

The Regional Economic Impact of Slot Machines at Racetracks in Texas

prepared for
Win for Texas
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Introduction

Gambling in one form or another has been part of the fabric of American life for hundreds of years. This Early Native American culture had games and language describing gambling and believed their gods determined fate and chance. In addition, European colonists brought a history of gambling to American soil. The British colonization of America was funded partially by lottery proceeds. Later, institutions of higher learning such as Harvard, Yale, and Dartmouth utilized lotteries to help build dormitories and supply equipment, and a lottery even helped pay for a portion of the American Revolution. The first commercial casino opened in Nevada in 1931. Since then, gaming has proliferated, as 37 states now have some type of casino gaming presence. At the end of 2009, there were 443 commercial casinos in 13 states employing approximately 328,000 people, generating total revenue of \$30.7 billion. At the same time, casinos on Native American reservations in 29 states generated an additional \$26.5 billion, putting total casino gaming in the U.S. at \$57.2 billion.

One option for Texas that has yet to be fully explored, let alone implemented, is the legalization of slot machines at Texas racetracks as well as at the recognized Native American tribal lands. The figures above suggest that this holds some promise – to the extent that Texas is able to capture its “fair share” of the market, the economic impact could be substantial. This is especially true given that a lack of local gaming outlets does not keep Texans from gaming, as a substantial volume of the visitors to casinos in Louisiana, Oklahoma, New Mexico, and even Nevada come from Texas.

In order to inform the discussion, TXP developed an initial estimate in 2008 of the statewide economic impacts associated with recapturing a portion of Texans’ gaming in other states by legalizing slot machines at racetracks. This analysis updates that work in four significant ways. First, base data on existing gaming activity is updated through 2009, and therefore reflects the recession that began late in 2008. Second, estimates prepared for Sam Houston Race Park by the Innovation Group (IG) on the size of the total Texas gaming market projected for 2013, the date of assumed implementation, have also been updated. Third, primary research was completed to better estimate the level of Texan gaming in adjacent states, with the result that the estimate of the “leakage” has been increased due to better information. Fourth, the economic impact calculations were disaggregate to regions within the state.

The economic impact calculations are based almost entirely on the recapture of Texans’ gaming revenue (and associated spending) that currently leaves the state. This is referred to as *Recaptured Leakage* later in the report. There is a very modest amount of spending by non-Texans that would be induced if slot machines at racetracks were introduced that has been included in the calculations. This is referred to as *New Transient/Tourist Demand*. However, the vast majority of the impact is the recapture of a share of Texan spending that

currently leaves the state. The potential gaming spending of Texans who are not currently leaving the state is not included in the economic impact calculations, as it can be argued that this is simply redirecting existing local spending.

The analysis also does not address online gaming – the size of the market is unknown, and it is not expected that the introduction of slot machines at racetracks would have a measurable impact on this segment. Information on the market assessment also is included in an appendix.

The Impact of Slot Machines at Racetracks to Texas

Estimates of Direct Texan Gaming-Related Activity

Texans are already gaming at a high level. Based on data from a variety of sources, including state gaming commissions, primary field research, convention and visitors bureaus (CVBs), and other academic studies, TXP has estimated the current gaming revenue in a seven-state region that is attributable to Texans at approximately \$2.7 billion during 2009, the equivalent of about 4.7 percent of the national total.¹ This is the assumed universe of current Texan gaming; while there undoubtedly are individual instances of Texans gaming elsewhere in the country, it does not appear to be significant.

TABLE 1: 2009 Regional Gaming Revenue from Texans (\$Millions)

	Total Gaming	Texas Share	Texas Values
Oklahoma	\$3,224.6	36.8%	\$1,186.7
Louisiana	\$2,534.1	43.6%	\$1,104.4
Nevada	\$10,392.7	2.7%	\$280.6
Mississippi	\$2,464.7	2.5%	\$61.6
Arizona	\$2,053.7	2.0%	\$41.1
New Mexico	\$349.6	7.8%	\$27.3
Colorado	\$734.6	2.1%	\$15.8
Total 2009	\$21,754.0	12.5%	\$2,717.4

Source: various state agencies, CVBs, primary field research, other academic studies, TXP

As previously mentioned, IG was engaged by Sam Houston Race Park to update its estimate of the size of Texas' gaming market. A summary of their results follows. According to IG, the total Texas market gaming market approaches \$3.9 billion at full implementation in 2013. However, as the table indicates, there is still leakage out of state, as some Texans will continue to game elsewhere.

