “net win” or adjusted gross revenue of \$482 million, whereas our analysis indicates a potential market of \$439 million, nine percent lower. Our experience has been that when comparing a casino’s actual performance statistics against earlier estimates for casino markets we have studied, we typically are eight to ten percent below the actual results produced. Based on that experience, we cannot conclude that the difference between the conclusion of the Assessment and our own analysis of the Kenosha gaming market indicates a meaningful difference of opinion about the potential net win for the Casino.

However, in comparing the two estimates of the Casino’s potential gaming revenue or net win, underlying differences between the analyses arose. These were in the win per visit and visitation estimates on which the revenue forecast of the Assessment is based. The remainder of this evaluation report will walk through the market analysis step by step and identify both of the key differences between the Assessment and Crowe Chizek’s view of the Kenosha gaming market.

Although we generally agree with the net win estimate for the Casino as estimated in the Assessment, we do not agree with the Assessment’s forecast for casino visitation. PwC puts this figure at 5,300,000 visits or admissions annually, whereas we estimate that there will be 3,341,000 admissions per year. We also differ on the average win per visit that the Casino will experience, with PwC’s analysis implying the lower \$90.94 average and Crowe Chizek seeing the market at \$131.33. These two differences in visitation and win per visit offset each other almost completely, however, based on the relatively small variance between both estimates for annual gaming revenue or net win. The first of the two key differences to be discussed in this report is visitation.

Casino Visitation

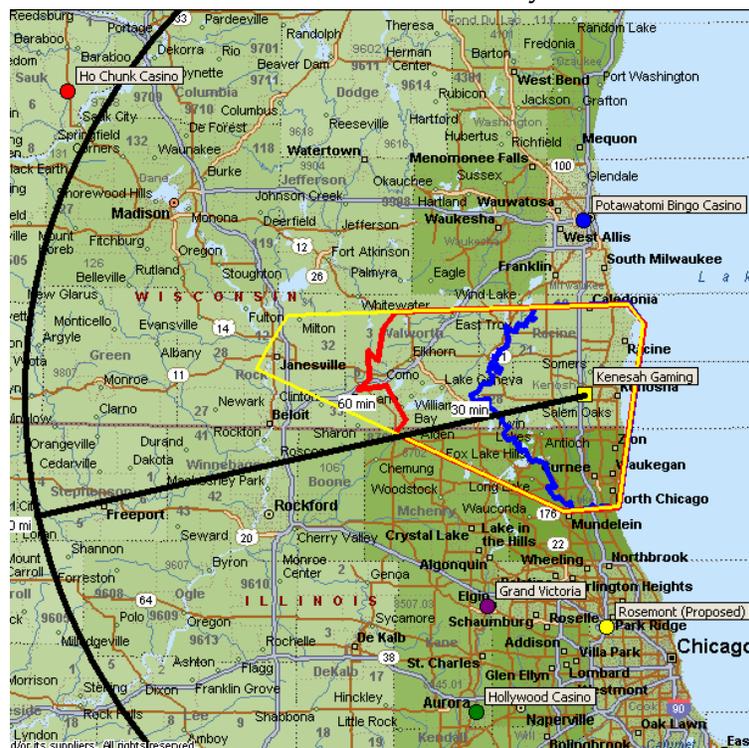
The basic approach to analyzing the market used by PwC is very similar to that of Crowe Chizek. We agree with the premise of the PwC methodology that consumer demand is the appropriate driver for estimates of gaming revenue. (Some followers of the gaming industry conduct analyses by looking solely at the product of the number of gaming positions to be created and the average revenue that they might produce. However, if the market does not support the number of positions considered in an analysis of this type, the resulting revenue estimate will exceed the ability of the market to bear it out in practice.)

Base Catchment Area

Both the PwC and Crowe Chizek methodologies begin by examining the population of the base market. PwC defines this market as a 100-mile radius extending from the Casino site. This does not differ substantially from the Crowe Chizek definition area (a two hour drive-time zone from the site).

However, competing casinos operate within about 100 miles of the Casino site in all directions exception toward Lake Michigan. Their nearness limits the reach of the Kenosha market to well under either a two-hour drive (Crowe Chizek model) or 100 miles (PwC model), extending north toward the Potawatomi Bingo site in Milwaukee, northwest toward the Ho-Chunk Casino in Baraboo, southwest toward Elgin's Grand Victoria riverboat casino and south toward the proposed Isle of Capri casino in Rosemont (see Figure 2).

Figure 1
Base Market Area - Primary



Casino catchment areas that do not overlap each other's markets normally would appear as a jagged, roughly circular outline representing all areas within a defined driving time from the gaming site. These can be seen, for example, in the blue and red lines of Figure 1, representing

the western portions of the 30- and 60-minute drive-time zones from the Casino site, respectively. When two market areas initially overlap, however, the primary market boundary includes a shared flat side to those circles, determined by a straight line drawn through the points that are equidistant to (halfway between) the two casinos. This dividing line represents the behavior of gaming consumers, who tend to patronize the one gaming facility closest to them. Such consumer behavior factors into the Crowe Chizek evaluation, where the primary catchment area is defined simply as those adults for whom the Kenosha casino would be closer than any other casino facility and within a two-hour drive, depicted by the area within the yellow line in Figure 1.

