

Fiscal Effects of Measures 75, 76, and 77 on State and Local Governments

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Executive Summary

Three ballot initiatives have been submitted to the Oregon Secretary of State that if passed by voters would change the State Constitution and give a private business the exclusive right to run a commercial casino near Portland. The casino would also have the exclusive right to have 3,500 gaming devices (*i.e.*, slot machines). In exchange for these exclusive rights, the casino would contribute 25 percent of its gaming revenues to counties, school districts, and other government entities in accordance with a specific formula.

Currently, the State Lottery has licensed about 2,550 retail restaurants, bars, nonprofits, and other video lottery establishments throughout the state allowing them to have up to six Oregon Lottery gaming devices each. In 2009, the State kept on average 76.2 percent of the gaming revenues from these devices and distributed the money to counties, school districts, parks, economic development projects, and other government purposes.

An analysis based on historical data from the Oregon Lottery, Oregon Office of the State Treasurer, the Nevada Gaming Control Board, and other gaming industry and government sources concludes:

1. The proposed casino would have 3,500 gaming devices, which is more than any casino in Oregon, Washington, Idaho, Montana, or Nevada.
2. Data prove that people strongly prefer playing gaming devices at casinos instead of non-casino establishments. The closer they are to a casino, the less likely they are to gamble at video lottery retailers.
3. The initiatives require that the casino be built in the middle of the most lucrative market the Oregon Lottery has.
4. Because it would be the only casino in that market, the Oregon Lottery will lose \$92.6 million a year in proceeds that would otherwise go to State parks, K-12 schools, and economic development projects.
5. The proposed casino would bring in \$120.3 million to the State, so the net direct benefit would be \$27.7 million (about \$7 per person), but because of how the money is distributed, public schools, universities, parks, and transportation project would get less money than if the casino were never built. The losses would be greater outside of the Portland area.
6. Because Lottery proceeds would decline, the State would run afoul of general covenants for Lottery Revenue Bonds. They would have to cut about \$111.2 million in park, transportation, school, and other projects.

In summary, the new casino would take business away from Oregon Lottery video retailers in the Portland area. Those retailers remit over 76 percent of their gaming dollars to the State. The new casino would only give the State 25 percent. Although it would be 25 percent of a larger number, any possible benefit is lost because the new casino would cause the State to violate its general loan covenants. Therefore, Oregon would not be able to sell as many Oregon Lottery Revenue Bonds to pay for many needed projects throughout the state.

Introduction

ECONorthwest was engaged by the Oregon Tribal Gaming Alliance (“OTGA”) to forecast the fiscal effects that would arise should a proposed commercial casino be built near Portland. This white paper summarizes the findings.

The OTGA is an organization of the nine tribal governments based in Oregon. Each operates a casino for the benefit of its tribal government, tribal members, and local economy. The casinos are located on tribal lands and most are in rural areas.

The Oregon Constitution prohibits commercial casinos. Two private citizens, Bruce Studer and Matt Rossman of Lake Oswego, would like to develop a commercial casino. They have chosen the long closed Multnomah Kennel Club greyhound racetrack in Wood Village, about 16 miles from downtown Portland, as the site for this casino. Before Studer and Rossman can open the casino, the Oregon Constitution would have to be changed. To that end they submitted ballot initiatives 75, 76, and 77 to the Oregon Secretary of State. Should they pass in November, the constitutional barriers for their proposed casino would be removed.

Besides allowing the development of the casino, these measures grant Studer and Rossman other benefits. They prohibit the establishment of any other commercial casinos in Oregon, thus, affording them a constitutionally protected monopoly. They also allow them to furnish the casino with 100 table games and 3,500 gaming devices, which is more than any casino in Oregon or even Washington, Idaho, Montana, and Nevada.

In exchange for this lucrative and exclusive franchise, ballot initiative 77 requires that 25 percent of the proposed casino’s gaming revenues go to a fund that, in turn, would allocate money to public school districts and other local governments in Oregon.

The analysis described in this report, however, demonstrates that the proposed casino would cause gaming at established Oregon Lottery retailers to fall. This would be detrimental, as the lottery is a major source of revenues for schools, state parks, and local governments. State Lottery accounted for \$1.3 billion or 8.5 percent of the 2007-09 legislatively adopted general and Lottery fund budget.¹ In addition, the State issues Revenue Bonds for capital projects. They are backed by future profits of the Oregon Lottery. Over a billion dollars of these bonds are currently outstanding.

This analysis reveals that if the proposed commercial casino in Wood Village were operating in 2009, Oregon Lottery revenues would have been \$118 million lower. Lottery proceeds that would have been allocated to K-12 schools, state parks, and local government projects would have been \$92.6 million less.

Furthermore, the ability of the Lottery to cover its debt obligations would have been compromised to a point that the state would not have been able to issue \$274 million in senior lottery revenue bonds that are used to fund school, park, transportation, and economic development projects throughout Oregon. Thus, the total financial impact on state and local government from having the commercial casino would have been negative.

¹ Yamaka, J. “Oregon Blue Book.” Oregon Secretary of State. 2009-2010. Page 162.

Proposed Wood Village Casino

For this analysis to assess the impact of the proposed casino in Wood Village, first gaming revenues (wagers minus prizes paid) had to be forecast. This was done using audited financial data from a comparably sized casino in a market that shares a similar level of personal income and population to that of the Portland metropolitan area.

The size of the proposed Wood Village casino assumed in this analysis comes from Measure 77. It specifies that the casino could have up to 3,500 electronic gaming devices, 150-table games, and keno. Building to this maximum is plausible because there are no competing full casinos within a 100-minute drive. Furthermore, according to Claritas, Inc., Wood Village is centrally located near communities with the highest concentrations of casino players in Oregon.

To estimate the square footage of the casino floor, the analysis used the statewide averages of Nevada. According to 2009 data from the Nevada State Gaming Control Board, 38.25 square feet of casino floor area is used per gaming machine, about 191 square feet per pit table game, and 661 square feet per keno unit.

Applying these to the Wood Village property yields a casino floor area estimate of 163,242 square feet, as shown on Table 1. This would make it about the same floor area as the MGM Grand and Bellagio, which are large Las Vegas Strip operations. At 3,500 machines, however, the Wood Village casino would be larger than any casino in Nevada or the entire Northwest.