¹ Texas was 8.1% of the nation's population during 2009.

TABLE 2: Total Gaming Revenue by Racetrack & Region (2013) – Slots Only

	Texas Region	Local Market	Tourist	Traffic Intercept	Total Revenue
Lone Star Park	Dallas-Fort Worth	\$888,757,605	\$9,803,263	\$7,042,699	\$905,603,567
Sam Houston	Houston	\$620,210,077	\$15,653,300	\$8,584,807	\$644,448,184
Gulf Greyhound	Houston	\$219,025,763	\$6,434,119	\$1,502,645	\$226,962,527
Manor Downs	Austin	\$156,979,164	\$7,629,049	\$1,702,997	\$166,311,210
Retama Park	San Antonio	\$359,538,549	\$3,834,860	\$12,236,689	\$375,610,097
Gillespie Fair	Rest of Texas	\$21,436,435	\$1,271,991	\$390,991	\$23,099,418
Gulf Coast Racing	Houston	\$67,467,522	\$4,535,774	\$3,824,914	\$75,828,211
Valley Race Park	Rest of Texas	\$67,361,034	\$1,235,717	\$2,889,935	\$71,486,687
Laredo Downs	Rest of Texas	\$21,936,003	\$3,055,169	\$1,809,712	\$26,800,884
Laredo Race Park	Rest of Texas	\$20,857,251	\$3,055,169	\$2,895,539	\$26,807,959
Longhorn Downs*	Austin	\$327,048,037	\$15,894,245	\$1,320,506	\$344,262,788
Saddlebrook Park	Rest of Texas	\$64,765,229	\$3,415,437	\$6,101,648	\$74,282,314
Tesoros Race Park	Rest of Texas	\$103,788,362	\$4,975,778	\$2,231,200	\$110,995,340
Totals		\$2,939,171,031	\$80,793,871	\$52,534,281	\$3,072,499,184

Source: *The Innovation Group, TXP*

*subsequently referred to as the Austin Jockey Club

A significant share of the revenue that would occur in Texas with the implementation of slots at racetracks would be recaptured from other states where Texans currently game.

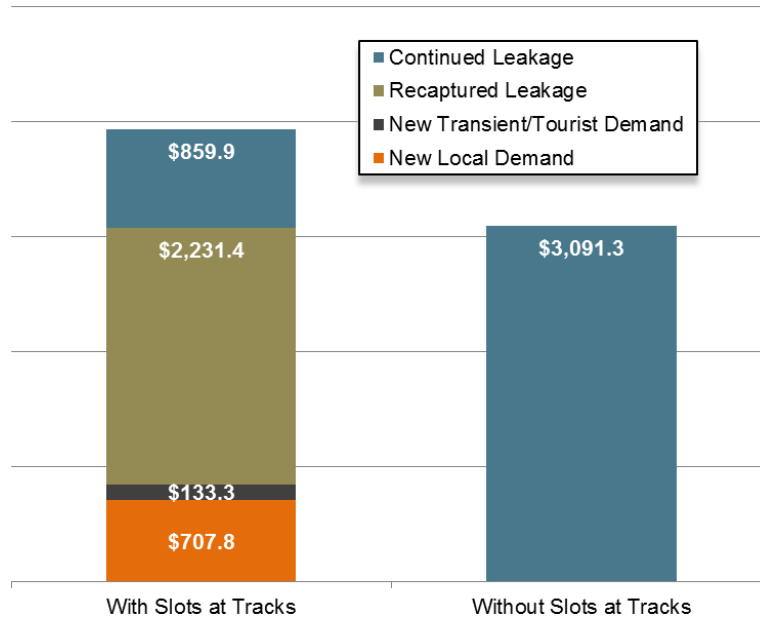
Measurement of the volume of this spending is done through subtracting the leakage out-of-state (\$859.9 million) from the \$3.9 billion figure, yielding recaptured and new non-local spending of approximately \$3 billion. Table 3 and Figure 7 provide further illustration.

