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**MARKET AND ECONOMIC IMPACT ANALYSIS
TWO CASINOS ON THE ISLAND OF OAHU**

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EXECUTIVE SUMMARY
MARKET AND ECONOMIC IMPACT ANALYSIS
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PURPOSE AND SETTING

The report analyzes the market and the economic impacts derived from the construction and operation of two landbased casinos on the Island of Oahu. Care is taken to distinguish dollars that are new or retained in Hawaii from spending that is simply an intra-state shift. The document includes information on the importance of tourism to the Hawaiian economy and identifies the downward trends during the past decade. The increasing competition from new and emerging casino venues is emphasized. The report also discusses various other community impacts, and contrasts landbased casinos with shipboard gaming.

The analyses of the impacts coupled with the review of tourism trends form a strong argument for the creation of the two casinos. A central theme develops that *it is entirely logical that a person who withheld support for past gaming proposals during other economic times would now decide to support the dual Oahu casino approach given the financial soundness of the proposal and the competitive and economic realities facing Hawaii.*

MARKET CAPTURE ESTIMATES

A comprehensive methodology, detailed in the full report, arrived at substantial estimates for the market capture by the two casinos:

Total casino visits 6.8 million annually
 Total gaming hold \$431 million annually
 Total hold as % of existing US markets less than 1.4%
 Total non-shifted gaming hold \$309 million annually
 % Of total hold that is non-shifted 72%

CAPTURE OF NON-SHIFTED GAMING AND NON-GAMING SPENDING

Crucial to determining the economic impacts is the identification of the source of spending and whether any of the dollars are shifted from existing in-state spending. The methodology uses a series of calculations within four major spending categories. In all cases conservative factors/assumptions are chosen. The analysis considers both gaming and non-gaming spending (such as restaurants, lodging, retail, etc.). The Table below displays the results.

NON-SHIFTED GAMING AND NON-GAMING SPENDING CAPTURE			
Category	Gaming	Non-Gaming	Total \$ Annually
"Existing" Visitors	147,862,365	95,834,726	243,697,091
New Visitors Due To New/Expanded Convention Center Events	9,178,200	133,440,000	142,618,200
New Visitors Due to Gaming Option	93,600,000	156,000,000	249,600,000
Residents	58,590,649	17,366,591	75,957,240
TOTAL	\$309,231,214	\$402,641,317	\$711,872,531

The totals represent only small fractions of the tourist spending now generated by casinos in the United States. Anyone with confidence in Hawaii can agree that the proportions are obtainable given the other attributes of the state.

The report offers a sizing scenario for descriptive purposes, although the ultimate decisions will rely on a variety of local design and site factors. The total on-site investment would likely be at least \$375 million.

EMPLOYMENT AND PUBLIC REVENUES

The capture of the additional spending generates new jobs. The employment is located not only on-site (at the casinos), but also off-site due to the non-gaming spending. The casinos will also be major purchasers of goods and services from local firms, spawning additional jobs. This direct and indirect employment creates sequential rounds of spending within the economy, thereby creating further employment opportunities. The full-time job estimates displayed below in all cases are derived from "non-shifted" spending only.

On-going Employment from Non-Shifted Spending

From Non-Shifted Gaming Spending	3,436
From Non-Shifted Non-gaming Spending	4,973
At In-state Casino Subcontractors.....	1,139
Non-Shifted Direct and Indirect Employment Subtotal	9,549
Potentially Created By Multiplier Effect	10,026
Total Net Jobs	19,575

A capital investment of \$375 million would also directly generate approximately 3,000 employee years in the construction industry, along with additional jobs from sequential rounds of spending. There is also likely to be additional spin-off investment on the part of area hotels, restaurants, and retail establishments.

The report estimates the major categories of incremental public revenues:

Gaming Tax from Non-Shifted Spending (@ 10%)	\$37.0 million
Incremental Income and Excise Taxes (Non-Shifted)	\$34.7 million
Total Incremental Tax Revenues (from items estimated)	\$71.7 million

Various other impacts were identified that will likely lead to additional public revenues, but formal numerical estimates would be premature. These include such items as parking revenues, taxes paid by casino contractors, taxi and rental car fees, building permits, airline fees, increased property tax revenues, etc.

GAMING COMPETITION AND THE HAWAIIAN ECONOMY

The Hawaiian economy is dependent upon Travel and Tourism. Yet, *in the casino gaming field, a crucial segment of its most important economic sector, the State does not compete.* A few aspects are particularly notable:

- Visitor levels stagnated during the 1990s at the same time that the mainland economy was flourishing. There has been an increase in visitors from the mainland in recent months, but the gains typically are no greater than or below the spikes in tourism at competing venues---a loss of market share has clearly occurred.

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CHAPTER ONE INTRODUCTION AND SETTING

PURPOSE

This document analyzes the market and the community impacts derived from the construction and operation of two landbased casinos on the Island of Oahu. Care is taken throughout to distinguish dollars that are new or retained in the state economy from spending that simply represents an intra-state shift. The report places special emphasis on the analysis of tourism competition, particularly venues that provide casino alternatives for the Japanese tourist. Understanding the changing market in the tourism field is fundamental to the market analysis and to properly appreciating the economic benefits to the state.

SITUATION

There is a full awareness that approving casino gaming represents a very significant step for the State. Hawaii and Utah are the only two states without some form of legalized gaming. Some citizens believe that this existing status is somehow beneficial; previous proposals and studies calling for various forms of legalized gaming have failed to gain sufficient support.

The economic and competitive realities of the present situation are given paramount importance in developing the analysis. The findings favoring the project are based upon the tourism and economic situations that exist in Hawaii in the year 2001, the recent experience with casinos in other states and nations, and the financial soundness of the dual casino proposal. It is essential to appreciate that the findings do not suggest that the lack of support for past proposals was somehow "wrong." **It is entirely logical that a person who withheld support for past gaming proposals during other economic times would now decide to endorse the Oahu dual casino proposal given the financial soundness of the project and economic realities facing the State of Hawaii.**

BACKGROUND RESOURCES AND APPROACH

The report benefits from a solid foundation of previous studies that are relevant to the proposed project. State government and various other entities publish extensive data pertaining to tourism. The factors used for gaming amounts and incidences involving such items as casino visitation, on-site spending, off-site spending, and job creation stem from real world results in other states and are cross-checked with previous studies that have been conducted within Hawaii.

The narrative cites a wide variety of published reports. The types of data compilations and studies considered include:

- Tourism and population data for Hawaii, particularly Oahu.
- Economic trend and sector data for Hawaii.
- Gaming results, trends, and impacts at other United States venues.
- Gaming results, trends, and studies in other countries.
- Previous tourism and gaming studies of Hawaii.

There is (not surprisingly) a lack of published data on the level of illegal gaming now occurring within the State.

In performing an economic impact study of this nature, the consulting team deliberately chose conservative factors and methodologies for projecting the magnitude of the market, jobs, and public revenues created. This assures that benefits are much more likely to be exceeded than unmet.

ASSUMPTIONS REGARDING THE PROPOSED PROJECT

The estimates assume the following characteristics for the project:

- Two casinos would be developed, one within the Ko Olina area, the second in the vicinity of the existing convention center in Honolulu.
- These would be the only authorized gaming venues for the foreseeable future, particularly on Oahu.
- The casinos would be high quality facilities, offering the gaming options and services commonly found in major casinos. The architecture, however, would probably differ from a "Las Vegas style" structure.
- The facilities would not include hotels (although agreements would likely be entered into with existing hotels close to the sites).
- The national economy remains reasonably healthy, although normal downturns would not significantly change the analysis (indeed, a national economic downturn may increase the importance of the casinos).
- The Japanese economy does not falter further.
- All figures are in year 2001 dollars.
- The calculations represent a stabilized year of full operation (perhaps the second or third year).
- Gaming tax rates would be established at levels that do not place the facilities at a competitive disadvantage.
- Overall on-site capital investment is in the vicinity of \$400,000,000.

ORGANIZATION OF REPORT

The report is organized in the following manner:

Chapter	Title or Primary Subject
One	Introduction and setting.
Two	Review of tourist trends and the competitive environment.
Three	Gaming market capture scenario.
Four	Non-gaming spending during casino trips.
Five	Spending totals and a further look at dollar retention.
Six.....	Employment and public revenue impacts.
Seven.....	Comments on "non-economic" impacts.
Eight.....	Comparisons with other types of casino options.

CHAPTER TWO GAMING COMPETITION AND THE HAWAIIAN ECONOMY

INTRODUCTION---THE REALITIES OF THE SITUATION

Central to evaluating the benefits of allowing a casino are the realities of the international gaming industry and the Hawaiian economy. Gaming is a major factor in leisure time spending—arguably the fastest growing segment. By not offering a gaming option to potential visitors, Hawaii is placed at a competitive disadvantage.

In past decades, it may have been unnecessary to offer a casino option because only Las Vegas possessed a viable alternative. During the 1990s, however, the entire competitive scene changed. Many states have casinos. California is now undergoing an enormous expansion in Native American casinos. Australia, New Zealand, and Korea offer casino options. Mexico allows several forms of wagering and is considering casinos. Furthermore, Mexico and other nations have also developed numerous high quality “sun and sand” resorts during the past decade, many that require shorter air travel time from major markets than Hawaii.

The availability of gaming at other tourist venues challenges Hawaii as a destination for both Asian and Mainland tourists and conventions. It also means that state residents themselves may be more prone to spend leisure time dollars outside of Hawaii.

The drawback of not competing in the gaming area is such a crucial challenge for Hawaii because tourism is so pivotal to the health of the State economy. The aging of Hawaii's tourist attractions and the growing tendency of modern tourists to opt for shorter duration vacations increase the urgency. **Essentially, in one of the most important and fastest growing segments (casino gaming) of its most important economic sector (tourism), Hawaii is not competing.**

The changed realities are paramount to understanding the importance of the casino/convention center proposal. **In earlier decades it may have not been necessary to support a casino gaming proposal because the international competition situation was very different and the local economy was expanding. In the year 2001, however, the evidence strongly supports the need for the State to allow this controlled and directed step to be taken.**

CHAPTER FORMAT

After this introduction, the Chapter provides an overview of the role of tourism in the state economy, competition for tourists from venues that have casino gaming, and spending by Hawaii citizens during trips to venues with casinos.

OVERVIEW OF TOURISM IN HAWAII

Most readers of this report are very familiar with the statistics of Hawaiian tourism. There is no need to repeat all the information here. Yet, it is essential to assure that the casino proposal is viewed in the light of the overall trends in tourism and the economy. To this end, particularly for those readers less familiar with the statistics of tourism, the section notes key information from various published reports on the subject of tourism and the Hawaiian economy.