Table 1: Forecast Size & Gaming Revenues of the Proposed Wood Village Casino, 2009 Dollars

Gaming	Maximum Units*	Square Feet**	Gaming Revenue***
Gaming devices	3,500	133,875	\$406,500,000
Table games	150	28,706	72,600,000
Keno	1	661	2,200,000
Total		163,242	\$481,300,000

Sources:

* Unit counts are maximums allowed by Measure 77.

** Based on average area per unit in 2009 for Nevada casinos, Nevada Gaming Control Board.

*** Annualized unit revenues for slots and tables at the Hollywood Casino near Cincinnati. Data are from the Indiana Gaming Commission. Keno is based on Nevada ratio of keno to slot revenue statewide.

Wood Village Casino Gaming Revenues

To estimate gaming revenues, the analysis used the annualized per unit averages for a casino that is of similar size and market. The Hollywood Casino in Lawrenceburg, Indiana was chosen.² Having undergone an expansion completed last summer the casino has 3,234 slot machines and 129 table games.³ The Hollywood Casino employs 1,931. It is comparable in size and location to a major city as the proposed Wood Village casino is.

² Yelton, E. "Annual Report." Indiana Gaming Commission. 2009.

³ Indiana Gaming Commission. "Summary of Wagering and Admission Tax – reported for February 2010."

The Hollywood Casino is 15 miles from Cincinnati, Ohio — a condition similar to Wood Village, which is 16 miles from downtown Portland. The Cincinnati metropolitan area is about the same size as Portland's (2,143,824 people versus 2,166,491) and they are similar in total personal income (\$81 billion versus \$84 billion).⁴ Indiana ranked third in 2009 as the most popular gaming destination in the country after Nevada and New Jersey.⁵

The analysis used the daily average gaming revenues for slots and table games, respectively for the Hollywood Casino. Audited Indiana Gaming Commission data for the most recent post-expansion months available (August 2009 – February 2010) were used. For keno, not offered at the Hollywood Casino, the analysis used the 2009 Nevada Gaming Control Board average for casinos in that state.

The averages per unit were annualized and multiplied by the number of units allowed under Measure 77 for the proposed Wood Village casino. This yielded an annual gaming revenue forecast of \$481.3 million. A casino that size would employ about 2,100. It would be the largest casino in Oregon and would have gaming revenues greater than those currently being generated at all nine tribal casinos in the state combined.

Tribal Casinos in Oregon

Under the terms of compacts, which are agreements negotiated between tribal government with the Governor of Oregon, each tribe in the state can have one casino. Between 1992 and 2004 nine tribal casinos were opened.

The purpose of these casinos is to provide tribes with economic development opportunities, jobs, and to fund government services such as healthcare and education. Thus, the casinos serve many of the same purposes for tribes as the Oregon Lottery does for state and local government.

Tribes pay fees of about \$1.4 million a year to the Oregon State Police ("OSP") to fund the OSP Tribal Gaming Section, which provides licensing, background checks, and some enforcement services. In addition, the Tribes spend about \$12.5 million a year on gaming regulation for their casinos.

⁴ 2007 data from the Bureau of Economic Analysis, US Department of Commerce.

⁵ "Indiana climbs to No. 3 market." Gaming Today. March 23, 2009. Page 2.

Table 2: Nine Tribal Casinos in Oregon, Locations and Area Populations, 2009

Casino Name	City/Town	City	
		Population	County
Chinook Winds	Lincoln City	7,930	Lincoln
Kah-Nee-Ta	Warm Springs	2,625	Jefferson
Kla-Mo-Ya	Chiloquin	720	Klamath
Old Camp	Burns	3,025	Harney
Seven Feathers	Canyonville	1,705	Douglas
Spirit Mountain	Grand Ronde	324	Polk
The Mill	North Bend	9,855	Coos
Three Rivers	Florence	9,580	Lane
Wildhorse	Pendleton	17,515	Umatilla

Sources: ECONorthwest, Center for Population Research at Portland State University.

The casinos are on tribal lands, which tend to be in rural areas far from major cities. The places where the nine casinos are found have populations ranging between 324 and 17,515. This puts tribes at a distinct competitive disadvantage to the Oregon Lottery. The Lottery has 3,855 retailers⁶ conveniently located for patrons throughout the state. As such, revenues at the Oregon Lottery are twice that of the nine tribal casinos. The nine tribes in Oregon would have a similar location disadvantage with respect to the proposed commercial casino in Wood Village.

Tribal Casino Gaming Revenues

In 2009, we estimate that the collectively the tribes earned about \$438 million in gaming revenues or \$49 million per casino — substantially less than would the proposed casino in Wood Village earn.⁷

Oregon Lottery

The Oregon Lottery began in 1985. Early games were lotto drawings and instant win tickets. Other games, such as keno, were added later. Collectively the Lottery refers to all of these as “traditional” games. In 1992, the state introduced “video lottery” games, where patrons played video poker games directly on video lottery terminals (“VLTs”).⁸ Thirteen years later line games, similar to those on Nevada style gaming devices, were added.

Originally, Lottery proceeds were dedicated to economic development projects. The video lottery proved so successful that in 1995 Oregon voters directed a portion of the Lottery proceeds to be used for public education. Two years later a statute authorizing a program allowing the issuance of Lottery revenue bonds to finance transportation, public school, and other economic development projects passed. In the following year, voters passed a constitutional amendment requiring 15 percent of Lottery proceeds go to state parks and natural resources.

⁶ Oregon State Lottery. “Comprehensive Annual Financial Report.” June 20, 2009. Page 55.

⁷ Estimates by ECONorthwest based on trends from actual 2008 data provided by the State of Oregon and the nine tribes.

⁸ Video terminals have become the industry standard. Traditional slot machines have nearly disappeared at casinos in Nevada.

In 2009, VLTs were available at 2,550 locations around Oregon although, due to businesses opening and closing, in the average month 2,370 video lottery retailers operated. Most video lottery retailers also sold traditional lottery games.

There were also about 1,300 retailers around Oregon that sold only traditional lottery games. Many of these were supermarkets, office shops, and convenience stores. Lottery sales at these retailers are not sensitive to casino proximity, so the analysis assumed the Wood Village casino would not impact Lottery revenues at non-video retailers.