TABLE 3: Potential Texas Slots at Tracks Revenue: Recaptured vs. New Demand (\$Millions)

	Gaming Market
Recaptured Leakage	\$2,231.4
New Local Demand	\$707.8
New Transient/Tourist Demand	\$133.3
Continued Leakage	\$859.9
Total Texas Market 2013	\$3,932.4

Source: *The Innovation Group, TXP*

FIGURE 1: Texas Gaming With and Without Slots at Racetracks: (\$Millions)



Source: The Innovation Group, TXP

There is additional spending associated with the direct casino expenditures at casinos by Texans. Since virtually all casino activity by Texans occurs out of state, travelers will incur typical tourist expenditures for food, lodging, etc. while visiting casinos. Based on data from a variety of industry and tourism sources, TXP estimates that for every dollar spent in an out-of-state casino by Texas patrons, an additional 60 cents is spent in the local economy on tourism-related goods and services. As a result, the estimate is that about \$3.8 billion in direct spending could be injected into the Texas economy from the combination of recapture and new tourist/transient activity. It should be noted that this impact does not include the construction associated with building/expanding new facilities, but focuses solely on spending once operations commence. The breakdown follows.

TABLE 4: Total Direct Spending Due to Slots at Racetracks in Texas (\$Millions)

	Annual Spending
Recaptured Texan Gaming	\$2,231.4
New Transient/Tourist Gaming	\$133.3
Recaptured/New Food/Beverage	\$975.1
Recaptured/New Retail/Lodging	\$455.6
Total Annual Injection	\$3,795.4

Source: TXP

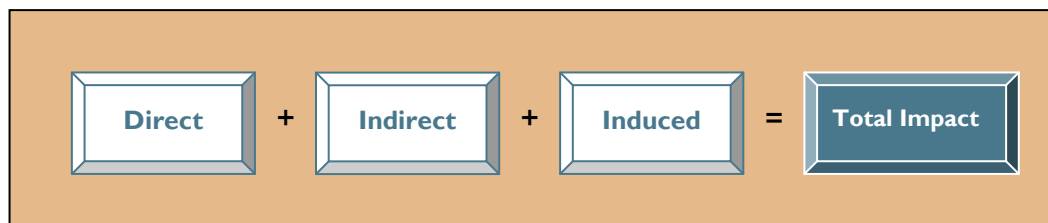
Calculation of the Economic Impact

The economic impacts extend beyond the direct activity outlined above. In an input-output analysis of new economic activity, it is useful to distinguish three types of expenditure effects: direct, indirect, and induced. Direct effects are production changes associated with the immediate effects or final demand changes. The payment made by an out-of-town visitor to a hotel operator is an example of a direct effect, as would be the taxi fare that visitor paid to be transported into town from the airport.

Indirect effects are production changes in backward-linked industries caused by the changing input needs of directly affected industries – typically, additional purchases to produce additional output. Satisfying the demand for an overnight stay will require the hotel operator to purchase additional cleaning supplies and services, for example, and the taxi driver will have to replace the gasoline consumed during the trip from the airport. These downstream purchases affect the economic status of other local merchants and workers.

Induced effects are the changes in regional household spending patterns caused by changes in household income generated from the direct and indirect effects. Both the hotel operator and taxi driver experience increased income from the visitor’s stay, for example, as do the cleaning supplies outlet and the gas station proprietor. Induced effects capture the way in which this increased income is in turn spent in the local economy.

FIGURE 2: The Flow of Economic Impacts



Once the ripple effects have been calculated, the results can be expressed in a number of ways. Four of the most common are “Output,” equivalent to sales; “Value-Added,” which describes the difference between a firm’s top-line revenue and its cost of goods sold (exclusive of labor-related costs); “Earnings,” which represents the compensation to employees and proprietors; and “Employment,” which refers to permanent, full-time jobs that have been created in the local economy. The interdependence between different sectors of the economy is reflected in the concept of a “multiplier.” An output multiplier, for example, divides the total (direct, indirect and induced) effects of an initial spending injection by the value of that injection – i.e., the direct effect. The higher the multiplier, the greater the interdependence among different sectors of the economy. An output multiplier of 1.4, for example, means that for every \$1,000 injected into the economy, another \$400 in output is produced in all sectors.