It is reasonable to suggest that few other states (indeed, few countries) depend as much on tourism as Hawaii. Yet, during an era that found the United States economy booming, the Hawaiian economy showed signs of stagnation or even decline. As stated in the introductory letter of the report *"World Travel and Tourism Report, 1999--How Travel & Tourism Affects Hawaii's Economy"*:

The Hawaii economy continues to stagnate and the number of Visitor Arrivals and Visitor Days has declined. Nevertheless, the Travel & Tourism Economy remains the largest segment of Hawaii's overall economy, directly accounting for approximately one-third of jobs, 26 percent of the Gross State Product, 64 percent of the state exports and 27 percent of total taxes.

The report estimates that Travel & Tourism (T&T) represents 4.4% of the worldwide Gross Domestic Product (GDP), 5.5% of the U.S. GDP, and 18.2% of the Hawaiian GDP. In Hawaii, T&T was calculated by the report to represent 180,700 jobs in 1999, or 32.1% of total employment. WTT emphasizes that the T&T Industry (accommodation, catering, entertainment, recreation, transportation & other travel related services) *"is only the tip of an economic iceberg that includes the entire T&T economy which further includes economic segments that are impacted by the rise and fall of local travel and tourism."* The report includes numerous data points delineating the importance of travel and tourism to the State.

The Hawaii Department of Business, Economic Development & Tourism published a report *"Hawaii's Economy: July 1999"* that included a detailed analysis of tourism, entitled *"Tourism Looks to the Future."* The narrative begins with the statement:

The decade of the 1990s has been a difficult one for Hawaii tourism. The visitor count peaked just below 7 million near the beginning of the decade and, for a variety of reasons, has been unable to move beyond that level.

WTT offers recommendations regarding developing various niche markets. T&T segments such as cultural tourism, eco-tourism, and conventions are discussed. **The recommendations often involve some form of public subsidy or tax break.**

The Department of Business, Economic Development & Tourism (DBEDT) published a report entitled *"Repositioning Hawaii's Visitor Industry Products"* in November of 1998 in conjunction with the Center of Tourism Policy Studies at the University of Hawaii at Manoa. The analysis reviewed a wealth of tourism data and offered a variety of recommendations and findings. Parts of the document were referenced in the studies noted above. The report emphasized the **changing markets** and termed the **repositioning challenge as two fold--marketing and product development**. The authors describe Hawaii as a **mature destination**. The *Executive Summary* of the report declares:

Visitors interested in the generic Hawaii emphasizing the "sun and surf" beach attractions are likely to be outnumbered by visitors from new niche markets, and Hawaii will need to develop an appropriate product mix to maintain its growth in this complex marketplace.

Casino gaming has become a vital part of the tourism product mix.

KEY HAWAIIAN TOURISM STATISTICS

It is useful to look beneath the tourism dollars and impact totals to further understand trends. Figures change from month to month, and the past year has shown some increases, yet the overall trends during the past decade are clear. It is particularly distressing that the stagnation in visitor figures for Hawaii during the past decade coincided with a booming national economy and major spikes in visitor figures at other tourism destinations. **Moreover, beyond the stagnation in the number of visitors, has been the very significant decline in total visitor spending when adjusted for inflation.** This is primarily due to the reduction in Japanese visitors and the lower spending habits of those who do visit Hawaii. **Furthermore, the tourism results for Oahu have lagged behind the remainder of the state.**

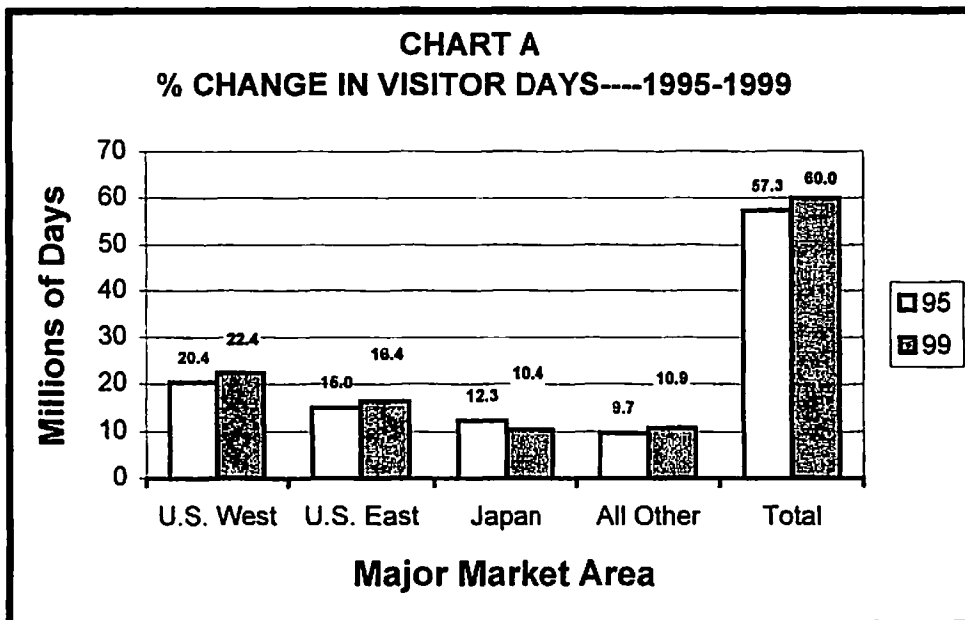
Total visitor days--statewide

Table 2-1 provides the total visitor days figures published by the DBEDT for the years 1990 through 1999. "Major Market Area" or MMA further segments the data.

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TABLE 2-1 VISITOR DAYS BY MAJOR MARKET AREA					
	U.S. West	U.S. East	Japan	All other	Total
1990	20,739,823	18,197,294	8,814,120	8,647,262	56,398,499
1991	20,375,212	17,402,432	8,444,859	7,550,336	53,772,839
1992	20,181,206	15,842,156	9,783,868	9,915,783	55,723,013
1993	19,065,801	13,801,979	10,331,021	10,637,810	53,836,611
1994	20,501,813	15,061,773	11,112,300	10,493,939	57,169,825
1995	20,306,340	15,004,050	12,329,961	9,700,560	57,340,911
1996	20,383,074	15,395,461	12,356,192	9,801,896	57,936,622
1997	20,154,198	14,780,446	12,220,884	10,217,965	57,373,493
1998	20,663,240	15,495,022	11,374,984	9,913,668	57,446,913
1999	22,412,943	16,378,571	10,377,326	10,851,396	60,020,236
% Change 91-99	8.1%	-10.0%	17.7%	25.5%	6.4%
% Change 95-99	10.4%	9.2%	-15.8%	11.9%	4.7%

Chart A exhibits the 95-99 changes graphically.



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The rise during 1999 did assure an overall increase for the decade, but at a very slow rate (approximately one-half of one percent compounded annually). Total visitor days from the Mainland markets (East and West) actually were somewhat less in 1999 than in 1990.

Cruiseship visitors were included in the DBEDT analysis, representing several hundred thousand visitor days. These individuals would not be expected to use hotels and would likely contribute less per day in terms of average daily spending. This key figure is discussed later in the Chapter.

The 1990 through 1999 figures show an increase for the Japan market, but this market has actually declined significantly during the past six years.

There has been some upward trend during the year 2000, but the overall average rate remains troublesome when compared to previous standards and growth rates elsewhere, with the visitors for Oahu remaining a particular concern.

Visitor Days by Island

Oahu experienced a decrease in total visitor days between 1990 and 1999. The Big Island showed the biggest increase in total visitor days.

TABLE 2-2 VISITOR DAYS BY ISLAND: 1990-1999						
Island	1990	1993	1996	1999	% Change 90-99	% Change 96-99
Oahu	30,215,944	28,509,549	29,584,826	29,016,511	-4.0%	-1.9%
Maui	13,249,503	14,503,188	14,347,767	15,299,907	15.5%	6.6%
Molokai	399,388	510,032	554,409	346,827	-13.2%	-37.4%
Lanai	95,940	365,048	692,177	410,271	327.6%	-40.7%
Kauai	6,342,867	3,023,183	5,699,296	6,647,963	4.8%	16.6%
Big Island	6,094,858	6,925,611	7,058,147	8,298,758	36.2%	17.6%
State	56,398,499	53,836,611	57,936,622	60,020,237	6.4%	3.6%

The Oahu decline, during a period of a booming national economy and a rise in worldwide tourism, simply must be considered unacceptable.

Total visitors-Eastbound and Westbound Trends

Table 2-3 exhibits the Eastbound and Westbound visitor trends during the 1990s. The information is derived from the State of Hawaii Data Book. There was a change in reporting definitions for the 1999 report, with "Westbound" and "Eastbound" being replaced by the "Major Market Areas". To provide a consistent analysis of trends, statistics using both definitions are used in our report.

The 1990 through 1998 growth rate was negative, as was the overall Westbound tourist trend. Eastbound tourists did increase during the nine-year period, but were lower in 1998 than in 1992. Both Westbound (primarily from the Mainland USA) and Eastbound (primarily from Japan) experienced their peak years during the first half of the decade. The 1999 figures and preliminary 2000 totals show a modest increase in visitors, although the overall rate remains stagnate, and total tourism spending is still below figures of a decade ago when adjusted for inflation.

TABLE 2-3			
STATE OF HAWAII VISITOR FIGURES			
(using Westbound and Eastbound definitions)			
Year	Total	Westbound	Eastbound
1990	6,971,180	4,719,730	2,251,450
1991	6,873,890	4,584,460	2,289,430
1992	6,513,880	3,980,120	2,533,760
1993	6,124,230	3,764,520	2,359,710
1994	6,430,300	3,997,820	2,432,480
1995	6,629,180	3,933,110	2,696,070
1996	6,829,800	4,004,450	2,825,350
1997	6,876,140	4,077,950	2,789,190
1998	6,738,220	4,245,270	2,492,950

Even a casual reviewer cannot escape the conclusion that at a time when the Mainland United States economy was booming the economy in Hawaii was troubled. The leadership of a private company certainly would not witness such a significant loss of market share without taking steps to change its product mix.

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Countries of origination

Based upon number of Eastbound and Westbound visitors

The country of citizenship of "Overnight and Longer" visitors to Hawaii is summarized in **Table 2-4** for 1997, using the "Eastbound" and "Westbound" groupings. This information is supplemental to the data in **Table 2.1**.

The United States Mainland is the largest single component, representing 53% of all visitors. Japan also represents a very significant source, comprising over 30% of the visitors during 1997, while Asia as a whole represented over 35%. These figures become very important when the new casino competition from Australia, New Zealand, and Korea is considered, and the higher average spending per day that Asian visitors tend to display.