Video Lottery Retailers

The video lottery is the dominant product. All told, 86 percent of all the gaming revenues from Oregon Lottery games in 2009 came from video lottery games. Adding the traditional games sold at video lottery retailers, it is revealed that 91 percent of Oregon Lottery gaming revenues came from video lottery retailers.

In an effort to restrict VLT access to adults, Oregon only allows video lottery games to approved retailers that are licensed by Oregon Liquor Control Commission (“OLCC”) to serve alcoholic beverages. The OLCC requires such business to close by 2:30 AM. Commercial property owners hesitate to lease to businesses that sell drinks and, as such, the number of available locations is somewhat constrained. Furthermore, there is a maximum of six VLTs per retail location.

The most profitable market is the Portland area because of its affluence and appreciable distance from any casinos. Nine of the ten highest performing retailers in 2009 were in the Portland area.⁹

The state retains ownership of the Oregon Lottery VLTs and shares a portion of the gaming revenues with the retailer. In 2009, the average retailer earned a 23.8 percent commission on video lottery sales with the remainder, 76.2 percent, going to the Oregon Lottery. The commission schedule is graduated so that retailers with higher sales pay bigger shares of their VLT revenues to the State.

Retail commissions on traditional lottery games are less. They average about 20.5 percent of gaming revenues or in terms of gross ticket sales, about seven percent.

Costs of operating Oregon Lottery VLTs are shared, but not equally. The main costs to retailers are floor space, furniture and fixtures, cleaning, dedicated telecommunication lines, and electricity. The Oregon Lottery pays for supplies, replacement parts, machine maintenance, some advertizing, software, vendor fees, and the biggest expense — the gaming devices.

The Lottery also incurs indirect expenditures such as accounting, marketing, contracting, product development, and payments of about \$2.2 million a year to OSP for detectives that oversee the games and run background checks on retailers, employees, and contractors.

⁹ Oregon State Lottery. “Comprehensive annual financial report for the fiscal year ended June 30, 2009.” Page 48.

Oregon Lottery Gaming Revenues

In 2009, gaming revenues from all lottery games were \$812 million and of that, \$735 million came from the video lottery retailers. Those retailers earned \$174 million in commissions. The other \$561 million went to the Oregon Lottery. After deducting a share of the costs of running the lottery, about \$475 million from the video lottery retailers remained and those proceeds went to schools, parks, economic development, and other government purposes.

Table 3: Oregon Video Lottery Retailer Market, 2009

Video lottery locations in 2009:	
That sold traditional lottery games	1,877
That only had video lottery games	673
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Total locations that operated in 2009	2,550
Estimated retailer type:	
Bar or tavern	41%
Full service restaurant	34%
Limited service restaurant	16%
Nonprofit club, bowling alley, or other	9%
Average monthly counts:	
Video retailers	2,370
Machines in use	12,316
2009 video retailer gaming revenues:	
From the video lottery games	\$700,190,836
From traditional lottery games	34,776,878
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Total gaming revenues at video retailers	\$734,967,715
Distribution of gaming revenues:	
Paid to video retailers	\$174,057,560
Net to Oregon Lottery	560,910,155

Source: ECONorthwest analysis of Oregon Lottery data.

Lottery dollars, after the payment of prizes, retailer commissions, operating expenses, and some adjustments, are transferred to the Oregon Economic Development Fund. From that fund debt service costs are paid, which cover principal and interest payments on Oregon Lottery Revenue Bonds. The remaining revenues are distributed to the K-12 Education Endowment Fund and a Parks and Natural Resources Fund, as required by the Constitution. About one percent is allocated to a Problem Gambling Treatment Fund and collegiate athletics. The remainder pays for various state, local education, and economic development purposes.

It varies slightly from year to year, but typically about 15 percent of the dollars from the Lottery and the Lottery revenue bonds issued are used for parks and natural resource purposes, 63 percent for education, 22 percent for economic development and gambling treatment efforts.

Comparative Revenues

In 2009 the average Oregon Lottery VLT made \$155 a day in gaming revenues. In 2007, before a statewide smoking ban and recession, they averaged \$206. VLTs at the nine Oregon tribal casinos produced an estimated \$147 per day, less than the Lottery because Indian casinos are not as conveniently located as lottery retailers are. Gaming devices at the proposed Wood Village casino are forecast to earn \$318 a day, which reflects its proximity to patrons. Over 2,627,000 people live within sixty minutes of the Wood Village casino site.

Table 4: Daily Gaming Revenue per Machine, 2009 Dollars

Location	\$/Day
Proposed Wood Village Casino	\$318
Oregon Lottery VLTs*	\$155
9 tribal casinos in Oregon**	\$147

* Actual 2009. Does not include the impact that a commercial casino would have.

** Estimated 2009. Also does not include the impact of a commercial casino.

Sources: ECONorthwest, Oregon Indian tribes, and the Oregon Lottery.

Oregon Lottery Revenue Bonds

Up to a fourth of Oregon Lottery allocations go to pay debt service on lottery revenue bonds. Money garnered from the issuance of these bonds pays for large capital projects in transportation, local infrastructure, and state universities. As of June 30, 2009 there were over \$1.1 billion worth of lottery revenue bonds outstanding, representing 9.1 percent of the state's gross long-term debt.

The Legislature can authorize new revenue bonds for a biennium. The general terms for these bonds is described in the Master Indenture — a legal contract specifying the terms of these bonds.

The indenture requires that lottery proceeds, as forecast by the Director of the Oregon Department of Administrative Services, be at least four-times the interest and principal repayment costs (*i.e.*, debt service) for both outstanding and additional bonds to be issued. This limit is also known as a four-times coverage ratio.¹⁰ It ensures an adequate cushion for bond and interest payments to investors.

The bonds are tax-exempt and backed solely by future lottery revenues, not state government taxes or assets. Lottery revenue bonds must “contain a statement that this state is not obligated to pay lottery bond principal, interest or premium thereon from any source other than the amounts pledged for payment and any appropriated funds, and that the full faith and credit or the taxing power of the State of Oregon are not pledged to the payment of lottery bond principal, interest or premium.”¹¹ Because bondholders have less recourse, the lottery revenue bonds have a lower credit rating than State general obligation bonds.

¹⁰ State of Oregon. “Official statement \$40,825,000 State of Oregon Department of Administrative Services Oregon State Lottery Revenue Bonds 2009 Series D.” December 10, 2009. Appendix C, Page 11.