Findings - Statewide

The total impact of approximately \$3.8 billion in direct spending translates into a total economic impact of \$8.5 billion worth of economic activity, \$5.0 billion in value-added, \$2.6 billion in earnings, and approximately 77,500 jobs. This is well above the original estimates, and is a function of a higher level of leakage and subsequent recapture – since more money is being returned to Texas, the overall economic impact is greater. The breakdown follows.

TABLE 5: Detailed Statewide Economic Impact of Texas Gaming

	Output	Value-Added	Earnings	Jobs
Natural Resources & Mining	\$36,124,733	\$16,156,786	\$6,787,357	98
Utilities	\$155,469,834	\$89,860,361	\$30,575,388	206
Construction	\$45,836,545	\$21,469,232	\$16,380,495	301
Manufacturing	\$415,893,056	\$127,690,983	\$70,490,644	1,028
Wholesale Trade	\$217,236,620	\$137,635,490	\$65,750,493	727
Retail Trade	\$256,437,223	\$157,671,935	\$84,607,246	2,796
Transport & Warehousing	\$181,720,762	\$88,793,603	\$62,663,519	1,060
Information	\$312,476,438	\$157,190,304	\$73,086,281	789
Finance & Insurance	\$488,230,593	\$266,946,085	\$130,824,657	1,586
Real Estate	\$721,402,231	\$501,041,383	\$51,754,492	1,631
Professional Services	\$365,904,717	\$235,410,322	\$163,540,735	1,666
Management of Firms	\$125,889,194	\$73,332,590	\$48,587,389	458
Administrative Services	\$201,619,748	\$123,842,529	\$82,901,739	2,607
Educational Services	\$43,819,609	\$23,530,201	\$16,787,822	462
Health Care	\$336,373,231	\$193,719,349	\$149,536,455	2,521
Arts/Entertain/Recreation	\$2,731,111,246	\$1,792,890,184	\$965,818,324	28,151
Lodging & Food Services	\$1,638,950,682	\$843,044,875	\$500,753,525	29,906
Other Services	\$202,566,427	\$105,676,856	\$59,817,837	1,547
Total Annual	\$8,477,062,888	\$4,955,903,066	\$2,580,664,397	77,540

Source: TXP

Findings – Regional impacts

The economic benefits of implementing slots at tracks are well-distributed across the state, as Dallas-Fort Worth and Houston each stand to gain close to 20,000 permanent jobs, Austin and San Antonio will realize approximately 10,000, and the balance is distributed across the rest of Texas. Details on the impact for each metro area follow.

TABLE 6: Detailed Economic Impact of Gaming: AUSTIN AREA

	Output	Value-Added	Earnings	Jobs
Natural Resources & Mining	\$3,075,441	\$1,516,514	\$591,565	6
Utilities	\$21,384,743	\$13,339,918	\$4,127,967	27
Construction	\$6,117,833	\$3,037,072	\$2,181,200	39
Manufacturing	\$31,646,263	\$11,599,245	\$6,129,555	85
Wholesale Trade	\$29,113,016	\$19,646,367	\$8,851,731	95
Retail Trade	\$35,827,854	\$23,470,037	\$11,968,043	387
Transport & Warehousing	\$13,420,563	\$7,259,776	\$4,842,552	85
Information	\$46,805,969	\$25,215,899	\$11,129,055	119
Finance & Insurance	\$65,737,810	\$37,982,222	\$17,405,310	202
Real Estate	\$98,212,665	\$72,805,548	\$6,907,353	211
Professional Services	\$53,168,299	\$36,323,312	\$24,256,251	237
Management of Firms	\$6,195,707	\$3,831,978	\$2,464,978	23
Administrative Services	\$26,410,396	\$17,344,171	\$11,045,535	339
Educational Services	\$6,438,216	\$3,664,932	\$2,525,499	67
Health Care	\$42,661,024	\$26,413,091	\$19,381,978	332
Arts/Entertain/Recreation	\$396,536,989	\$277,534,714	\$143,209,578	4,065
Lodging & Food Services	\$236,681,630	\$129,749,331	\$73,451,223	4,287
Other Services	\$28,810,218	\$14,854,760	\$8,412,495	217
Total Annual	\$1,148,244,636	\$725,588,888	\$358,881,871	10,824

