

GENERAL ECONOMIC PRINCIPLES FOR APPLICANT SELECTION IN THE SOUTHWEST AND NORTHEAST ZONES

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GENERAL GUIDELINES IN DECISION MAKING

- **Review Board's charge:** Select projects that will maximize revenues for the State of Kansas, enhance tourism and economic development in Kansas or its geographic regions, and otherwise be in the best interests of the citizens of Kansas
- Important to make **Comparisons** over critical factors

WHAT IS THE PROBABILITY THAT THE PROJECT CAN BE SUCCESSFULLY COMPLETED?

FACTORS FOR CONSIDERATION:

- **Capability of applicant to raise equity**
 - Minimum Equity/Debt ratio acceptable
 - Provide lender a degree of comfort that investor is committed to the project
- **Cost of capital for the applicant**
 - Size, credit lines, track record, and balance sheets of the applicant(s)
 - Current market conditions
- **Inherent profitability of the project**
 - Monopoly more attractive than competitive alternative

MORE FACTORS ON PROBABILITY OF SUCCESS

- **Has the applicant built a project of comparable size elsewhere?**
- **Were their capital cost projections and revenue projections met or exceeded?**
- **How have those projects fared since opening?**



MORE FACTORS ON PROBABILITY OF SUCCESS

- **Has applicant operated a project of similar size and scope elsewhere? If so, how well does it do?**
- **Does the applicant operate many such projects, and how long have they been directly involved in such operations?**



THE KANSAS EXTENDED LOTTERY ACT: CONTRACTS, THE REVIEW BOARD, AND WHAT TO DO ABOUT “SWEETENERS”

Purpose: To avoid Auctions for the Board

- Option *A*: Ignore them
- Option *B*: Treat them as promises (you can promise anything) unless there are legally binding clauses
- Option *C*: If legal, i.e. legally binding MOUs with local governments, can be lobbied for by local government; No obligation for Board to acknowledge



LOCATIONAL ISSUES ARE DIFFERENT THAN IN SOUTH CENTRAL

- **Micro access considerations are more important**
- **Visibility from the Expressways and Highways is a plus**
- **Parking and its proximity to a facility's entrance matters; covered v. uncovered**
- **Proximity to complementary amenities may be a plus**



CAPTURING MORE THAN “FAIR SHARE” IN A MATURE MARKETPLACE IS POSSIBLE, BUT DIFFICULT

A KCK Lottery Gaming Facility will have some advantages and disadvantages

- **ADVANTAGES:** Newness, land-based, non-gaming amenities
 - **Geographic advantage to parts of the Kansas City market**
 - **BUT:** No “First Mover Advantage”; player loyalties established; loyalty programs have high switching costs; strong brands
- CHALLENGE:** Capture as much as you can (but limited)



COMPARING NON-GAMING AMENITIES IS CRITICAL

MANY PROJECTS ARE QUITE SIMILAR IN THEIR GAMING DIMENSIONS. WHAT SETS THEM APART FROM ONE ANOTHER?

- **Measurable attributes:** hotel rooms, casino square footage, parking spaces (covered and uncovered), restaurants, lounges and showrooms
- **Unmeasurable attributes:** Architecture, décor, comparing water attractions to golf courses, speedways, retail shopping malls, etc.



COMPETENCE OF MANAGEMENT IS CRITICAL

- **What is the track record of the Management Team? What is their “bench strength?”**
- **What kinds of systems do they have in place? Do they work?**
- **Have they run comparable projects recently?**
- **Do they have access to good management talent outside the organization?**



COMPARING FISCAL IMPACTS SHOULD BE DONE ON AN APPROPRIATE BASIS

PUBLIC SECTOR INFRASTRUCTURE DEMANDS ARE OFTEN CAPITAL OUTLAYS, WHEREAS SALARIES ARE RECURRING OPERATING COSTS

- **Objective is to gain a sense of how annual revenue/cost statements for governments will be affected into the future**
- **Capital costs should be amortized at an appropriate rate of interest over a reasonable period of time**



DO NOT CONFUSE BENEFITS THAT ARE TRANSFERS FROM ONE GOVERNMENT BODY TO ANOTHER FROM “GROWTH”

- **If one project makes City A \$40 million better off, but City B \$30 million worse off, is it better than another project that benefits both by \$10 million?**
 - **(It seems so if you are the president of the Chamber of Commerce of City A)**