¹¹ Oregon Revised Statutes 286A.580 (5).

The cushion provided by the covenant lessens the default risk, which improves the appeal of these bonds to prospective investors. The four-times coverage ratio is necessary to retain an A+ debt rating on the lottery bonds.¹² That rating places the lottery bonds four levels below prime, two below the “high grade” AA rating of State general obligation bonds, but still in the upper medium grade.¹³

Staying above four-times coverage is critical to retaining a favorable credit rating and being able to finance economic development projects. If Oregon Lottery revenues fall the amount of new bonds that may be issued also must fall. In early 2009, declining video lottery sales due to the smoking ban in bars and a weak economy, forced the State Treasurer to lower the limit on new lottery bond issuance from \$400 million to \$271.¹⁴

The Master Indenture specifically prohibits the State from issuing Lottery Revenue Bonds should the Constitution of the State of Oregon be changed in a way that would reasonably be expected to reduce lottery proceeds below four times debt service in any fiscal year.¹⁵

The Studer and Rossman ballot initiatives 75, 76, and 77 will change the Oregon Constitution and the analysis that follows does show that lottery proceeds would fall below the four-times debt service.

¹² “Fitch affirms Oregon’s Lottery Revs at A+; Outlook Stable.” Wireless News. October 8, 2009.

¹³ Fitch municipal bond credit ratings.

¹⁴ “State debt limit lowered because of reduced revenue forecast, Treasurer Westlund remains optimistic.” US State News. February 21, 2009.

¹⁵ State of Oregon. “Official statement \$40,825,000 State of Oregon Department of Administrative Services Oregon State Lottery Revenue Bonds 2009 Series D.” December 10, 2009. Appendix C, Page 11.

Impact of Casino Proximity on VLT Revenues at Non-Casinos

Data clearly show that when given a choice where both options are easily accessible, patrons prefer playing slots at casinos rather than at bars and other small venues. Using data from Oregon, the analysis forecast the decline in lottery proceeds from video lottery retailers that would have occurred if the proposed casino were operating in Wood Village during 2009.

Evidence from Nevada

The effect of proximity is most readily apparent in Nevada — a state with a highly regulated and monitored gaming industry, but one that does not generally limit the numbers of casinos and non-casino gaming venues.

Slot players in Nevada can find machines at casinos or at “restricted” locations. A restricted location is one with 15 or fewer gaming devices, no table games, and in a place that by all appearances is not a casino (usually a bar, restaurant, grocery, drugstore, bowling alley, or convenience store). Since there are few limitations on where casinos and restricted licensees may locate, Nevada is a good example of how proximity to casinos affects small venues with VLTs.

The Nevada data clearly demonstrate player preferences for casinos. The number of VLTs in casinos exceeds that of restricted locations by nearly nine-to-one statewide and, even after excluding Clark County, which attracts tourists to Laughlin and Las Vegas, the VLT counts at casinos top non-casinos by eight-to-one.¹⁶

Casino VLTs also appear to produce higher revenues. Casino VLTs averaged \$110 a day in 2009.¹⁷ The largest restricted location company, Herbst Gaming, reported that their 6,200 machines made \$89 a day.¹⁸ Herbst Gaming is a slot route operator, which is a firm that operates machines in non-casino locations in exchange for a fee or share of the revenues.

The data from Nevada show that small, non-casino venues fill a niche in the market but are at a disadvantage to casinos. When competing head-to-head casinos capture a greater market share and their VLTs earn more money than those at small venues.

Evidence from Oregon

Oregon is a different market than Nevada because while small VLT venues can locate in almost any community where alcohol can be served, there are just nine casinos in the state and they are all in low-population markets. Thus, only video retailers close to one of the nine tribal casinos experiences head-to-head competition.

¹⁶ “Quarterly Statistical Report.” Nevada State Gaming Control Board. December 31, 2009. Page 8.

¹⁷ “Gaming Revenue Report.” Nevada State Gaming Control Board. December 31, 2009. Page 1.

¹⁸ Securities Exchange Commission. “Herbst Gaming, Inc. 10-K Report December 31, 1999.”

Using individual video lottery retailer gaming revenues from the Oregon Lottery and driving times from a geographic information system (“GIS”) program, the analysis can calculate whether and, if so, by how much proximity to a casino affects video lottery revenues.

Previous research in past years by the Oregon Lottery and ECONorthwest had shown a significant impact. Tribal casinos in Oregon were found to have significant advantages over video lottery retailers. The tribes offer a wider selection of VLTs, other games, and amenities, in an atmosphere that is more conducive to gaming than a neighborhood bar or restaurant. The analysis of the 2009 data confirmed past research that showed Oregon video lottery gaming revenues are lower the closer one is to a casino. In spite of this, the video lottery outperforms tribal casinos because for most players in Oregon casinos are inconveniently far.

More than half of the State’s residents live over 80 minutes from the nearest casino. At best, for such a person to spend 200 minutes at a casino (the average visit length) and make the roundtrip drive from home, they would have to dedicate over six hours out of their day. In most cases, for them, a trip to an Indian casino would have to be part of a purposeful trip where the casino is a primary destination. It would not be something done casually and it would likely involve added costs for driving, childcare, and eating out.

The video lottery is quite different. It is a form of convenience gambling where a prospective player need not set aside much if any extra travel time, but rather play during a visit to their local bar or restaurant. Over 98 percent of Oregonians live in a zip code where there is at least one video lottery retailer. One percent lives in a zip code with a casino.

The distinction between destination and convenience gambling blurs when casinos are close to video lottery retailers. This is clearly illustrated in Table 5 where counties have been ranked according to the amounts their average residents spent on Lottery VLTs. In 2009, an average of \$183.23 was spent on Oregon Lottery VLTs per resident statewide. All nine counties where tribes that have casinos are located (highlighted in yellow) show below average per capita Oregon Lottery VLT revenues.