Source: TXP

TABLE 7: Detailed Economic Impact of Gaming (\$Millions): DFW AREA

	Output	Value-Added	Earnings	Jobs
Natural Resources & Mining	\$8,305,862	\$3,921,262	\$1,597,710	19
Utilities	\$39,131,281	\$23,732,232	\$7,675,091	50
Construction	\$11,968,710	\$5,949,162	\$4,385,333	78
Manufacturing	\$145,836,911	\$49,086,939	\$25,151,088	359
Wholesale Trade	\$59,141,170	\$39,924,711	\$18,429,040	198
Retail Trade	\$65,948,472	\$43,234,628	\$22,384,199	715
Transport & Warehousing	\$56,271,662	\$29,425,449	\$19,931,847	326
Information	\$91,055,440	\$49,207,560	\$21,623,615	232
Finance & Insurance	\$146,910,905	\$86,058,955	\$41,409,879	491
Real Estate	\$191,955,109	\$142,030,733	\$14,838,181	459
Professional Services	\$103,948,176	\$71,231,901	\$47,998,140	483
Management of Firms	\$41,420,995	\$25,733,265	\$16,274,615	149
Administrative Services	\$54,928,136	\$35,968,319	\$23,024,009	704
Educational Services	\$10,326,395	\$5,961,436	\$4,009,992	109
Health Care	\$85,385,753	\$52,515,748	\$39,086,118	632
Arts/Entertain/Recreation	\$671,728,056	\$469,911,313	\$244,387,434	6,937
Lodging & Food Services	\$407,583,842	\$223,671,263	\$128,522,760	7,428
Other Services	\$54,084,514	\$28,176,154	\$15,766,256	406
Total Annual	\$2,245,931,390	\$1,385,741,030	\$696,495,308	19,777

Source: TXP

TABLE 8: Detailed Economic Impact of Gaming (\$Millions): HOUSTON AREA

	Output	Value-Added	Earnings	Jobs
Natural Resources & Mining	\$10,669,461	\$5,357,916	\$2,120,225	24
Utilities	\$40,724,739	\$24,840,080	\$8,285,681	54
Construction	\$11,069,889	\$5,565,817	\$4,140,256	74
Manufacturing	\$92,280,319	\$27,870,837	\$15,449,896	208
Wholesale Trade	\$53,052,514	\$35,852,661	\$16,723,065	180
Retail Trade	\$61,902,950	\$40,560,135	\$21,222,948	686
Transport & Warehousing	\$45,609,086	\$23,178,351	\$15,912,447	255
Information	\$60,068,789	\$31,692,883	\$14,910,710	151
Finance & Insurance	\$99,133,281	\$57,797,182	\$27,768,959	329
Real Estate	\$171,591,833	\$126,941,457	\$12,576,733	385
Professional Services	\$85,881,567	\$59,066,337	\$39,619,917	389
Management of Firms	\$29,172,888	\$18,117,041	\$11,724,276	108
Administrative Services	\$48,246,125	\$31,525,279	\$20,758,631	637
Educational Services	\$10,805,346	\$6,143,941	\$4,345,268	116
Health Care	\$81,357,115	\$49,648,577	\$37,345,934	596
Arts/Entertain/Recreation	\$677,084,053	\$473,745,089	247,945,805	7,030
Lodging & Food Services	\$402,084,313	\$220,114,015	\$127,333,471	7,444
Other Services	\$46,518,137	\$24,530,676	\$13,952,312	362
Total Annual	\$2,027,252,406	\$1,262,548,275	\$642,136,534	19,030