By contrast, the Assessment by PwC also includes a secondary market that is outside the yellow catchment area of Figure 1 but inside a 100-mile radius from the Dairyland site (indicated by the black arc). The PwC Assessment assumes that adults in the secondary market area, while preferring the casino that is most convenient to them, will on occasion make trips to the Kenosha Casino, whether to satisfy curiosity after it first opens, or to add variety to their gaming entertainment by visiting a different venue from normal. Crowe Chizek does not disagree that this will occur to some extent, but on only a limited basis. No casino in the Midwest is a true destination casino with strong enough drawing power to pull significant numbers of patrons from beyond the most convenient casino they can visit. Further, we do not view this market segment as a significant element, despite the very large population in the area under consideration because the 100-mile radius from Kenosha encompasses eleven competing gaming facilities, including the potential Rosemont, Illinois casino.

The *Market Assessment Executive Summary* that we were provided to evaluate does not quantify the primary and secondary markets individually, so we cannot address the estimates made by PwC for either. However, because the total market estimates by both PwC and Crowe Chizek compare closely, deeper examination of PwC distinction between primary and secondary market areas is not necessary to evaluate the reasonableness of the total estimated net win in the Assessment.

Secondary Markets

As mentioned earlier, the Assessment assumes that some Casino visitation will derive from patrons who live near a competing casino but will sometimes make the longer trip to the Kenosha Casino. This group comprises the secondary market considered in the Assessment. Again, the extent to which this market is represented in the 5.3 million total visitation estimated for the Casino was not made available to us for evaluation. However, Crowe Chizek's evaluation is based on a consumer behavior model that does not view this activity as representing a meaningful portion of a casino's overall customer base.

Conversely, we do include in the secondary market two segments that, while much smaller than the primary market, should not be overlooked, even when considering markets for casinos that are not destination markets (e.g., Las Vegas strip, Atlantic City or eastern Connecticut casinos). These are the tourist and the transient segments. Discussions with PwC indicated that these consumer groups are not analyzed discretely, but rather they are included in the primary market estimate of the Assessment.

Tourist Market

The tourist market is based on casino visitation that will come from guests whose trips to the casino include an overnight stay, whether at the on-site hotel or one nearby. We have included

the 450-room hotel planned for the Casino in our analysis, and applied industry-based occupancy and adults per room estimates to support potentially 249,000 casino visits per year (7.5% of our total) from this market segment.

Transient Market

For well-located casinos with easy access to major highways, the transient market can be significant. Based on 2003 annual average daily traffic counts,¹ commuter percentages and vehicle occupancy data from the Census Bureau and a capture rate based on research by former gaming industry analyst Jason Ader,² we estimate over 475,000 annual casino visits (14.2% of the total) from this market segment.

Participation Rate

Casino patron behavior is commonly reported on two measures. One is propensity to gamble, meaning that share of the general adult population that pursues casino gaming as a form of entertainment at some point during a year's time. The second is trip frequency—the average number of trips each year that an adult who gambles will make to a casino.

These measures are not reported individually in the *Market Assessment Executive Summary*. However, their product, the participation rate, can be imputed from the report. The report cites the primary market population at 580,000 adults. Assuming that they share the 4.0 participation rate estimated for Wisconsin gaming markets in 2006 by Ader,³ we infer that 2,320,000 annual visits to the Casino will derive from the primary market residents. This would comprise 43.8% of the total visitation estimated in the Assessment. The remainder of the 5,300,000 annual casino visits, we infer, would come from the Casino's secondary market.

Crowe Chizek applied differing estimates of consumers' propensity to game and trip frequency that vary with the consumers' characteristics. For example, consumers who are guests in the Casino hotel can be expected to participate in casino gaming at a higher rate than the general population by virtue of their presence at a casino-based hotel. Also, consumers who live in close proximity to a casino have been shown to not only participate in casino gaming at a higher rate than average, but also to make more frequent trips to the nearby casino. To reflect these differences, Crowe Chizek used unique estimates for propensity to game and trip frequency for the adult populations within 30, 60 and 120 minute drive times from the casino, as well as for the tourist and transient segments of the total market for a casino.