Table 5: Oregon Lottery VLT Revenue per Capita by County, 2009

County	2009 per capita Lottery VLT revenues
Sherman	\$524.94
Clatsop	315.92
Multnomah	289.71
Tillamook	248.62
Malheur	244.27
Columbia	234.84
Wasco	220.39
Baker	194.33
Linn	191.16
Hood River	186.49
Clackamas	185.28
State Average	183.23
Marion	180.38
Lincoln	168.44
Lane	164.29
Washington	158.70
Gilliam	156.66
Jackson	151.73
Umatilla	151.17
Josephine	149.54
Deschutes	140.90
Union	140.86
Crook	139.93
Douglas	134.34
Klamath	130.25
Jefferson	126.20
Wallowa	109.34
Yamhill	102.42
Lake	100.39
Grant	96.96
Morrow	85.25
Curry	84.56
Polk	78.40
Coos	72.70
Benton	62.67
Wheeler	43.98
Harney	42.87

*Source: ECONorthwest analysis of Oregon Lottery data.
Counties where tribal casinos are based are highlighted.*

Lottery revenue data is public information. This allows for an analysis on a finer geography. Oregon VLT retailer gaming revenues for 2009 (both revenues from VLTs and traditional games sold by the bars, restaurants, and alike) were collected and sorted by zip code.

Using a GIS program the driving times between all Oregon zip codes and each of the nine Indian casinos in Oregon were calculated. The starting point of each zip code was the address of its post office. Where unavailable, the principal commercial center or a public school was used. The end points were the addresses of the nine casinos.

By sorting the data, the analysis found how driving time to the nearest tribal casino influenced how much was actually spent per resident on video lottery games in 2009. This is shown on Table 6.

Table 6: Per Capita Gaming Revenues at Oregon Video Lottery Retailers by Proximity of Retailer Zip Code to Nearest Oregon Indian Casino, 2009

Drive Time Range	Avg. Drive Time to a Casino	VLT Retailer Gaming Revenues per Capita		
		VLTs	Traditional	Combined
Under 15 minutes	7	\$75.80	\$4.69	\$80.49
15 to 30 minutes	25	118.47	8.28	126.75
30 to 60 minutes	45	156.00	7.33	163.33
60 to 90 minutes	77	180.72	9.04	189.77
90 to 120 minutes	103	217.17	10.47	227.64
Over 120 minutes	162	224.00	12.32	236.31
Statewide	81	\$183.23	\$9.10	\$192.33

Source: ECONorthwest analysis of Oregon Lottery data.

Only \$75.80 per capita was spent on the video lottery and just \$4.69 on traditional games at video lottery retailers located in areas that were within 15 minutes of a casino in Oregon. As the driving time to the nearest casino lengthens, the dollars spent per capita at video lottery retailers also rises. Places that are 60 to 90 minutes from the nearest tribal casino see combined revenues of \$189.77 a person, which is just below the statewide average. Places more than 90 minutes away from a casino exceeded the state average.

The data show that proximity matters. The convenience advantage enjoyed by video lottery retailers falls the closer they are to a casino. Places that are within 15 minutes of a casino makes about half as much per capita as areas that are 45 minutes away. They make only a third as much per capita as places two or more hours from a casino.

Applying Actual 2009 Data to the Proposed Casino Scenario

Passage of the three ballot initiatives would cause a major shift in the competitive landscape. The opening of a large commercial casino in Wood Village would effectively remove the insulation long driving times to Indian casinos provide Portland area video lottery retailers. It would expose these retailers to intense competition, and, as the data from Nevada and Oregon have shown, cause their businesses to decline.

The geographic shift is shown on Table 7. If a casino opens in Wood Village, the Oregon Lottery would go from having only 80 video retailers within 15-minutes of a casino to 282. It would see the number of video lottery retailers within a half-hour of a casino climb more than seven-fold from 128 to 967. Statewide, the proposed casino would reduce the roundtrip drive time to a casino for the average video lottery customer in Oregon by more than an hour.

Table 7: Oregon Video Lottery Retail Location by Drive Time from their Zip Code to the Nearest Casino Assuming the Current Nine Casinos and with a Wood Village Casino Included, One-Way Drive Times in Minutes

Drive Time	Current Configuration of 9 Casinos	With a Wood Village Casino
Under 15 minutes	80	282
15 to 30 minutes	48	685
30 to 60 minutes	439	790
60 to 90 minutes	1,072	395
90 to 120 minutes	728	327
Over 120 minutes	182	70
Statewide	2,549	2,549

Source: ECONorthwest analysis of Oregon Lottery data.

The analysis used the relationship shown on Table 6 between actual gaming per capita in zip codes and casino drive times to calculate what would happen if the proposed casino in Wood Village were open in 2009. This analysis does assume that the number of video retailers and machines would not change. Some decline is possible should lost revenues compel a few bars and restaurants to close their doors, but historically it is rare for a retailer to remove video lottery machines solely because of falling revenues since the marginal costs of having the machines are low.

The findings, in Table 8, reveal that video lottery retailers would have seen \$114 million less in video gaming revenues and about four million less in traditional lottery gaming revenues in 2009 because of the encroachment of a large commercial casino into their markets.

Table 8: Impact of a Wood Village Casino on Annual Gaming Revenues at Video Lottery Retailers, 2009 \$

Casino Status	Video Lottery	Traditional	Total
Current 9 Indian casinos	\$700,190,836	\$34,776,878	\$734,967,715
With a casino in Wood Village	586,169,745	30,758,053	616,927,797
Change	(\$114,021,092)	(\$4,018,826)	(\$118,039,917)

Source: ECONorthwest analysis of Oregon Lottery data.

The drop in video lottery revenues is a consequence of the large population that would be affected. Currently, only 24 percent of the state's population lives within an hour of a casino. Should a casino open in Wood Village that would nearly triple.

In fact, most video lottery retailers in Oregon are within one hour of Wood Village. These retailers were responsible for \$509 million of the \$700 million in revenues made from video lottery games in 2009. They accounted for three-quarters of the proceeds the Oregon Lottery used for public schools, parks, and economic development. The zone around Wood Village is at the heart of the Lottery's operations.

To find out how much lottery proceeds to education and other programs would be affected by the new casino, the analysis had to determine first the effects on expenses and commissions, as proceeds are net of these costs.

The proportion of game expenses in 2009 to revenues, reported by the Oregon Office of the State Treasurer¹⁹ were used to calculate how much game costs to the Lottery would decline if gaming revenues fell by the forecast \$118 million. The result indicates that Oregon Lottery expenses would have been about \$650,000 less in 2009.