TABLE 2-4 1997 COUNTRY OF CITIZENSHIP OF OVERNIGHT VISITORS (using Westbound and Eastbound definitions)				
Region Or Country	Total Visitors	Westbound	Eastbound	
All Visitors	6,876,140	4,077,950	2,798,190	
United States (Exc. Hawaii)	3,726,540	3,387,180	339,360	
Canada	327,200	250,710	76,490	
Asia	Japan	2,092,480	65,200	2,027,280
	Taiwan	60,880	7,390	53,490
	Korea	116,740	15,330	101,410
	Hong Kong	19,430	5,550	13,880
	China	31,320	18,830	12,490
	Philippines	13,570	6,320	7,250
	Singapore	12,960	1,510	11,450
	Indonesia	20,410	10,010	10,400
	Other Asia	29,680	13,930	15,750
Oceania	Australia	74,740	29,760	44,980
	New Zealand	36,950	14,910	22,040
	Other Oceania	17,550	3,090	14,460
Europe	U. Kingdom	82,180	60,930	21,250
	Germany	76,090	69,580	6,510
	Other Europe	102,890	87,130	15,760
Other foreign Countries	34,530	30,590	3,940	

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Surveys that year also found that approximately 9.3% of overnight and longer visitors had a destination beyond Hawaii. For Westbound travelers the figure is 4.9%, for Eastbound the figure is 15.7%. The statistics include only travelers who spent at least one night; individuals simply in transit at the airport are not included. Casinos are an excellent alternative for attracting individuals travelling through the state to other destinations to increase their stay a day or more. In addition to the jobs created at the casinos, this also means that additional jobs will be created through the non-gaming spending of these individuals.

Based upon 1999 Major Market Areas number of days

As noted, the state now uses a slightly different reporting structure for visitors, without the "Westbound" and "Eastbound" terminologies. **Table 2-5** reemphasizes some of the information from **Table 2.1**, and adds proportions of total visitors.

TABLE 2-5 VISITOR DAY PROPORTIONS AND TRENDS							
Major Market Area	1990	1995	1999	95 Proportion	99 Proportion	% Change 90-99	% Change 95-99
Total	56,398,499	57,340,911	60,020,237	35.4%	100%	6.4%	4.7%
U.S. West	20,739,823	20,306,340	22,412,943	35.4%	37.3%	8.1%	10.4%
U.S. East	18,197,294	15,004,050	16,378,571	26.2%	27.3%	-10.0%	9.2%
Japan	8,814,120	12,329,961	10,377,326	21.5%	17.3%	17.7%	-15.8%
Canada	3,009,560	2,818,595	3,351,926	4.9%	5.6%	11.4%	18.9%
Europe	1,349,890	2,361,554	2,189,957	4.9%	3.6%	62.2%	-7.3%
Oceania	2,229,388	1,143,577	941,145	2.0%	1.6%	-57.8%	-17.7%
Other Asia	785,636	1,649,036	905,320	2.9%	1.5%	15.2%	-45.1%
Latin Amer.	NA	NA	NA				
Other	1,272,787	1,727,797	3,463,047	3.0%	5.8%	172.1%	100.4%
Domestic	41,269,155	38,561,739	43,069,177	67.2%	71.8%	4.4%	11.7%
Inter-national	15,129,344	18,779,172	16,951,060	32.8%	28.2%	12.0%	-9.7%

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This Table is particularly useful in demonstrating that in terms of visitor days the U.S. Mainland visitor now represents a larger proportion than five years ago. This was not accomplished through substantial increases in Mainland visitors, but rather through the decline in visitor days from Japan and Other Asia. This results in a significant decline in total visitor spending, even without adjusting for inflation.

Feeder States

The Pacific Coast region as a whole was responsible for 49.5% of the Mainland visitors during 1999. The proportion for the Pacific Coast region did not change substantially from 1994, when the figure was 49.9%. Visitors from more distant regions do tend to stay longer, thus meaning more visitors days and most likely more total spending within Hawaii.

TABLE 2-6 DOMESTIC U.S. VISITORS BY STATE: 1999 & 94		
Region Or State	1999	1994
Pacific Coast	1,844,511	1,656,930
Alaska	41,737	34,960
California	1,355,754	1,282,600
Oregon	147,220	98,950
Washington	299,802	240,420
Mountain	363,898	277,700
W.N. Central	191,856	167,440
W.S. Central	217,433	175,400
E.N. Central	374,582	339,040
E.S. Central	76,409	68,470
New England	97,204	91,540
Mid Atlantic	241,256	220,960
S. Atlantic	318,863	264,150
Total	3,726,012	3,261,630

The primary feeder state to Hawaii is California, which represents over 36% of travelers from the United States. It is again noted California has recently begun a massive increase in their Native American gaming facilities. The California tourist dollar is also a major focus of tourism venues in Mexico and Nevada, as well as cruiseships. **Any decline in tourists from California would directly impact the economy of Hawaii.**

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Travel characteristics of the average trip to Hawaii

Table 2-7 exhibits various average travel characteristics. The figures are utilized in the market capture and economic impact analyses in the following Chapters.

TABLE 2-7 1999 VISITOR CHARACTERISTICS			
Visitors	Total	Domestic	International
Total Visitor Days	60,020,237	43,069,177	16,951,060
Total Visitors	6,741,037	4,255,621	2,485,416
PARTY SIZE			
One	1,237,647	900,349	337,298
Two	2,951,430	2,032,272	919,158
Three or more	2,551,959	1,323,000	1,228,959
Average Party Size	2.10	1.94	2.46
VISIT STATUS			
First-Time	2,769,507	1,522,276	1,247,231
Repeat	3,971,530	2,733,345	1,238,185
Average # Trips	4.09	4.70	3.04
TRAVEL METHOD			
Group Tour	1,521,707	387,342	1,134,365
Package	3,209,746	1,520,407	1,689,339
Group Tour & Pkg.	1,318,506	309,916	1,008,590
True Independent	3,327,741	2,657,788	669,953
ISLANDS VISITED			
Oahu	4,560,142	2,347,040	2,213,101
Maui County	2,347,002	1,866,531	480,471
Kauai	1,089,289	929,657	159,632
Big Island	1,307,720	942,359	365,361
One Island Only	4,800,628	2,930,443	1,870,185
Oahu Only	2,917,116	1,294,883	1,622,233
Maui Only	1,032,424	904,063	128,361
Molokai Only	10,119	9,252	867
Lanai Only	13,675	11,050	2,625
Kauai Only	375,082	345,639	29,443
Big Island Only	452,212	365,556	86,656
Neighbor Is. Only	2,180,896	1,908,581	272,315
LENGTH OF STAY			
Oahu (days)	6.36	7.12	5.57
Maui (days)	6.71	7.20	4.84
Molokai (days)	4.98	5.07	4.42
Lanai (days)	4.34	4.12	5.56
Kauai (days)	6.10	6.51	3.74
Big Island (days)	6.35	7.04	4.56
Statewide (days)	8.90	10.12	6.82

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**TABLE 2-7 (Continued)
1999 SUMMARY OF VISITOR STATISTICS**

	Total	Domestic	International
ACCOMMODATIONS			
Hotel	4,612,702	2,581,579	2,031,123
.....Hotel Only	4,286,278	2,321,714	1,964,564
Condo	1,326,734	1,046,359	280,375
.....Condo Only	1,115,262	884,467	230,795
Apartment	80,654	64,650	16,004
Bed & Breakfast	96,388	61,709	34,679
Cruise Ship	89,971	82,575	7,396
Friends or Relatives	551,572	476,356	75,216
PURPOSE OF TRIP			
Pleasure (Net)	5,464,560	3,275,236	2,189,324
.....Honeymoon	661,767	266,304	395,463
MC&I (Net)	484,751	384,171	100,580
.....Convention/Conf.	300,241	247,556	52,685
.....Corp. Meetings	98,653	79,792	18,861
.....Incentive	91,511	61,412	30,099
Other Business	215,634	183,546	32,088
Visit Friends/Relatives	406,468	350,874	55,594
Government/Military	94,137	62,511	31,626
Attend School	21,099	12,067	9,032
EXPENDITURES			
Total Expenditures (\$ mil.)	10,279.7	NA	NA
Per Person Per Day (\$)	171.30	NA	NA
Per Person Per Trip (\$)	1,524.90	NA	NA

Expenditures per visitor

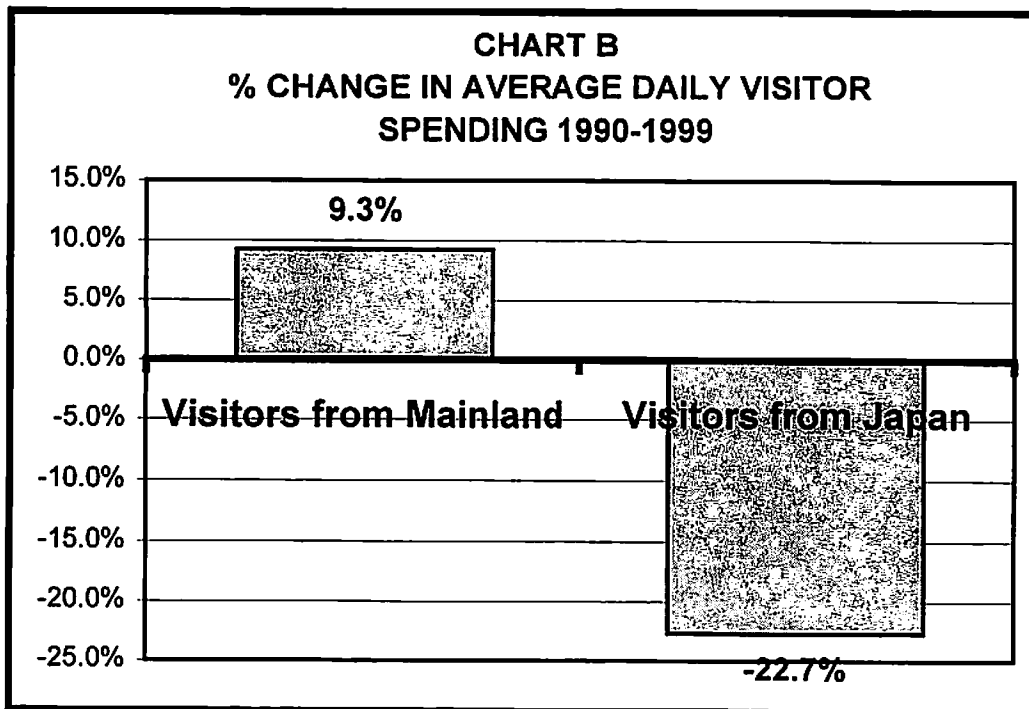
A critical concern is the long-term trend of lower spending per visitor day. This is primarily due to Japanese and other Asian tourists representing a smaller proportion of all tourists. Furthermore, even within the group of Japanese tourists that still travel to Hawaii daily spending is down significantly.

Table 2-8 exhibits the trends, as reported in the State of Hawaii Data Book for 1999. The average visitor from the Mainland spent \$148.92 per day in 1999, while the average visitor from Japan spent \$227.30. The 1999 figure for visitors from Japan was actually below the 1991 figure of \$344.29 by over one-third—in nominal (non-inflation adjusted) terms.

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TABLE 2-8 AVERAGE EXPENDITURES PER VISITOR DAY 1990-1999		
Year	Mainlanders	Japanese
1990	\$136.30	\$294.04
1991	149.54	344.29
1992	117.14	344.68
1993	116.15	396.54
1994	133.79	340.88
1995	132.73	340.88
1996	137.04	286.89
1997	157.07	279.58
1998	147.37	257.80
1999	\$148.92	\$227.30

The change, in nominal terms not adjusted for inflation, is portrayed in **Chart B** for the period between 1990 and 1999. This strongly argues that the loss in actual expenditures was very significant, even more than suggested by the visitor day totals.