In our estimation, the blended participation rate (reflecting all casino visitors) is 5.14 (3,340,934 visits from the 650,616 adults residing in the market area). Our derived participation rate appears to correspond more closely to the 4.00 rate forecasted for specific Wisconsin casino markets in 2006 by analyst Jason Ader and the 1.95 statewide average (regardless of proximity to a casino) implied by the propensity to game and trip frequency statistics in *Harrah's Survey 2003*.⁴ **We point this out as the source of one of the two key differences underlying the two studies of the Casino's potential market. The Assessment predicts the higher figure of 5.3 million casino visits annually, compared to Crowe Chizek's 3.3 million, primarily because of the difference in the underlying participation rates that drive the visitation estimates.**

¹ Wisconsin Department of Transportation data for I-94 and the other major thoroughfares passing the Casino site.

² Bear Stearns 2002-2003 North American Gaming Almanac, p. 364

³ *Ibid.*

⁴ Harrah's Survey 2003: Profile of the American Casino Gambler, State Profiles, p. 5.

Gross Gaming Revenue

Crowe Chizek and PwC differ significantly on the expected annual casino visitation for the Casino, yet generally agree on stabilized gross gaming revenue or net win. This indicates that another difference in expectations must exist.

Once casino visitation has been analyzed by defining a market area, measuring its adult population and considering the casino patronage by gaming consumers among that group, both models next consider the spending activity that can be expected of the Casino's patrons.

Win per Visit

Again, having only the Assessment's *Executive Summary* to review, we are unable to comment on the basis for its conclusions about Casino visitor spending except to impute a win per visit (WPV) average of \$90.94.⁵

As a basis for win per visit in our evaluation of the Assessment, Crowe Chizek looked to the recent performance of several riverboat casinos within the 100-mile market radius of Kenosha. While Illinois riverboats are restricted in the number of gaming positions they may offer, sometimes resulting in lines of patrons waiting their turn during busy operating periods such as weekends, Indiana riverboats have no similar restriction. Crowe Chizek did not make an adjustment to the Illinois data, however, because the position limit affects Illinois casinos' win per position performance more than win per visit; because the likely effect of the limit is to reduce WPV, not inflate it, as consumers spend more of their time in the casino in line and less at a slot machine; and because it is more conservative to leave the Illinois results unadjusted. As a result, the base WPV estimate that Crowe Chizek used in its evaluation of the Assessment was the 2003 weighted-average WPV of the four Chicago area and five Indiana/Lake Michigan riverboat casinos, or \$130.17.⁶

Rather than applying only the base win per visit estimate throughout its evaluation, the Crowe Chizek model bases the total gaming revenue estimate on a variety of WPV figures to account for different consumer groups' variations in spending. For example, a patron who lives only a few minutes from the casino is likely to visit more frequently, though for shorter periods, than one who travels over an hour to reach the Casino. Similarly, a traveler who pulls off the nearby interstate highway for a short break in his or her travels will not stay as long or spend as much as a patron drawn to the Casino as an overnight guest at its hotel. Crowe Chizek made adjustments to the base WPV to account for these distinctions, resulting in average WPV estimates of \$86.82, \$130.85 and \$221.29 for the transient, primary and tourist segments, respectively.

In our evaluation, the resulting weighted-average WPV estimated for the Casino is \$131.33, higher than the Assessment's \$90.94, but closely in line with the \$130.17 average WPV of the nine Chicago and Indiana/Lake Michigan riverboat casinos in 2003.⁷ **This illustrates the source of the second of the two key differences distinguishing the two studies of the Casino's potential market. Inherent in the Assessment is an average win per visit figure of**

⁵ Annual gaming revenue of \$482,000,000 divided by 5,300,000 annual visits.

⁶ Illinois Gaming Board and Indiana Gaming Commission data for calendar year 2003.

⁷ Arguably, the 2003 win per visit results could be increased by an inflationary factor to reflect 2006 dollars; however, to remain conservative no such adjustment has been made.

\$90.94, whereas Crowe Chizek's estimate is \$131.33, very close in line with the actual performance generated at nine mature casinos nearby in the Kenosha market.

Conclusion

Overall, Crowe Chizek's evaluation of the Assessment finds no significant difference in the Assessment's estimate for stabilized net win for the Kenosha Casino. Over ninety percent of the Assessment's \$482 million figure can be accounted for using the Crowe Chizek model, which is very similar to that of PwC.

Differences do exist at a meaningful level, in the estimated visitation and win per visit that can be expected from the Casino, however. In our estimation, based on the information provided to us in the executive summary of the Assessment, the secondary market considered in the Assessment appears to overstate the visitation that can be expected from consumers who live nearer a competing casino. The Assessment anticipates 5.3 million visits annually, upon stabilization, while Crowe Chizek's evaluation supports only 3.3 million.

Conversely, however, Crowe Chizek finds market-based support for a higher win per visit assumption (\$131.33) than is implicit in the Assessment (\$90.94). The effects of these two differences run counter to each other, though, when compiling the ultimate estimate, gross gaming revenue or net win. That net win estimate, affected by these two key differences, as well as several smaller distinctions whose individual effects are not particularly influential, permits us to independently reach a figure for net win (\$438,754,113) that is within nine percent of the net win estimated in the Assessment (\$482,000,000).