Table 9: Impact of a Wood Village Casino on Annual Game Expenses for the Oregon Lottery, 2009 \$

Casino Status	Video Lottery	Traditional	Total
Current 9 Indian casinos	\$1,691,067	\$3,240,281	\$4,931,348
With a casino in Wood Village	1,415,689	2,865,833	4,281,522
Change	(\$275,378)	(\$374,448)	(\$649,826)

Sources: ECONorthwest analysis of Oregon Lottery and Oregon Office of the State Treasurer data.

Commission costs for the Lottery were likewise estimated. As shown in Table 10, they would decline nearly \$24.8 million. This is a smaller percentage decline than gaming revenues would experience (14.3 percent versus 16.3 percent) because commission rates are graduated. A retailer getting \$175,000 in gaming revenues from their machines gets to keep as much as 27.5 percent as their commission. But the rate falls as gaming revenues rise, so that a top-performing retailer may keep as little as 11 percent of every extra dollar made off the VLTs.

Table 10: Impact of a Wood Village Casino on Annual Commission at Video Lottery Retailers, 2009 \$

Casino Status	Video Lottery	Traditional	Total
Current 9 Indian casinos	\$166,912,745	\$7,144,816	\$174,057,560
With a casino in Wood Village	143,108,466	6,160,035	149,268,502
Change	(\$23,804,278)	(\$984,781)	(\$24,789,059)

Source: ECONorthwest analysis of Oregon Lottery data.

¹⁹ State of Oregon. "Official statement \$40,825,000 State of Oregon Department of Administrative Services Oregon State Lottery Revenue Bonds 2009 Series D." December 10, 2009. Page 28.

While the change in commissions lessens what the Lottery must pay retailers, it also means that retailers would lose income. Many video retailers depend entirely on lottery games for their incomes. Using economic impact data, the analysis estimates that the \$24.8 million drop in commission income that would have occurred in 2009 had the proposed casino been open would have cost an estimated 816 jobs losses at video retailers. In addition in Portland and Multnomah County, there would be a loss of about \$607,000 in business income taxes.

Net lottery proceeds are gaming revenues minus game expenses and commissions paid. The analysis concludes that net proceeds would have been \$92.6 million less had a casino been present in Wood Village in 2009. If the analysis were done for future years with a healthier economy and inflationary effects, the losses forecast would be commensurately greater.

Table 11: Impact of a Wood Village Casino on Annual Net Lottery Proceeds to the State, 2009

Casino Status	Video Lottery	Traditional	Total
Current 9 Indian casinos	\$531,587,025	\$24,391,781	\$555,978,806
With a casino in Wood Village	441,645,589	21,732,184	463,377,774
Change	(\$89,941,435)	(\$2,659,597)	(\$92,601,033)

Source: ECONorthwest analysis of Oregon Lottery data.

Fiscal Impacts

As described in Ballot Initiative 77, the proposed casino would remit 25 percent of its gaming revenues to a fund that would then distribute the money to public school districts, counties, some cities, the Oregon State Police, and the state Problem Gambling Treatment Fund in accordance with a specific formula.

However, historical data show that the proposed casino would cause video lottery retailer gaming revenues to fall. The State of Oregon gets 76.3 percent of that money, therefore, if the proposed casino were built, Oregon Lottery proceeds to schools, counties, and other state and local needs would decline.

The analysis calculated net fiscal impacts of the ballot initiatives on various purposes (education, transportation, *etc.*) and geographies. These allocations were based on the rules contained in the ballot initiatives and the historical allocations of proceeds by the Oregon Lottery. The direct net fiscal impact would be the amounts that would come from the new casino minus the losses due to falling lottery proceeds.

Complicating the analysis was the issue of Oregon Lottery Revenue Bonds. The declines at video lottery retailers affected by the casino would have caused lottery proceeds in 2009 to fall below the four-times debt service mandated by bond covenants. The state would not have been able to issue Oregon Lottery Revenue Bonds. The losses of bond sale proceeds were calculated by allocating the impact across affected counties and projects.

Methodology

The method used to determine the net fiscal impacts was divided into two parts. The first considered the direct effects of proceed gains from the new casino minus proceed losses from the lottery. The second considered the impact of lost coverage caused by lottery proceeds dropping below the minimum necessary to support the issuance of more Lottery Revenue Bonds needed for economic development projects.

One of the direct effects is that the proposed casino would have made \$481.3 million in gaming revenues had it operated in 2009 (shown on Table 1). Of that, 25 percent (about \$120.3 million) would have been sent to a fund that in accordance to Measure 77 would distribute money to various school districts and other government entities. The analysis used official State Government school grant and population data to show how much and which government entities would have received proceeds from the proposed casino, and in what counties those dollars would go.

The offsetting direct effect is that the proposed casino would have caused lottery revenues and proceeds to decline more than they otherwise did in 2009. The analysis found that had there been a casino in Wood Village, proceeds from the lottery to schools and other government entities would have been \$92.6 million less, as previously shown on Table 11. The analysis used the actual lottery grant and loan distributions for the most recent biennium (2007-2009) and apportioned the \$92.6 million accordingly, so to estimate affected programs and counties.

Falling lottery proceeds would have pushed the forecast coverage ratio of Lottery Revenue Bonds below four-times and, therefore, preclude the Legislature from authorizing more bonds. The loss in money available for additional debt service would have supported the issuance of \$111.2 million in revenue bonds. The analysis allocated this loss of issuance across projects and counties in accordance with the amounts that had been received from lottery bonds in the 2007-2009 biennium.²⁰

The covenant effect is large because even without the consideration of a new casino taking business away from the Oregon Lottery, recent Lottery revenues have been declining and threatening the general bond covenants. The debt coverage ratio, which was 7.1 in fiscal 2009,²¹ fell to a forecast 4.3 times in 2010, leaving very little room for bond issuance.

Covenant Calculation

The State Debt Policy Advisory Commission were so concerned about the risk that they highlighted it in a recent report²² noting that the state could “run afoul of the general bond covenant” because of declining lottery revenues — and that was without factoring the proposed casino, which this analysis shows would push coverage below four.

The coverage ratio determines if and how many bonds may be sold. The master indenture for the Lottery Revenue Bonds states clearly that if there are any changes to the Constitution that “would reasonably be expected to reduce the unobligated net lottery proceeds below four hundred percent of the maximum annual debt service on all outstanding bonds in any fiscal year,” the state may not issue additional bonds. Furthermore, the four-times coverage covenant applies to all forecast years.²³ The passage of ballot initiatives 75, 76, and 77 would threaten the coverage ratio, as this analysis will demonstrate.