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Table 2-9 offers a further breakdown of spending (in this case, 1997) patterns. The division of expenditures is used in the impact projections in Chapter Three.

TABLE 2-9 EXPENDITURES PER VISITOR DAY--1997		
Source: Hawaii Visitors & Convention Bureau		
	Mainland	Japan
All Items	\$157.07	\$279.58
Food and beverage	31.85	40.09
Entertainment	12.54	15.41
Transportation	23.96	16.52
Clothing	8.38	29.19
Other fashion *	6.23	66.98
Agriculture	1.79	5.13
Communication	0.64	0.76
Personal service	1.43	2.39
Lodging	59.78	79.6
Souvenirs	5.04	13.6
All other	3.81	7.30
Adjustment**	1.62	2.61

*Jewelry, cosmetics, leather, etc.

** Excluded from listed categories and unaccounted expenditures.

As noted previously, the average spending by Japanese tourists in 1999 was calculated by the State to be \$227.30 and \$148.92 for visitors from the Mainland.

Inflation adjusted visitor spending

Very importantly, the State of Hawaii Data Book reveals that in constant 1982-84 dollars, the average per day expenditure per Mainland visitor during 1999 was actually below the 1977 level, and was significantly below the levels of the early 1960's. This is influenced by the fact that only higher income visitors could travel to the state decades ago, but is also a sign of a lack of new attractions. Again, this does not even consider the major reduction during the past five years in the daily spending by Japanese visitors. The calculations for the last decade from the Data Book are summarized in Table 2-10.

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TABLE 2-10 AVERAGE EXPENDITURES PER MAINLAND VISITOR DAY IN CONSTANT DOLLARS 1990-1999		
Year	U.S. CPI (1982-84=100)	Average expenditure per visitor day in constant 82-84 dollars
1990	130.7	104
1991	136.2	103
1992	140.3	83
1993	144.5	80
1994	148.2	90
1995	152.4	87
1996	156.9	87
1997	160.5	98
1998	163.0	90
1999	166.6	89

Total visitor expenditures

A paramount statistical measure in terms of success of attracting tourism spending is the calculation of total visitor expenditures. Table 2-11 provides the figures published by the DBEDT for the decade of the 1990s.

TABLE 2-11 TOTAL VISITOR EXPENDITURES (not inflation adjusted, as estimated by the DBEDT)	
Year	\$ (in millions)
1990	9,082.1
1991	9,817.7
1992	9,310.9
1993	8,472.7
1994	10,253.9
1995	11,107.2
1996	10,166.8
1997	10,491.0
1998	10,309.2
1999	10,279.7

Total expenditures between 1995 and 1999 declined in nominal terms by 7.5%.

Part of the decline can be attributed to the problems in the Asian economies, but it was also during a time of significant economic expansion on the Mainland. Following sections will demonstrate that various competing tourist areas realized more desirable trends during the same period. **Adjusting for inflation during the 1990s would reduce the 1999 total to approximately \$8 billion in 1990 dollars, or one billion below the level achieved in 1990. If only Oahu trends were considered, the decline in real dollars would be even more pronounced.**

NOTES REGARDING RECENT FIGURES

Monthly data suggests that the tourism industry did experience improvement during 2000, at least in terms of total visitors. Certainly there are many hard working and talented individuals striving to make the industry a success, and some desirable increased has occurred. Yet, the figures continue to suggest that the State has lost market share to other venues. The gross visitor totals tend to hide the decline in total spending in inflation adjusted dollars. As noted, this is particularly disturbing when the (previously) booming national economy is considered.

An example is the DBEDT News Release in December of 2000 that discussed year to date visitor figures. The 11-month figures for total visitors were a record for Hawaii. In November, however, there was actually a small decline in visitors from the previous year, which was offset by an increase in the average length of stay. This increase in the average is likely attributable to a change in the mix of visitors, with Asians representing a smaller portion. The net outcome was an increase in November of 2000 compared to the previous year of 0.4% (or less than one-half of one-percent).

Total visitor days for the 11-month period were up 3.1% over the previous year. This likely leaves total visitor expenditure still well below 1995 levels, even without adjusting for inflation.

Oahu experienced an increase in total arrivals during the first 11 months of 2000 compared to 1999. The improvement will approximately take the total arrival level to that of 1990. Again, the final results will likely show that actual visitor expenditures continue to be significantly lower in real terms than achieved a decade earlier.

LAS VEGAS AND NEVADA TOURISM

Las Vegas is a unique destination, and certainly no other venue would attempt to replicate what has occurred in a former small town in the Mojave Desert. A variety of areas on the Mainland are experiencing rapid growth due to the commencement of casino gaming.

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It is useful to briefly note a series of Las Vegas statistics in order to help support the market figures generated for the dual Oahu casinos in the next Chapter.

Las Vegas Visitor Profile--1998

Visitor Volume--.....	30,605,128
Increase from 1990	46%
Visitor \$ Contribution	\$19.2 billion
Convention delegates.....	2,684,171
En/Deplaned Airline Pass.....	26,850,486
First time vs. repeat visitors.....	25% first time
Purpose of visit	
Vacation/pleasure/gambling	71%
Business/convention.....	14%
Other	15%
Transportation	
Air.....	46%
Automobile	41%
Other	12%
Room Occupants	
One	14%
Two	70%
More	16%
Expenditures per visitor (trip)	
Food & drink	\$140.80
Transportation	\$48.04
Shopping	\$79.88
Shows	\$28.02
Sightseeing.....	\$5.34
Lodging (per night)	\$65.51
% Who gamble while there.....	87%
Gambling budget.....	\$469.29

Las Vegas is feeling competition from the growth of gaming in the United States. Mississippi has joined Atlantic City as a major gaming destination. Michigan has established 3 public casinos in Detroit. Several states (such as Illinois and Indiana) have riverboat gaming. There are several hundred casinos on Native American land in a variety of states. Some, such as Foxwoods casino in Connecticut and the Soaring Eagle in Michigan, exceed the size of the typical Las Vegas facility.

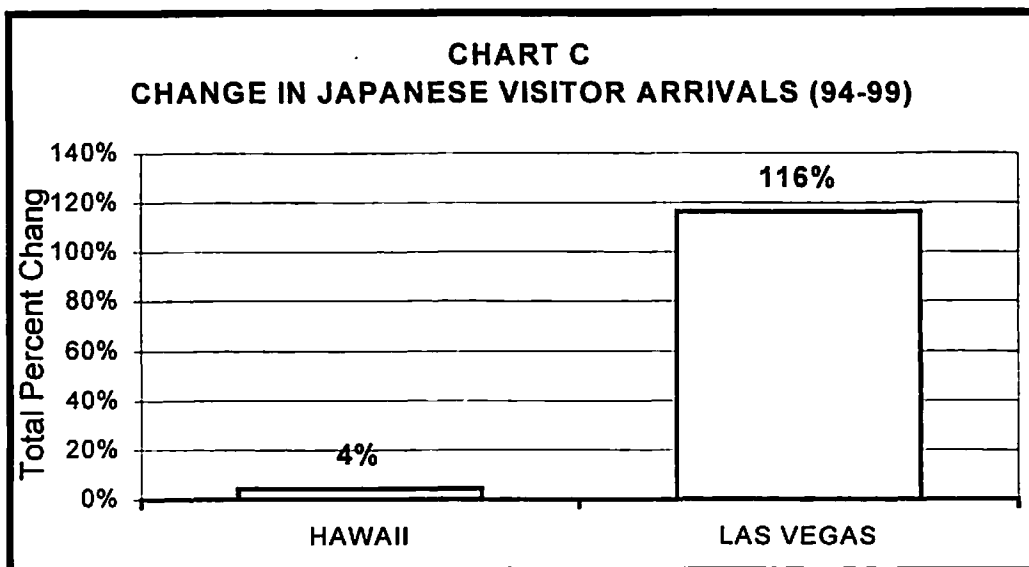
Las Vegas will definitely react to the increased competition that will occur from the massive expansion of Native American gaming in California. Approximately 32% of Las Vegas visitors are from California. The response will likely involve increased marketing to residents of other states.

Japanese visitors to Las Vegas

The Las Vegas Convention & Visitors Authority reports the following figures for Japanese visitors to Las Vegas for the years 1994 to 1999.

TABLE 2-12	
JAPANESE VISITORS TO LAS VEGAS	
Source: Las Vegas Visitors and Convention Authority	
Year	Visitors
1994	221,000
1995	235,000
1996	311,000
1997	403,000
1998	342,000
1999	478,000
% Change, 94-99	+116%

Japanese visitors to Las Vegas increased by a very impressive 116% between 1994 and 1999 (and 103% between 1995 and 1999). For the period between 1994 and 1998, incorporating the Asian monetary drop, Las Vegas still experienced a 55% increase in Japanese visitors. **Chart C** contrasts the difference in Japanese visitors to Las Vegas and Hawaii between the years 1994 and 1999.



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Surveys by the Las Vegas Convention and Visitors Authority collect a variety of information pertaining to Japanese and other visitors. Some of the most pertinent data points for our study are as follows.

Las Vegas 1999 Japanese Visitor Characteristics	
Total Visitors from Japan	478,000
Used a prepaid package	60%
Purpose of trip	
Vacation/Holiday	61%
Visiting Friends/Relatives	8%
Business/convention	11%
Other	2%
Length of stay	
In U.S.	8.4
States visited	2.1
Main U.S. Destination is Las Vegas	85%
Top Leisure Activities	
Casinos/Gambling	80%
Shopping	93%
Sightseeing in City	55%
Dining in restaurants	83%
Visiting national parks	45%
U. S. Expenditures per day	
Transportation within U.S.	\$15.07
Lodging (excluded prepaid package prices)	\$23.81
Food/beverage	\$26.19
Shopping	\$48.45
Entertainment (including gaming)	\$28.21
Other spending	\$7.98
Average daily U.S. expenditures	\$150.71
Gender--Males	60%
Age	39
Annual household income (in U.S. \$)	\$79,300

The data is particularly relevant in demonstrating that the visitors are involved in a variety of activities, and spending, in addition to gambling. The same would be expected of visitors to Hawaii that are influenced to come to the state by casinos, but would also be attracted to and utilize the other leisure time pursuits available.

GROWING CASINO COMPETITION IN THE PACIFIC (particularly directed at the Japanese/Asian Tourist)

Various countries in the Pacific are actively promoting gaming as one of the entertainment options in their "basket" of vacation attractions.

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The decline in Japanese visitor days (and spending) in Hawaii can be attributed, in part, to the monetary crisis in Southeast Asia. Yet, the Hawaii tourist industry should not use the internal economic problems of other countries as the entire excuse for the downtrend. Several competing venues have legalized and/or expanded casinos and are actively promoting gaming to Japanese tourists. Various reports strongly suggest that these venues have not experienced the reduction in visitor spending that has occurred in Hawaii.