Source: TXP

TABLE 9: Detailed Economic Impact of Gaming (\$Millions): SAN ANTONIO AREA

	Output	Value-Added	Earnings	Jobs
Natural Resources & Mining	\$5,451,460	\$2,314,309	\$1,013,586	25
Utilities	\$17,120,427	\$11,002,612	\$3,890,469	26
Construction	\$5,739,521	\$2,868,595	\$2,139,859	39
Manufacturing	\$46,861,255	\$15,054,490	\$8,552,808	132
Wholesale Trade	\$24,078,339	\$16,256,982	\$7,561,975	82
Retail Trade	\$31,549,690	\$20,673,971	\$10,779,314	347
Transport & Warehousing	\$23,045,049	\$12,185,673	\$8,457,959	143
Information	\$39,962,144	\$21,431,623	\$9,655,633	100
Finance & Insurance	\$59,914,251	\$34,768,065	\$16,017,054	188
Real Estate	\$87,453,216	\$64,779,198	\$6,266,970	190
Professional Services	\$35,569,938	\$24,396,003	\$16,384,969	162
Management of Firms	\$19,051,476	\$11,821,531	\$7,641,521	\$70
Administrative Services	\$23,911,058	\$15,651,014	\$10,188,759	310
Educational Services	\$5,790,476	\$3,322,657	\$2,285,343	61
Health Care	\$46,681,387	\$28,611,087	\$21,462,181	366
Arts/Entertain/Recreation	\$333,881,118	\$233,602,770	\$121,914,711	3,460
Lodging & Food Services	\$201,404,508	\$110,532,123	\$63,416,020	3,672
Other Services	\$24,803,564	\$12,891,564	\$7,409,028	192
Total Annual	\$1,032,268,878	\$642,164,266	\$325,038,161	9,564

Source: TXP

TABLE 10: Detailed Economic Impact of Gaming (\$Millions): REST OF TEXAS

	Output	Value-Added	Earnings	Jobs
Natural Resources & Mining	\$8,622,508	\$3,046,784	\$1,464,271	24
Utilities	\$37,108,644	\$16,945,519	\$6,596,181	49
Construction	\$10,940,592	\$4,048,585	\$3,533,846	71
Manufacturing	\$99,268,309	\$24,079,472	\$15,207,298	243
Wholesale Trade	\$51,851,579	\$25,954,768	\$14,184,681	172
Retail Trade	\$61,208,258	\$29,733,164	\$18,252,742	661
Transport & Warehousing	\$43,374,402	\$16,744,354	\$13,518,713	251
Information	\$74,584,095	\$29,642,340	\$15,767,267	187
Finance & Insurance	\$116,534,346	\$50,339,661	\$28,223,455	375
Real Estate	\$172,189,408	\$94,484,447	\$11,165,254	386
Professional Services	\$87,336,737	\$44,392,768	\$35,281,457	394
Management of Firms	\$30,048,127	\$13,828,776	\$10,481,999	108
Administrative Services	\$48,124,033	\$23,353,745	\$17,884,805	617
Educational Services	\$10,459,176	\$4,437,234	\$3,621,720	109
Health Care	\$80,287,952	\$36,530,846	\$32,260,244	596
Arts/Entertain/Recreation	\$651,881,030	\$338,096,299	\$208,360,795	6,659
Lodging & Food Services	\$391,196,389	\$158,978,143	\$108,030,051	7,074
Other Services	\$48,349,993	\$25,223,703	\$14,277,746	369
Total Annual	\$2,023,365,578	\$939,860,608	\$558,112,524	18,346

Source: TXP



Conclusion

As an industry with over \$57 billion in annual revenue, gaming (both commercial and Indian) is clearly one of the largest entertainment industries in the United States. Texans are part of this process, spending about \$2.7 billion directly at gaming facilities in a number of states in 2009. Since these trips are by definition out of state, this money “leaks” outside of Texas, along with the extra spending at hotels, restaurants, etc. that goes along with it. If slot machines at racetracks were locally available, a large amount of this leakage would be eliminated, as TXP estimates that approximately \$2.4 billion in gaming revenue (and \$3.8 billion total) would appear in-state by the end of 2013. This in turn would create \$8.5 billion in total economic activity, \$2.6 billion in earnings, and about 77,500 permanent jobs. Within Texas, the Metroplex and Houston area collectively will realize about half of these totals, Austin and San Antonio together will garner another 25 percent, and the balance will be distributed across the state. In conclusion, slot machines at racetracks could have a significant impact on the Texas economy and individual communities. Seen in this light, the magnitude and the timing of the opportunity would seem to warrant careful consideration.

Appendix 1: Texas Statewide Gaming Market Assessment

Sam Houston Race Park (“Client”) engaged The Innovation Group to conduct a statewide Gaming Market Assessment (“Assessment”) for the State of Texas. The Assessment evaluates the impact of legalizing slot machines at Texas racetracks as well as various Native American casino developments. The Assessment estimates the potential gamer visits and top-line gaming revenue considering implementation of the following location scenario, as directed by the Client.