Table 12 shows the most recent coverage ratio calculation by the Oregon Department of Administrative Services, which had been used in determining the ability to issue new 2009 Series D Oregon State Lottery Revenue Bonds. The coverage ratio was 4.3-times.²⁴ Had there been a casino in Wood Village, net lottery proceeds, as shown on Table 11, would have been \$92.6 million less, which would have pulled the coverage ratio to 3.6, which is well below the required minimum.

²⁰ This method was chosen because it relied on real data on programs (education, parks, transportation, *etc.*) that had received funding. The recipients do vary from year-to-year based Constitutional requirements, but primarily on decisions by the Legislature. Rather than speculating on programs and counties that would have received some of the \$111.2 million, the analysis here simply apportioned it out based on historical data.

²¹ “Fitch affirms Oregon’s Lottery Revs at A+; Outlook Stable.” Wireless News. October 8, 2009.

²² State Debt Policy Advisory Commission. “2010 Legislative Update.” February 1, 2010. Page 31.

²³ State of Oregon. “Official statement \$40,825,000 State of Oregon Department of Administrative Services Oregon State Lottery Revenue Bonds 2009 Series D.” December 10, 2009. Appendix C, Page 11.

²⁴ State of Oregon. “Official statement \$40,825,000 State of Oregon Department of Administrative Services Oregon State Lottery Revenue Bonds 2009 Series D.” December 10, 2009. Page 30.

Table 12: Impact of a Wood Village Casino on the Projected Coverage Ratio of Lottery Revenue Bonds in 2010

Coverage Ratio Effects	2010
<u>State forecast February 2010:</u>	
Total debt service on bonds*	\$121.9
Unobligated net lottery revenues**	528.6
Coverage ratio without proposed casino	4.3
<u>State Forecast plus proposed casino:</u>	
Total debt service on bonds*	\$121.9
Net lottery revenues plus new casino impact	436.0
Coverage ratio including proposed casino	3.6

* Debt service on bonds issued before June 30, 2009 and the recent \$40.825 MN in Series D bonds.

** Oregon Office of Economic Analysis, Oregon Economic and Revenue Forecast, December 2009

Source: ECONorthwest analysis of Oregon Lottery data.

So to remain at least at four times coverage in 2010, in the case of a proposed casino, the State would have had to forgo about \$12.9 million in debt servicing costs in 2010. That would preclude the state from issuing about \$111.2 million in new senior Lottery Revenue Bonds.²⁵

Results by Recipient

Table 13 shows how various government entities and programs would have been affected had there been a large commercial casino operating in Wood Village in 2009. In total the net direct increase would be of \$27.7 million or a relatively small \$7.27 per Oregonian. Counties, cities and other local governments, as a group, would have been the main net beneficiaries. Losing money would be K-12 schools, universities, parks, and economic development programs.

Table 13: Fiscal Impacts of a Wood Village Casino on State and Local Governments, 2009

Affected Government Entities & Purposes	Direct Proceeds Effect			Lost Coverage	Combined Impact
	Casino	Lottery	Net Change	Revenue Bonds	
Counties, cities & other local government	\$54,146,250	(\$10,677,810)	\$43,468,440	(\$11,188,764)	\$32,279,676
K-12 school districts	60,162,500	(65,709,958)	(5,547,458)	-	(5,547,458)
Public universities	-	(246,580)	(246,580)	(31,196,829)	(31,443,410)
Problem Gambling Treatment Fund	2,406,500	(926,010)	1,480,490	-	1,480,490
Parks and watershed resources	-	(11,804,302)	(11,804,302)	-	(11,804,302)
Transportation & other economic development	-	(3,236,347)	(3,236,347)	(68,821,304)	(72,057,651)
Oregon State Police*	3,609,750	-	3,609,750	-	3,609,750
Total	\$120,325,000	(\$92,601,008)	\$27,723,992	(\$111,206,897)	(\$83,482,905)

* Excludes any changes fees for services paid for by either the casino or Lottery retailers.

Sources: ECONorthwest analysis of Oregon Lottery, Department of Administrative Services, and Office of the State Treasurer data.

²⁵ The exact amount would depend on the interest rate, maturity dates, and whether the market would give the bonds A+ rating.

Education typically gets 63 percent of the state lottery dollars, but would only get 50 percent of the dollars going from the casino to the state. Further, while the state takes out 76.3 percent of gaming revenues from video lottery retailers, they would only take 25 percent from the new casino. So while it is true the new casino would see higher amounts of gambling, thus creating a larger pool of revenues, the fact remains that schools would get a smaller cut out of fund that, in turn, takes a smaller share of the gaming revenues of the casino than the lottery. In net, the schools receive less money each year.

As previously noted, Oregon would have to reduce its issuance of Lottery Revenue Bonds by \$111.2 million. In future years, the state would have to have fewer bonds outstanding at any time because of the negative impact the casino would continue having on the performance at video lottery retailers. The pool of available dollars for capital projects, such as highways, city water systems, port improvements, and school building repairs, would be less each year because of the casino in Wood Village.

Effect on School Districts by County

The way in which education dollars from the Oregon Lottery and the proposed casino would be distributed to K-12 school districts are similar. Thus, the negative impact on K-12 schools of \$5.5 million a year arising from the ballot initiatives affects most counties similarly. Exceptions do appear in counties where there are districts that receive little or no State School Fund grants because of large local sources, such as timber sales. But overall, the school districts in most counties would see revenues from gaming decline between six and twelve percent.