Australia

There are presently 14 casinos in Australia, with the larger facilities in Melbourne and Sydney constructed and opened during the past decade. Australian visitor levels experienced an excellent growth rate during the 1990's, as evidenced by Table 2-13.

TABLE 2-13 SHORT-TERM OVERSEAS VISITORS TO AUSTRALIA Source: Australian Tourist Commission	
Year	Visitors
1990	2,214,913
1991	2,370,371
1992	2,603,268
1993	2,996,334
1994	3,361,721
1995	3,725,825
1996	4,164,825
1997	4,317,870
1998	4,167,206
1999	4,459,503
1990-1999 % Increase	101%

In 1998 Australia hosted 751,107 visitors from Japan, an increase of over 56% from 1990. In 1998 the Japanese visitor figure declined from previous year figures but by "a figure that was not as severe as the Australian Tourist Commission originally predicted" (source: Australian Tourist Commission). A 66% increase in the number of Japanese visitors to Australia between 1990 and 1997 compares to an increase of 23% in the number of "eastbound" visitors to Hawaii during the same period. The average Japanese visitor to Australia during 1998-1999 stayed 14 days.

The final totals for the year 2000 will no doubt show a massive increase in both total visitors and visitors from Japan due to the Olympics.

In a 1997 survey of visitors, **19% said that during their trip to Australia they visited a casino at least once.**

The Bureau of Tourism "Tourism Research Report", Autumn 1999, included a study of inbound visitors to casinos in Australia. The analysis reads in part:

The increase in visitor numbers was particularly remarkable in 1996 following the opening of casinos in Melbourne and Sydney. It is suggested therefore, that casinos add to the basket of attractions available in Australia that are appealing to Inbound visitors.

The study found that casino visitors tended to be younger than the average tourist. Furthermore, the analysis reported that, **"On average casino visitors spent more than other visitors to Australia."** Casino visitors spent 37% more (or approximately \$350 US) during their overall stay than other visitors. This strongly suggests that casinos, rather than taking money from other businesses, add to the number of tourists and significantly add to the total tourist spending.

New Zealand

The first legal casino opened in Christchurch in 1994, followed by a second in the Auckland in 1996. The revenues at these casinos approximately doubled between 1996 and 1998. There are also 81 thoroughbred, 54 harness, and 13 greyhound racing clubs, with 580 off-track betting outlets spread throughout the country.

Overall visitor arrivals to New Zealand grew between 1998 and 1999.

Korea

Under present law, 13 casinos have been allowed to open, with several more planned. They are designed to specifically attract tourists, with locals initially precluded from entering by law. Much of the marketing appears to be focused upon attracting Japanese. A cruise line service between South Korea and Japan with casino gaming on board began operations in 2000.

In 1998 the country implemented a change in the gaming laws to allow Koreans to enter certain casinos.

Philippines

The Philippine Amusement and Gaming Corporation presently operates 11 casinos. Additional licenses have now been approved for private companies. The first "slot only" arcade opened in Manila in 1999. A article in *"International Gaming & Wagering Business"* by F. Guskin, as referenced in the report *"Asia Pacific Rim Casino Industry Outlook in the 21st Century"* by Soo-Kyoung Kang and Cathy Hsu found that ***"The casino industry in the Philippines is thriving, and the Philippines has become one of the most desirable casino destinations in Asia."*** The study noted that while other tourism areas with a large proportion of Asian visitors experienced major reductions in 1998 due to the monetary crash, Philippine casino revenues for the first quarter were down only 0.3%.

Other nations of note

The rigid Muslim government of Malaysia has permitted a very successful legal casino to operate in Kuala Lumpur.

Cambodia has 13 operating casinos. Viet Nam opened its first legal casino in 1994.

Mainland China does not have legal casinos, but a report in *Casino Journal* magazine estimated that 40-50 facilities freely operate. Nine casinos were operating in Macau, and four others permitted, although changes are expected with the return of Macau to China.

Hong Kong has five cruiseships with casino facilities.

Mexico has opened a series of sun and sand resorts on the Pacific Ocean during the past decade, with California tourists being a prime target. The country presently does not allow casino gaming, but does allow sports and other forms of betting. Legislation is introduced each year in the national assembly to allow various numbers of legal casinos. Passage during this decade is very possible.

Notes on gambling within Japan

Even though there are no "legal" casinos presently operating in Japan, *Casino Journal* reports that at least five medium to large casinos presently operate in the larger cities, plus an active cruiseship industry. The article in the magazine also projects that casinos will be legalized in Japan around 2005. Other reviews of the Japan situation have also predicted that casinos will be legalized in coming years.

Additional notes on Japanese tourists and casinos

Even though the monetary crisis did impact overall Japanese tourism spending, the "loss" was not felt evenly in all venues, and some recovered much more quickly than others. Previously quoted were figures from Las Vegas and the Philippines. Interestingly, overall trips out of their country by Japanese residents declined by only 6% between 1997 and 1998.

An insightful tourist exit study was conducted by the Guam Visitors Bureau in 1994. Visitors were asked, "*What new attractions would you like to see offered in Guam?*" The number one potential attraction was "*Casino Gambling*", with 40% of the respondents expressing an interest.

GAMING BY HAWAIIAN RESIDENTS

Even though Hawaii has not legalized any form of organized gaming, this does not mean that Hawaiian residents never wager. There is a variety of data showing a large number of trips annually to Nevada. There are now over 800 sites on the Internet that take sports wagers, involve lotteries, or take bets at virtual casinos. It could also be assumed that illegal betting does occur within the state, although a specific figure would be impossible to determine. Nationwide, illegal sports betting alone has been estimated to be at least a \$360 billion industry. Hawaii, no doubt, has its representative share.

Approval of the two casinos would not eliminate all trips to Mainland gaming venues, or shift all illegal gaming to a regulated and taxed casino, but they can be expected to retain a portion of the dollars now leaving the state or lost to the underground economy.

Travel by state residents to Nevada--Two sets of figures

Hawaii and Nevada sources were reviewed for travel statistics regarding trips by residents of Hawaii to Nevada--the totals differ substantially. This may stem from differences in definitions or, perhaps, the inclusion of charter trips.

Data from Hawaii publication

The State of Hawaii Data Book 1997 lists the following information regarding trips to Nevada. They quoted as a source the U.S. Bureau of Transportation Statistics, 1995 American Travel Survey, and Summary Travel Characteristics.

TABLE 2-14
ESTIMATE APPEARING IN 1997 STATE DATA BOOK
PERSON TRIPS BY RESIDENTS FROM HAWAII--1995
(trips of 100 miles or more, excluding trips within Hawaii)

Destination	Number	% Of Total
Total person trips	764,000	100%
California	210,000	27.5%
Nevada	218,000	28.5%

The number of residents travelling to Nevada is quite compelling. It is the top destination for Hawaii residents over all other states. The figures may be artificially low, however. The figures published by the Las Vegas Convention and Visitors Authority, based upon their survey of charter planes as well as the U. S. Department of Transportation, Origin and Destination Survey of Scheduled Airline Passengers, are consistently much higher. It is possible that the data sources utilized in the State Data book did not include charter, or that the figures above do not include residents who stop in other states on their way to Nevada.

Even if the "lower" figures in the Hawaii Data Book are used, it is still striking that while the Nevada population is similar in size to that of Hawaii's, the same report estimated that trips by Nevada citizens to Hawaii during the same period totaled 35,000—less than one-sixth of trips by Hawaiian citizens to Nevada. Therefore, the vast majority of dollars flowing from Hawaii to Nevada do not come back.

Statistics from Nevada source

Nevada is similar to Hawaii in depending upon tourism as its largest economic sector. Various state and local agencies and associations publish a variety of data pertaining to visitors to Nevada.

The Las Vegas Convention and Visitors Authority is a prime source of useful tourism data. The LVCVA publishes annual data on visitors to McCarran airport. The data is derived from a survey of charter providers as well as *U.S. DOT Origin and Destination* information. The Las Vegas figures published for passengers from Hawaii is summarized in **Table 2-15**.

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TABLE 2-15 HAWAIIAN PASSENGERS TO LAS VEGAS				
SOURCE: Las Vegas Convention & Visitors Authority (based upon LVC&VA survey of Charter services and the U.S. DOT Origin & Destination Survey of Scheduled Airline Passengers)				
Year	State Rank	Scheduled	Chartered	Total
1994	16 th	239,310	138,366	377,676
1995	16 th	257,560	163,566	421,126
1996	16 th	257,240	187,566	444,806
1997	14 th	282,450	211,398	493,848
1998	16 th	260,190	209,334	469,524
1999	17 th	281,630	193,486	475,116

As noted, the figures are substantially higher than those published by the Hawaiian State Data book in 1997.

Dollar outflow from the state economy

Highly detailed survey information on gaming habits of the citizenry would be needed to generate a formal estimate of the outflow of dollars from the state economy to gaming in Nevada. The available data does allow some broad estimates to be employed to gain some insight into the magnitude.

It is reasonable to assume that the average traveler from Hawaii to Nevada spends approximately \$1,200 (or more) on gaming, non-gaming (lodging, entertainment, etc), and air transportation during the trip. Some may spend less, some far more. If we use the previously quoted State of Hawaii figure of 218,000 trips (in 1995), a total spending of over \$261 million is generated. If we use the LVCVA figure of 469,524 for 1998, the figure derived exceeds \$548 million.

In Table 2-16 the Las Vegas Convention & Visitors Authority figures for visitors to Las Vegas are coupled with average spending factors to offer a scenario for the potential leverage gained from keeping a portion of the gaming trips within the state of Hawaii.

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TABLE 2-16 SCENARIOS FOR AMOUNT NOW FLOWING OUT OF STATE DUE TO GAMING BY RESIDENTS			
	Trips in 1999	Assumed \$ Amount per trip (including airfare)	\$ Flowing Out of Hawaii
Hawaii to Las Vegas (from LVC&VA Report)	475,000	\$1,100	\$522,500,000
Hawaii to other gaming venues (at 5% of Las Vegas)	23,750	\$1,100	26,125,000
TOTALS			\$548,625,000
If one-third was retained in state			\$182,875,000
If one-quarter was retained in state			\$137,256,000

The trend of visits to Las Vegas has clearly been increasing, thus a scenario based upon 1999 data may actually underestimate the potential future outflow from Hawaii. Moreover, the gigantic growth that is underway in Native American casinos in California will be another inducement to attract the spending of Hawaiian residents.

It is further noted that the figures in the table does not include any shift from illegal gambling to regulated and taxed casinos within the State. At least some shift is likely to occur, but specific estimates cannot be offered.

Anecdotal note on the importance to one Las Vegas operation

An interesting anecdote regarding the importance of Hawaiian visitors to Las Vegas for one major gaming firm can be found in a Securities and Exchange Commission filing by Boyd Gaming. One small section of the lengthy document reads as follows:

The California, Fremont and Main Street Station derive a substantial portion of their customers from the Hawaiian market. During the year ended December 31, 1999, patrons from Hawaii comprised approximately 70% of the room nights at the California, 56% at the Fremont, and 47% at Main Street Station.