Location Scenario:

Sam Houston Race Park – Houston
Lone Star Park – Grand Prairie
Retama Park – San Antonio
Manor Downs – Austin
Saddlebrook Park – Amarillo
Austin Jockey Club – Austin
Valle de los Tesoros – McAllen
Laredo Race Partners – Laredo
LRP Group, Inc. – Laredo
Gillespie County Fair – Fredericksburg
Gulf Greyhound – LaMarque
Corpus Christi Greyhound – Corpus Christi
Valley Race Park - Harlingen

This scenario also assumes that the three proposed Native American casinos, including the Kickapoo (Eagle Pass), Alabama-Coushatta (Livingston) and the Tiguas (El Paso), would be in operation. In addition, the forecast assumes that each gaming facility would be allowed to offer the quantity of gaming devices that maximizes the potential of the facility.

Forecast Methodology

A complex gravity model was developed for the purpose of forecasting gamer visits and gaming revenue for the proposed markets in Texas. Gravity models are commonly used in location studies for commercial developments, public facilities and residential developments. First formulated in 1929 and later refined in the 1940s, the gravity model is an analytical tool that defines the behavior of a population based on travel distance and the availability of goods or services at various locations. The general form of the equation is that attraction is directly related to a measure of availability such as square feet (or for casinos, gaming positions) and inversely related to the square of the travel distance. Thus the gravity model quantifies the effect of distance on the behavior of a potential patron, and considers the impact of competing venues.

A constrained gravity model was used in projecting gaming activity for Texas using 27 discrete market areas. Each of these market areas was assigned a unique set of propensity

and frequency factors. These factors are generally derived based upon primary research in these and other gaming markets as well as proprietary information obtained by The Innovation Group from a number of sources. Gamer visits are estimated by zip code within each of the market areas based on these factors. The gamer visits are then distributed among the competitors based upon the size of each facility, considering its attractiveness and the relative distance from each zip code. This model utilizes the coordinates of each competitor, both existing and proposed. The gravity model then calculates the probabilistic distribution of gamer visits from each market area to each of the gaming locations in the market. Other competitors outside the market area are treated as external competitors siphoning off a portion of gaming trips from zip codes within the region.

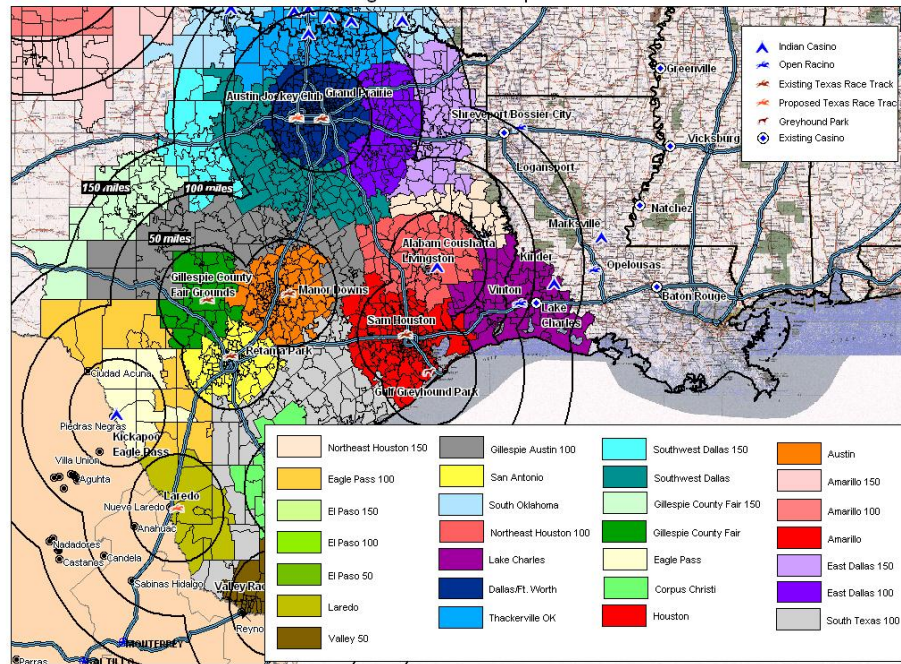
Each travel distance/time is evaluated to determine the likely alternative gaming choices for residents of the region. The model is constructed to include only those alternative venues that are considered to be within a reasonable travel time. These include competing casinos that have the potential to attract patrons, or capture visits from the market. Travel distances and time have been developed through use of The Innovation Group's GIS system and adjusted from there based upon the nature of the roadways, travel patterns, and convenience.