Table 14: The Direct Impact of a Wood Village Casino on Proceeds to K-12 School Districts in Oregon, 2009 by County

K-12 Districts by County	Casino	Lottery	Net Direct Change
Baker	\$304,046	(\$321,737)	(\$17,691)
Benton	817,389	(949,029)	(131,640)
Clackamas	5,784,445	(6,442,010)	(657,565)
Clatsop	363,454	(347,151)	16,303
Columbia	821,059	(876,448)	(55,389)
Coos	1,036,020	(1,083,183)	(47,163)
Crook	315,371	(343,385)	(28,014)
Curry	225,583	(264,249)	(38,666)
Deschutes	1,924,406	(2,173,144)	(248,738)
Douglas	1,745,032	(1,940,255)	(195,223)
Gilliam	27,393	(56,050)	(28,658)
Grant	182,749	(197,406)	(14,658)
Harney	206,687	(211,082)	(4,396)
Hood River	512,143	(544,074)	(31,930)
Jackson	2,987,957	(3,355,194)	(367,237)
Jefferson	542,474	(597,715)	(55,241)
Josephine	1,199,762	(1,347,187)	(147,425)
Klamath	1,238,541	(1,375,870)	(137,329)
Lake	167,385	(171,627)	(4,242)
Lane	4,640,670	(5,281,942)	(641,272)
Lincoln	257,197	(325,393)	(68,197)
Linn	2,354,649	(2,476,158)	(121,509)
Malheur	860,357	(944,580)	(84,223)
Marion	7,633,711	(8,244,132)	(610,421)
Morrow	307,706	(336,494)	(28,788)
Multnomah	9,191,982	(9,915,124)	(723,143)
Polk	863,407	(925,901)	(62,494)
Sherman	45,231	(60,235)	(15,004)
Tillamook	141,146	(127,497)	13,649
Umatilla	1,848,594	(1,984,963)	(136,370)
Union	498,657	(559,565)	(60,908)
Wallowa	154,954	(165,557)	(10,603)
Wasco	432,406	(471,716)	(39,310)
Washington	8,443,245	(9,055,116)	(611,872)
Wheeler	59,619	(62,917)	(3,298)
Yamhill	2,027,074	(2,175,872)	(148,798)
Total	\$60,162,500	(\$65,709,958)	(5,547,458)

Effect on All Proceeds by County

Table 15 summarizes by county the total impact from changes in direct proceeds and reduced bond issuance that would have occurred in 1999 had there been a commercial casino in Wood Village as proposed in the three ballot initiatives. What is most notable is that Multnomah County would have received a net direct benefit of nearly \$23.3 million.

Table 15: Total Fiscal Impacts of a Wood Village Casino on All State and Local Governments, 2009 by County

County	Direct Proceeds Effect			Lost Coverage	Combined Impact
	Casino	Lottery	Net Change	Revenue Bonds	
Baker	\$459,351	(\$577,729)	(\$118,378)	-	(\$118,378)
Benton	1,636,164	(1,197,977)	438,186	(11,533,956)	(11,095,769)
Clackamas	9,370,578	(7,035,452)	2,335,127	(1,316,701)	1,018,425
Clatsop	720,703	(2,006,282)	(1,285,578)	(1,388,520)	(2,674,098)
Columbia	1,278,100	(2,196,571)	(918,472)	(1,566,396)	(2,484,867)
Coos	1,631,419	(1,887,110)	(255,690)	(856,382)	(1,112,072)
Crook	572,026	(782,381)	(210,355)	(2,259,718)	(2,470,073)
Curry	427,055	(2,096,874)	(1,669,820)	-	(1,669,820)
Deschutes	3,536,039	(3,162,005)	374,034	(2,760,451)	(2,386,417)
Douglas	2,740,071	(4,861,911)	(2,121,840)	-	(2,121,840)
Gilliam	45,189	(78,030)	(32,841)	-	(32,841)
Grant	253,793	(513,514)	(259,721)	(2,609,055)	(2,868,776)
Harney	279,524	(379,780)	(100,256)	-	(100,256)
Hood River	717,250	(997,624)	(280,374)	(449,376)	(729,750)
Jackson	4,942,348	(3,889,762)	1,052,585	(4,577,567)	(3,524,982)
Jefferson	756,928	(895,132)	(138,204)	(1,385,200)	(1,523,404)
Josephine	1,989,647	(1,590,603)	399,045	-	399,045
Klamath	1,864,954	(1,539,428)	325,525	(1,794,809)	(1,469,283)
Lake	239,137	(485,162)	(246,026)	(415,994)	(662,019)
Lane	7,923,226	(6,763,096)	1,160,130	(10,140,329)	(8,980,199)
Lincoln	679,211	(1,127,418)	(448,206)	-	(448,206)
Linn	3,401,331	(2,808,565)	592,765	(6,912,553)	(6,319,787)
Malheur	1,159,827	(1,386,901)	(227,074)	(256,786)	(483,860)
Marion	10,637,568	(9,587,292)	1,050,276	(7,906,446)	(6,856,170)
Morrow	426,096	(562,471)	(136,374)	(5,088,620)	(5,224,994)
Multnomah	34,082,467	(10,785,730)	23,296,738	(36,171,985)	(12,875,248)
Polk	1,512,809	(1,451,955)	60,854	(1,302,193)	(1,241,339)
Sherman	62,508	(207,772)	(145,264)	-	(145,264)
Tillamook	387,841	(496,081)	(108,241)	-	(108,241)
Umatilla	2,532,409	(2,417,572)	114,837	(192,701)	(77,864)
Union	739,121	(676,588)	62,532	(3,965,702)	(3,903,170)
Wallowa	221,985	(784,724)	(562,738)	-	(562,738)
Wasco	661,163	(1,858,338)	(1,197,175)	-	(1,197,175)
Washington	13,419,996	(10,448,946)	2,971,050	-	2,971,050
Wheeler	74,583	(164,125)	(89,542)	-	(89,542)
Yamhill	2,926,333	(2,563,155)	363,179	-	363,179
Statewide*	6,016,250	(2,336,952)	3,679,298	(6,355,458)	(2,676,160)
Total	120,325,000	(92,601,008)	27,723,992	(111,206,897)	(83,482,905)

Oregon State Police, Oregon Problem Gambling Treatment Fund, and state and regional economic development projects.

The high direct benefit in Multnomah County occurs largely because Measure 77 provides for substantial direct shares of gaming revenues in cities in Multnomah County, as well as the county itself. Indeed the forecast finds that public schools in Multnomah County would get about \$9.2 million from the casino, cities like Portland and Wood Village \$19.1 million, and the county itself \$5.8 million. In net Clackamas and Washington counties and cities would also capture in excess of \$2 million each. The other 33 counties in Oregon, as a total, would have sustained losses.

When the lost ability to issue more lottery bonds is added in, the picture changes radically for Multnomah County mostly because several multimillion dollar projects for the Port of Portland, City of Gresham, the county's railroads, and Portland State University were financed in the last biennium with Lottery Revenue Bonds. If a casino were to have opened in Wood Village, video lottery revenues in 2009 would have prevented the issuance of Lottery Revenue Bonds.

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