ILLEGAL GAMING AND INTERNET GAMING

The report does not attempt to quantify the amount of illegal gaming with the State. Discussions with a variety of individuals all point to the belief that such gaming is significant, almost to the point of being common. Other than the dollars that might flow to organized crime members outside of the State, the dollars bet illegally primarily remain within Hawaii. Yet, these dollars are untaxed and unregulated. Any impact legal casinos might have in capturing a small portion of these dollars would favorably effect tax revenues and generally reduce organized crime.

There is no clear method for assessing the amount of internet gaming being undertaken by Hawaii residents. The overall present market in North America has been roughly estimated to be in the vicinity of \$1.5 billion annually, and growing rapidly, but no one truly knows. It is certain that there are now over 1,400 sites on the Internet now to place bets. Again, any transfer casinos might have in capturing some of the dollars that would otherwise have been bet on the internet do serve the purpose of increasing tax revenues and creating local jobs.

CONCLUDING CHAPTER COMMENTS

The Chapter covered several key issues and presented a variety of data on tourism and casinos. Many of the points and figures are likely already well understood by readers, yet appreciating the trends is essential to understanding the economic benefits that can be derived by approving the casino/convention center project.

- Tourism is the largest sector of the Hawaiian economy.
- Visitor levels have stagnated at the same time that the Mainland economy is flourishing, suggesting a significant loss of market share.
- The decline/stagnation of visitor levels to Oahu is particularly noticeable and relevant to the dual casino proposal.
- 1999 and 2000 exhibited some reversal of the downward trends in visitor days, but total spending is still below levels of a decade ago, even without adjusting for inflation.
- When adjusted for inflation, total spending is significantly below levels of a decade ago.
- Various published reports have determined that Hawaii needs new attractions, in most cases such attractions would need public subsidies.

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- Mainland residents represent approximately 53% of overnight visitors to Hawaii, citizens of Japan represent approximately 30%.
- In 1999 average Mainland visitor spent \$148.92 each day in Hawaii and the average visitor from Japan spent \$227.30 each day. The per day spending by Japanese visitors has significantly fallen from previous levels (even without adjusting for inflation).
- Australia, New Zealand, Korea, and the Philippines all have begun casino gaming operations.
- A 1997 study in Australia determined that 19% of all tourists visited casinos. Australia has also found that tourists to the country that visit casinos spend more within Australia during the average trip than those whom do not visit casinos.
- Nevada is the state most frequently visited by Hawaiian residents. The number has steadily increased. Total spending on trips to Las Vegas may now exceed one-half billion dollars annually.
- During the 1990s, Las Vegas exhibited a far higher percentage increase in the number of Japanese tourists than Hawaii.
- The casino proposal does not involve the request for public funding (indeed, substantial taxes will be paid) which is in contrast to most other tourist attraction proposals.

Gaming has become one of the most important and most competitive segments in the Travel and Tourism sector of the national and international economy. The Hawaiian economy is dependent upon Travel and Tourism. Yet, at present, in this key segment of its most important economic sector, the State does not compete.

CHAPTER THREE MARKET CAPTURE SCENARIO

OBJECTIVE, KEY CONSIDERATIONS AND METHODOLOGY

This Chapter analyzes the basic market feasibility of the project and develops a market capture (gross gaming income). These figures serve as the foundation for estimating economic impacts.

There are many considerations in developing the market analysis, of which four are particularly prominent:

- For Hawaii the analysis must focus on the millions of tourists as well as the normal consideration of the demographics of residents.
- A wide variety of published data exists not only for the traditional gaming venues of Las Vegas and Atlantic City, but also newer venues such as Mississippi, Native American casinos, and Ontario casinos (including Niagara Falls).
- Providing extra detail at this level facilitates analysis of "where the money is coming from" in later sections of the report.
- The analysis includes consideration of the amount of spending "shifted" within the economy versus new (or retained) dollars to the economy.

The methodology divided the market into four distinct groupings:

- Existing tourist base (# of annual visitors to Hawaii).
- New visitors to the state drawn by new/expanded events at the convention center due to the availability of the casino gaming option.
- New visitors coming expressly to wager at casinos.
- Current residents.

The analysis further segments the population by differentiating Oahu tourists and residents from visitors and residents of other islands. Within each of the groupings, various factors are utilized and extrapolations developed:

- Number of individuals and days on the Island and in the State.
- Incidence of tourists visiting a casino at least once.
- Of those who visit at least once, the number of total casino visits.
- The average casino win or hold (or customer loss) during an average visit.

For the purposes of this report, a "visit" is defined as one person entering a casino one or more times during a single day; multiple entrances during the same day count only as one visit. Clarifying this definition is important when considering data from other venues.

"EXISTING" TOURIST BASE

Key considerations

The first market segment analyzed involves the number of tourists already coming to the Island. A substantial market already exists due to the large number of tourists already visiting the state. In the calculations that follow, care is taken to differentiate additional dollars spent in the state due to the casinos, from tourist dollars that are shifts from existing forms of spending on the Island.

The "existing visitor" calculations use recent tourist levels as a static (unchanging) base. In actuality, the present base has been eroding, and may continue to do so without the addition of casinos. Thus, "preserving of the base" is a critical benefit to be derived from the casinos. The tourist reports discussed in Chapter Two commonly mention a lack of new attractions within the state, and an erosion of the present visitor base. The static base technique for this category does not alter the overall totals derived. Conceptually, the prevention of the erosion could also be included in the "new" visitor category.

Calculations

The factors used and calculations are presented in **Table 3-1**. The DBEDT publishes on an ongoing basis a wealth of data pertaining to the existing tourist base. For the year 1997 it was reported that there was a total of 6,876,140 tourists visiting the state. Of those, 3,251,920 visited only Oahu, 1,766,020 visited Oahu and at least one other Island, and 1,858,200 visited Hawaii but did not come to Oahu.

The calculations assume that 35% of present visitors to Oahu will visit the casino (a modest figure), with a slightly lower incidence for the other visitor segments. This is consistent with Atlantic City region data and statistics from Australia. In Las Vegas, which is obviously a different situation, 87% of visitors to the City wager at least once. The Table also includes the factor that some current visitors to Hawaii, who do not presently come to Oahu, would also visit the Island due to the addition of the casinos. These calculations generate a figure of 1,946,708 visits.

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TABLE 3-1 GAMING HOLD FROM "EXISTING" TOURIST BASE							
Islands Now Visited	Tourists	% Will Visit Casino	Persons	Ave. # Visits	Total Visits	Ave. \$ Hold/Visit	\$ Hold By Category
Oahu only	3,251,920	35%	1,138,172	2	2,276,344	60	\$136,580,640
Oahu & other	1,766,020	30%	529,806	1.5	794,709	65	51,656,085
Non-Oahu	1,858,200	15%	278,730	1.1	306,603	75	22,995,225
Totals	6,876,140		1,946,708		3,377,656		\$211,231,950

Existing Oahu visitors are expected to average two visits to the casinos. Obviously, some may come several times during a multi-day stay on the Island; others may come only once. Lower total visit average factors are used for the "Oahu & other" and "Non-Oahu" tourist bases.

The factors for average hold per visit are slightly higher for those visitors drawn to Oahu specifically due to the gambling option. The hold factors are developed primarily from averages reported at casinos in Atlantic City, Niagara Falls and Michigan, with some consideration given also to Las Vegas figures.

MARKET CAPTURE FROM NEW VISITORS ATTENDING NEW OR EXPANDED EVENTS AT THE CONVENTION CENTER

Key considerations

The presence of the casinos holds clear potential to attract additional events to the convention center. Given the lead times involved with the scheduling of major events, the full impact probably will require several years to be realized. Las Vegas and Atlantic City are established as communities that attract a multitude of events. Gaming is only one reason, but is keenly important. Las Vegas hosted over 26,850,486 million convention delegates in 1998. Evidence from cities that have added casinos strongly suggests that the gaming option helps attract events. This includes areas such as the Gulf Coast of Mississippi and eastern Connecticut. Even Detroit, where casinos have only recently opened, has found an increased interest in event bookings.

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Hawaii already possesses the other needed attributes, such as a viable convention center good airport, ample hotel rooms, weather, and other attractions.

Not everyone attending an event will want to wager at the casino---this does detract from the importance of having a casino. Convention and exhibition sponsors want to maximize attendance. A casino needs only to attract an increment in order for the Hawaii convention center to be chosen over a competing venue that does not have casino gaming nearby. In terms of economic benefits, the presence of the added event brings tourist money to Hawaii whether or not the event attendees and exhibitors enter the casino or not.

In developing figures for the incremental gains, the attendance and spending of Hawaiian residents at convention center events are not included in the estimates.

Calculations

In Table 3-2 the gaming hold from the new visitors to the state spawned by new or expanded events at the convention center is estimated. Modest factors are used for the number of added/expanded events and attendees. The figures do not include visits from individuals who would attend events at the convention center even if casino gaming did not exist.

TABLE 3-2 GAMING HOLD FROM NEW VISITORS TO ADDED/EXPANDED EVENTS AT THE CONVENTION CENTER							
New Attendees (Non-Residents)	# Of Events	Persons	% Visit Casino	# Of Visits/ Person	Total Visits	Ave. \$ Hold/ Visit	Hold By Category
400	12	4,800	60%	1	2,880	75	216,000
1,200	10	12,000	70%	1.5	12,600	75	945,000
7,500	8	60,000	75%	2	90,000	75	6,750,000
Companions		38,400	50%	1.1	21,120	60	1,267,200
Totals		115,200			126,600		\$9,178,200

The methodology divides the added/expanded events into three groupings based upon the size of the event. The larger events will run longer in length, and thus generate additional casino visits. The average hold of \$75 per visit is higher than that used in existing visitor charts in order to reflect the higher spending patterns of convention attendees. The calculations include the casino visits of companions. These are individuals (typically spouses) who come to Hawaii with those attending the event.

The Hawaii Visitors & Convention Bureau has published results and projections for the convention center. This material is discussed in a later section, but it is noted here that the HV&CB estimated that the American Dental Association event alone would attract 30,000 people, the first maximum use of the \$350 million center. The HV&CB also estimated that the one event would generate over \$118 million in direct spending—approximately \$3,900 per person. In the following Chapter on non-gaming spending it can be noticed that this casino report uses more modest factors.

NEW TOURISTS DUE TO THE ADDITION OF THE GAMING OPTION

Key considerations

As beautiful and attractive as Hawaii is, there are some individuals who would otherwise choose alternative vacation sites unless there is a casino option. Millions of individuals flock to the Mojave Desert, the Mississippi Delta, a small town in eastern Connecticut, a farming community in central Michigan, and numerous other venues of modest natural beauty expressly due to the gaming option. These areas have added other attractions and services to continue to attract visitors, but it is obvious that gaming is the primary reason why the local tourist industry is thriving.