Market Carve-out

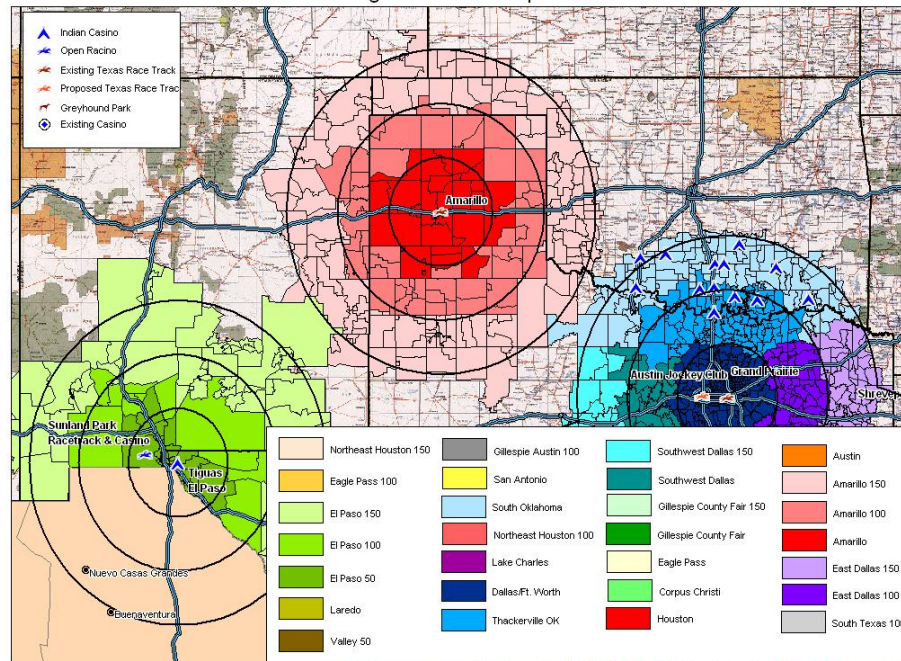
As mentioned above, the Texas market was carved into 27 distinct market areas. These market segments were defined to account for variations in highway access, population centers, gaming competition and demographics. For each market area, the gamer population and average household income statistics were obtained and analyzed. To these population segments, gaming factors were applied to arrive at market-wide estimated gamer visits and gaming revenue. Most notably, market areas have been carved taking into consideration the various new potential gaming sites. The following map is presented to demonstrate the boundaries of each of the defined markets.

Texas Market Carve-out Map

Texas Market Regions and Competitive Venues



Texas Market Regions and Competitive Venues



About The Innovation Group

The Innovation Group is the premier provider of consulting and management services for the gaming, hospitality, leisure and entertainment industries. Our inventive, forward-looking staff of professionals is known throughout the industry for the accuracy of our market forecasts and timely response to client needs. We provide feasibility studies, market assessments, strategic and financial planning, operations and marketing advisory services, and economic impact studies of the highest quality.

Public agencies throughout the U.S. and the world have turned to The Innovation Group for feasibility studies, strategic planning, and advice for structuring new gaming jurisdictions or privatizing state-run operations.

We provide our services for a flat fee, ensuring the objectivity of our recommendations. In addition, senior professionals have undergone suitability background investigations in securing key-person gaming licenses in Nevada, Colorado, Mississippi and New Jersey.

Financial institutions from Wall Street to Minneapolis to Los Angeles know and trust our work. To date our reports have been responsible for more than \$30 billion in investment decisions. Hotels, convention centers, casinos, stadiums, racetracks, entertainment halls, golf courses, spas, RV parks, restaurants, retail facilities—our list of successful leisure developments (along with our list of repeat clients) grows longer and more diverse every year.

In every state where racetrack casinos exist, The Innovation Group has been involved. Wherever racetrack casinos legislation has been considered, state governments and track operators have consistently and successfully relied on our analyses in order to support gaming expansion efforts. We have worked for state agencies, tracks and breeders, and casino developers, and we understand the issues from every perspective. In addition, our legislative support has included the formulation of tax schedules and providing expert witness testimony regarding our findings.



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