
Massachusetts Gaming Commission Educational Forum

June 14, 2012

The Innovation Group of Companies (TIGOC)

The Innovation Group

Feasibility Studies, Due Diligence, Economic & Social Impact Analyses, Strategy, Site Analysis, Food & Beverage Consulting

Innovation Capital

Financial Advisory Services, Equity and Debt Placement

Innovation Project Development

Construction Project Management, Owner Representation, Capital Costing

Innovation Marketing

Marketing Research, Strategic Marketing Plans, Agency Services

Innovation Sports & Entertainment

Event Planning /Implementation, Sports Marketing, University Naming Rights and Sponsorship Sales

THE INNOVATION GROUP

2010 MASSACHUSETTS ENGAGEMENT

The Innovation Group 2010 Massachusetts Engagement

- **Engaged by Massachusetts Senate**

- **Scope of Work**

- Statewide revenue estimates under seven (7) scenarios
- Tax and regulatory review/recommendations
- Limited Economic Impact Analysis
 - Direct and Indirect job creation
 - Fiscal impacts of proposed licensing fees and gaming taxes.
 - Evaluation of potential impact that casino gaming might have on the Massachusetts Lottery

TIG 2010 Massachusetts Engagement-Key Assumptions

- **Regional Competition Continues to Evolve**
 - Aqueduct-2012
 - Oxford ,ME -2012
 - Table Games in Rhode Island
- **Economy slowly recovers through the the projection period**
- **Tax Rates established that are conducive to attracting capital investment for gaming facilities**
 - Flat 27% tax rate on gaming revenues
 - 32% overall “effective tax rate” including levies to fund programs for social costs & community mitigation costs
- **Up-front License Fees of \$75 million (\$50 million for Western Mass) based upon revenue forecasts, impacts on development costs, and ability to raise capital and produce returns.**
- **Smoking allowed on 25% of casino floor**

TIG Engagement-Key Assumptions/Conclusions

- **Only One Destination Resort license per region**
 - Reduces competitive risk, encourages investment & allows developers to obtain financing to build competitive facilities
- **Since no specific sites were identified, we developed a Low and High range by selecting various plausible locations**
 - Criteria for selection of locations included adequate transportation network, adequate land, accessibility near existing highway exchanges, and other factors.
- **Sources of Visitation & Revenues**
 - Local Market
 - Induced new casino visitation
 - Recapture of visits/revenues going to nearby states
 - Tourist Market

TIG Engagement-Key Assumptions/Conclusions

- **Facilities would open Jan 1, 2014**

- First Stabilized Year-2016

- **Of the seven scenarios analyzed, Scenarios 4 (A) and 5(b) are nearest to the final bill:**

- Both scenarios assumed one Destination Resort in each of 3 regions.

In addition:

- 4(A) assumed 750 slots at each of 4 racetrack locations

- 5 (b) assumed only 1,500 total slots (split between two racetrack locations).

- Gaming Revenue ranges \$1.74 Billion-\$2.07 Billion

- Total Direct & Indirect job creation between 16,600-19,800

TIG Engagement-Comparison to Final Bill

- **Key aspects regarding effective tax rate, geographic regions, & limits on licenses generally consistent with our report assumptions**
- **Competition in region continues to evolve as expected**
 - New Hampshire?
 - I-Gaming initiatives
- **Industry overall continuing to rebound**
- **Given delay from when our report was completed, facilities not likely to be opened by 2014**
- **Class 2 RFP process and potential location could impact Destination Resort applications and scope of planned projects.**

Massachusetts Gaming Commission

Preparing for the Next Steps

MGC-Preparing For Next Steps

- **MGC will need to develop the appropriate resources to evaluate candidates and award licenses**
 - Use benchmark/best practices to ensure a strict yet efficient system for reasonable turnaround in license applications.
 - In-house infrastructure & third party industry support
 - Expertise in construction, operations, financing, traffic, and economic analysis
 - Licensing fees to cover costs
- **The RFP Process**
 - Ensure right info is requested
 - Fair and comprehensive

MGC-Evaluation of Applicant Responses

• Market Assessments

- Revenue estimates-are they achievable and based upon reasonable assumptions?
 - Location/presence of competing facilities
- Are operating cost estimates in line with industry standards and dynamics of the market?
 - Wages/benefits reflect competitive environment?
 - Is location beneficial and accessible to customers (local and tourists) and employees

• Economic Impact Analyses

- Evaluation of Input-Output Models & Assumptions
 - Direct, Indirect and Induced effects
 - Employment, income, public sector revenues
- Construction period and on-going operations

MGC-Evaluation of Applicant Responses

- **Municipal/Local Impact & Substitution Effect**
 - Are impacts on infrastructure and services properly analyzed and evaluated?
 - How are local area businesses impacted?
- **Traffic Studies & Impacts**
- **Social Impacts**
 - Crime-How evaluated?
 - Health/Problem Gambling
 - What programs in place to lessen impact?
 - Establishing baselines ahead of time in order to evaluate actual impacts.
 - Agree on formula, models and process to ensure good data comparison
- **Environmental Impacts**

• Development/Construction

- Can the described projects be delivered within the proposed construction/development budget?
- Can the projects be developed in the timeline described?
- Do the plans meet the LEEDS/environmentally efficient requirements of bill?

• Financing/Financial Strength

- Do applicants have the wherewithal to develop the project?
 - Evaluation of Balance Sheet
 - Ability to raise funds/financing history & structure
 - Is the equity capital commitment available and debt financing sources and assumptions (rates/conditions) reasonable/achievable?
 - If a development is contingent upon phases, can an applicant demonstrate financial support for entire project?

• Management and Marketing Plan

- Do their marketing plans articulate a sound strategy that is predicated upon creating a Destination Resort that can:
 - Entice Massachusetts residents who currently travel out-of-state to stay in-state to gamble.
 - Attract new tourists or conference attendees or entice existing tourists to spend more.
 - Entice Massachusetts residents who currently do not visit casinos to become customer
- Do the plans adequately describe the cross-marketing efforts with lottery , tourism efforts and local businesses mandated by the bill?

QUESTIONS?