Las Vegas attracts over 30 million visitors per year, with the overwhelming majority being from out-of-state. Atlantic City attracts over 36 million visitors per year, with a large percentage being from out-of-state. The Foxwoods Casino in Connecticut draws heavily upon Massachusetts and New York residents. Casinos on the U.S. Mainland attracted over \$31 billion in revenues during this past year.

Calculation

It cannot be expected that two Hawaii casinos will attract tens of millions of new visitors to the State. Travel expense and time do not offer the convenience of the other gaming venues. Yet, it can be expected that a very significant number of casino players will come to the state expressly due to the gaming option. Casino customers enjoy variety, and will very likely be open to trying a new venue, particularly one with the additional attractions of Hawaii.

In Table 3-3 the report postulates that approximately 260,000 new visitors annually will come to Hawaii due to the addition of the casino gaming option, or an average of 5,000 visitors a week. This is viewed as a very conservative figure, and certainly could easily be surpassed. Using an average of 3 casino visits per person and an average casino hold of \$120 creates a total hold of \$93,600,000. Considering that the Las Vegas Convention and Visitors Authority has determined from surveys that the average gaming budget for a Las Vegas visitor is over \$511 per trip, the factors we use in this study are viewed as conservative.

TABLE 3-3 GAMING HOLD FROM NEW VISITORS EXPRESSLY DUE TO CASINOS				
New Visitors to State	Visits To Casino per Person	Total Casino Visits	Hold Per Visit	Total Hold
260,000	3	780,000	\$120	\$93,600,000

A \$93,600,000 capture represents three-tenths of one percent of existing casino spending within the United States. Given the numerous other attributes of Hawaii, and the proximity to the Asian market, this is viewed as a very modest target figure--one that can be surpassed if all aspects of the project move forward efficiently.

New casinos that have opened in tourism based cities (such as Niagara Falls, Ontario, and during the past year, New Orleans) are proving successful. Detailed visitors surveys have not yet been published to ascertain the specific percentage of casino visitors who come to those communities primarily due to the gaming option. Preliminary evidence suggests the number is significant.

GAMING HOLD FROM RESIDENTS

Considerations

Much in the same way as Las Vegas and Atlantic City, local residents are not expected to form the most important segment of the market, but a portion can be expected to visit the casinos. In Chapter Two various figures were introduced elucidating the gaming expenditures Hawaiian residents now spend on trips to casino venues in Las Vegas.

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Calculations

This report assumes that residents will show somewhat similar gaming tendencies to those in the Atlantic City, New Jersey region. Given the greater difficulty in inter-county travel in Hawaii as compared to the convenient (even if overcrowded) highways of New Jersey, attendance by locals would be expected to be somewhat less than those reported in New Jersey.

Table 3-4 displays the factors and the calculations used to arrive at the total game hold from residents. The population figures are quoted from the State of Hawaii Data Book. Due to distance, it can be expected that Honolulu County residents would visit more often than the residents of other counties, although the average hold per visit is likely to be somewhat greater for visitors from greater distances.

TABLE 3-4 GAMING HOLD FROM RESIDENTS							
COUNTY	POP. 21+	% THAT VISIT	PERSONS	AVE. # VISITS/YR.	TOTAL VISITS	AVE. \$ HOLD/VISIT	\$ HOLD BY CATEGORY
Honolulu C.	621,517	40%	248,607	9	2,237,461	\$45	100,685,754
Hawaii C.	96,958	30%	29,087	4	116,350	\$60	6,980,976
Kalawao C.	63	25%	16	3	47	\$50	2,363
Kauai C.	38,739	25%	9,685	3	29,054	\$50	1,452,713
Maui C.	83,735	35%	29,307	5	146,536	\$55	8,059,494
Totals			316,702		2,529,449		\$117,181,299

Of the "resident" category, the calculations generate figures that show that Hawaiian residents who live on Oahu will form a relatively small portion of the resident submarket. The totals for all casino visitors that are provided in the following segment will further display that Hawaii residents as a whole represent less than one-third of the total expected market capture.

HOLD TOTALS AND PROPORTIONS

The totals generated for each of the four primary market segments are summed in **Table 3-5**. It is notable that residents are projected to represent less than one-third of the total casino hold.

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TABLE 3-5 TOTAL CASINOS VISITORS COUNT AND \$ HOLD		
Source	Total visits	Total \$ hold
Existing Tourist Base	3,377,656	211,231,950
New Due To New/Expanded Events at Convention Center	126,600	9,178,200
New Due to Gaming Option	780,000	93,600,000
State Residents	2,529,449	117,181,299
TOTALS	6,813,705	\$431,191,449
Resident Proportion Of Total Hold	27.2%	

It is reiterated that conservative assumptions were used throughout. The "New Due to New/Expanded Events at the Convention Center" and "New Due to Gaming Option" categories hold enormous potential. It is certainly possible that when completing final development and market plans the private investors will decide to aspire to achieve higher goals, which would further extend the benefits to the State.

The total is also quite modest given the results elsewhere. The Niagara Falls casino, which is still not yet fully completed in a permanent form, will by itself exceed \$400 million in gaming revenues in the year 2000. The Soaring Eagle Casino in Mt. Pleasant, Michigan will have revenues that exceed \$400 million in 2000. The total casino gaming market in North America is in the vicinity of \$31 billion annually.

A \$431 million total capture extrapolated for the two facilities in Hawaii represents less than 1.4% of the total existing market, and an even lower proportion of the expanded future market. Moreover, a significant portion of the Oahu casino revenues would stem from Japanese tourists. There is no guarantee that the figures will be achieved, but the targets are unquestionably modest and feasible.

SIZING SCENARIO

Specific sizing and investment cost analyses and recommendations are beyond the scope of this study. The developers will need to consider numerous location specific and long-term planning factors when determining the size and designs of the facilities. It is useful, however, to derive a broad sizing scenario to help visualize the casinos.

The analysis generated an estimate of gross gaming revenues of \$431.2 million annually. Based upon the experience in other states and the high proportion that tourists will comprise of the visitors days, it is reasonable to assume that electronic gaming (slot machines, video poker, etc.) will represent approximately 67% of the gross revenues, with table games (blackjack, craps, baccarat, etc.) 33%. For this scenario, we also assume that the average machine will represent \$150/day in gross hold (before expenses), or \$54,750 a year. Table games are placed at an average of \$2,000 a day in gross hold or \$730,000 per year. Again, these are not predictions, but simply convenient and common industry factors that suffice for our purposes.

Use of these factors generates a base scenario of 5,277 machines and 195 table games. These would be proportioned between the two sites. The figures represent *gaming areas* of a size similar to the casinos found in Las Vegas.

Simply for illustrative purposes, it is postulated that facilities of these sizes together will spawn gross on-site investment of approximately \$375,000,000. This includes gaming areas, administrative office, and a modicum of on-site food, beverage, and entertainment areas, but does not include new hotel construction or additional recreational/entertainment attractions. It also does not include any off-site investment encouraged by the casino developments and the visitors attracted. This secondary investment could prove to be very substantial.

The actual on-site investment may be far greater. For example, the reported total investment costs for the three "Interim Casinos" that have opened this past year in Detroit have averaged over \$225 million each.

GAMING HOLD SHIFTED AND NOT-SHIFTED FROM OTHER SPENDING

Of particular interest to policy makers is the issue of gaming dollars being "new" to the State versus shifts within the economy. **Table 3-6** offers estimates.

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TABLE 3-6 GAMING HOLD NOT SHIFTED FROM OTHER SPENDING ON THE ISLAND			
Source	Total Hold	% Not An Intra-State Shift	Incremental \$ Captured
Existing Tourist Base	211,231,950	70%	147,862,365
New Due To New/Expanded Events at Center	9,178,200	100%	9,178,200
New Due to Gaming Option	93,600,000	100%	93,600,000
State Residents	117,181,299	50%	58,590,649
TOTALS	\$431,191,449	71.7%*	\$309,231,214

▪ Total "% Not An Intrastate Shift" derived from dividing total increment by total hold.

The categories involving "new" visitors by definition represent non-shifted dollars.

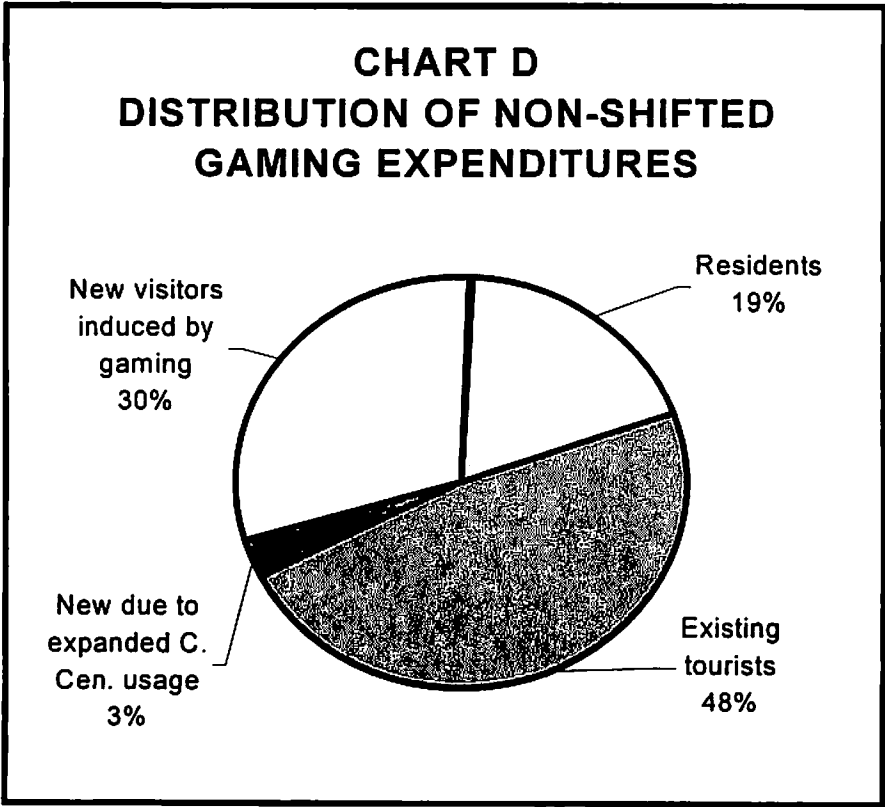
For the existing tourist base a 70% factor is utilized for the non-shifted amount, and 50% for the resident non-shifted amount. The DBEDT's *"Study of Economic Impacts of Shipboard Casinos and Pari-Mutual Racing in Hawaii"* used a 30% figure for shipboard casinos for both residents and tourists. The landbased casinos can be expected to capture a much higher incremental spending figure than a much smaller shipboard gaming area.

It is also reasonable to expect that much of the gaming spending by tourists will not be substituted from other local spending. There is no evidence that such a "substitution" problem exists at other venues. In Las Vegas non-gaming spending is at substantial levels on a per tourist basis, even with the hotel price competition. Indeed, the "high-end" hotels are the growth area on the strip, with non-gaming revenues approaching or exceeding gaming dollars.

It is also believed that the landbased casinos will be able to cut into the out-of-state casino spending by Hawaiians. Certainly, state residents will not eliminate all visits to Nevada and other gaming venues. Yet, given the travel costs involved, a target of shifting 30% to Hawaiian casinos is not unreasonable. The specific target is not the segment of residents that travel to Las Vegas once a year, but those that go to gaming venues many times annually.

One consideration is that even with the 50% factor, the total "non-shifted" hold figure for residents remains less than \$60 million annually. In Chapter Two this report discussed that actual spending by Hawaiian residents on trips to Nevada may be over \$540 million annually (including non-gaming spending). Therefore, if the two casinos can retain just one-ninth of the dollars currently leaving the state, the \$58 million used in Table 3-6 can be met or exceeded.

Chart D further emphasizes the proportional contribution of each of the groupings. As the next Chapter discusses, for the non-gaming spending, the proportions are quite different.



KEY CHAPTER ESTIMATES

Total casino visits	6.8 million annually
Total gaming hold.....	\$431 million annually
% Of total gaming \$ derived from residents.....	27.2%
Total hold as % of existing US market.....	less than 1.4%
Total non-shifted gaming hold	\$309 million annually
% of total hold that is non-shifted.....	72%

CHAPTER FOUR INCREMENTAL NON-GAMING SPENDING

OBJECTIVE OF CHAPTER

Chapter Four estimates the non-gaming spending created during trips to the casino. Care is taken to focus on incremental spending—dollars that tourists would not have spent in Hawaii anyway.

The methodology differentiates non-gaming expenditures "on-site" at one of the two facilities from non-gaming expenditures that occur off-site, such as at nearby restaurants, hotels, and tourist attractions.

KEY CONSIDERATIONS AND METHODOLOGY

There were several key considerations in developing the estimates:

- Care was taken to differentiate and determine total spending, incremental spending, and non-shifted versus new spending.
- A wealth of information was available concerning tourist spending in Hawaii, including the different spending patterns of Mainland and Japanese visitors.
- A wealth of information was also available concerning non-gaming spending by visitors to Las Vegas and Atlantic City.

The methodology used the following key steps:

- Utilize "total person" and "total visits" figures from market analysis.
- Adjust incremental spending by type of visitor (tourist or resident, Island location, etc.)
- Segment visitors by length of stay added due to casinos.

NON-GAMING SPENDING BY EXISTING VISITORS

In Table 4-1 the various factors and calculations are displayed. **The spending figures represent only "added" spending—shifted dollars are excluded.** The methodology again uses only conservative factors. The table exhibits that special effort was made to differentiate the various subcategories of visitors and spending.

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The existing tourist figures are divided among those presently visiting only Oahu, those visiting Oahu and other islands, and those visiting Hawaii but not Oahu. Within each grouping, the tourists are divided between those who will exhibit minor additional non-gaming spending due to the casino visit, those spending higher levels but not staying an extra night in Hawaii, and those spending one or two extra nights.

TABLE 4-1 NON-SHIFTED OFF-SITE SPENDING FROM EXISTING TOURIST BASE					
ADDED SPENDING PER PERSON FROM "OAHU ONLY" TOURIST BASE					
Marginal Spending Cohort	Minor Spending	Higher spending, no extra night	Extra Night	2 or More Extra Nights	Total
Proportion	50%	40%	9%	1%	100%
Persons	569,086	455,269	102,435	11,382	1,138,172
Added Spending Factor	\$5	\$25	\$160	\$340	
Added Dollars	2,845,430	11,381,720	16,389,677	3,869,785	\$34,486,612
ADDED SPENDING PER PERSON FROM "OAHU & OTHER ISLAND" TOURIST BASE					
Marginal Spending Cohort	Minor Spending	Higher spending, no extra night	Extra Night	2 or More Extra Nights	Total
Proportion	40%	40%	16%	4%	100%
Persons	211,922	211,922	84,769	21,192	529,806
Added Spending Factor	\$10	\$40	\$170	\$370	
Added Dollars	2,119,224	8,476,896	14,410,723	7,841,129	\$32,847,972
ADDED SPENDING PER PERSON FROM EXISTING "NON-OAHU" TOURIST BASE					
Marginal Spending Cohort	Minor Spending	Higher spending, no extra nights	Extra Night	2 or More Extra nights	Total
Proportion	35%	35%	20%	10%	100%
Persons	97,556	97,556	55,746	27,873	278,730
Added Spending Factor	\$15	\$60	\$180	\$400	
Added Dollars	1,463,333	5,853,330	10,034,280	11,149,200	\$28,500,143
TOTAL NON-GAMING SPENDING					\$95,834,726

Not surprisingly, the highest economic benefits stem from individuals who stay one or more extra nights.

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An intriguing phenomenon not incorporated into the figures but of interest is the tendency of "winners" to spend their gains locally on goods and services. This may prove particularly dynamic for the Hawaii situation. A visitor to Atlantic City, for example, is probably more likely to take their winnings home than a visitor to Hawaii.

The calculations arrive at a figure of over \$95 million in additional spending within the State. Again, this is a conservative figure that may easily be exceeded. The table also displays that for the existing tourist base the key dynamic from the casinos will be the potential they possess to encourage visitors to stay one or more extra days in Hawaii.

As referenced in the description of the gaming hold methodology, the analysis assumes a static "existing" base. In actuality, the base may further erode if casinos are not added to the list of attractions offered within the state to tourists. Any prevention of erosion achieved by casinos and properly attributed to them will result in adding significantly to the economic benefits calculations.

NON-GAMING SPENDING BY NEW VISITORS TO EVENTS AT THE CONVENTION CENTER

The methodology first differentiates the spending at/on the event itself from the non-gaming spending individuals involved with the event make elsewhere in the Hawaiian economy. In Table 4-2 the event spending by sponsors, exhibitors, and attendees is calculated. These dollars primarily are funneled into the economy by the subsequent spending of the employees of the center and the sponsoring organization, and also on local subcontractors (such as printing companies). The factors are derived from survey figures published by the International Association of Convention and Visitors Bureaus.

TABLE 4-2 NEW/EXPANDED CONVENTION/CONFERENCE/MEETING PRODUCTION EXPENDITURES AND ADMISSIONS			
	Number	Average Expenditure	\$ Total
Sponsor Expenditures	20	\$7,000	140,000
Exhibitors	1,750	\$1,000	1,750,000
Attendees	76,800	\$200	15,360,000
Total			\$17,250,000

In **Table 4-3** the non-gaming expenditures of the people attending the events are considered. A division is made between individuals staying two-to-three days in the State and those staying four or more. The average spending factors are developed from Hawaiian tourist spending data. Convention attendees (including the staff of exhibitors and sponsors) will likely have higher than average spending than other tourists due to higher annual incomes, expense accounts, and a higher likelihood that it is their first time in Hawaii.

TABLE 4-3 NON-MEETING SPENDING BY NEW VISITORS TO CONV. CENTER		
Length of stay in Hawaii	2-3 Day	4+ Day
% of new convention visitors & companions	25%	75%
People in cohort (includes companions)	28,800	86,400
Average Spending	\$500	\$1,200
Category Spending Subtotals	14,400,000	103,680,000
Total Incremental Spending in Hawaii	\$118,080,000	

Summing the figures in **Tables 4-2** and **4-3** provides a total of **\$133,440,000** for the non-gaming spending attracted from new visitors to Hawaii induced by new or expanded events at the convention center due to the casinos.

Note on local products purchased at some events

Studies performed at exposition centers such as Denver and Novi, Michigan have found that one of the largest local economic benefits is the spending on local goods and crafts that occurred at "consumer" shows at these centers. Even though not as glitzy as a major national convention, and likely not creating as many hotel stays, the consumer show has the ability to attract spending on the goods displayed. For example, a tourist attending a craft show at the convention center may spend significant dollars on items displayed by local craftsmen and merchants. Such expenditures can easily total in the tens of millions annually.

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It is beyond the scope of this report to attempt to develop even a broad estimate for the new consumer product spending at consumer shows due to the casinos. Not only would a total figure need to be generated, but also figures for "new" versus "shifted" spending and "new" versus "existing" visitors. It is valid to at least recognize this source of inflow of dollars into the state as one possible additional benefit from the presence of a casino in the vicinity of the expo/convention center.

NON-GAMING SPENDING BY NEW VISITORS DUE TO ADDITION OF CASINO OPTION

The "purest" economic benefit is the spending by new visitors attracted to the Island specifically because of the presence of gaming. The individuals in this category will no doubt also enjoy the other attributes of Hawaii, but would have otherwise gone to a different tourist destination but for the new gaming option the casinos provide.

In Table 4-4 the 260,000 person figure introduced in the market analysis is utilized, with an average spending during the stay of \$600. The spending factor is significantly less than the factor used for new visitors to convention events to reflect the higher likelihood of short-term and economy charter trip visits.

TABLE 4-4 NON-GAMING SPENDING BY VISITORS DUE TO GAMING OPTION		
Persons	Average Total Spending	Total
260,000	\$600	\$156,000,000

All spending in this category is by definition "new" to the state economy.

An added potential benefit is the increased likelihood that these individuals will return to the state in future years, and also recommend the state to friends and relatives.

NON-GAMING SPENDING BY RESIDENTS

Added spending captured from residents (\$ that would otherwise have left the Island) is also a consideration, although not highly significant to the overall impact estimates generated by this study. Residents visiting the casino will also be making non-gaming expenditures, but is essential to identify spending that would have taken place within the State even if the casino visit had not occurred.

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As part of the calculation function, it is necessary to separate "trip induced" spending from "incidental" daily spending. Examples would be a dinner at a restaurant near the casino as part of the casino trip (whether those dollars are shifted or not from other in-state spending), versus purchasing a newspaper at a casino that the person normally purchases anyway.

The methodology separates Oahu residents from other residents of the state, and offer factors for the average non-gaming spending that occurs due to the casino trip. The total spending induced is calculated to be close to \$58 million annually.

TABLE 4-5 NON-SHIFTED SPENDING BY RESIDENTS AS PART OF CASINO VISIT (factors exclude normal daily expenditures)					
Residents	Casino Visits	Per Visit Average Non-Gaming Spending			Total
		Food & Bev.	Retail, Trans., Other	\$ Visit	
Honolulu County	2,237,461	10	10	20	44,749,220
Non-Honolulu County	291,987	25	20	45	13,139,415
Totals	2,529,448				\$57,888,635
PROPORTION NOT SHIFTED				30%	\$17,366,591

As introduced, however, a significant portion of this spending would have occurred in Hawaii at some other time. For the proportion not shifted, a figure of 30% is chosen.

The proportion not shifted could be much greater if the casino trips that would be made to Oahu casinos by state residents are to any degree a substitute for visits made to casinos in other states.

TOTAL NEW NON-GAMING NON-SHIFTED SPENDING

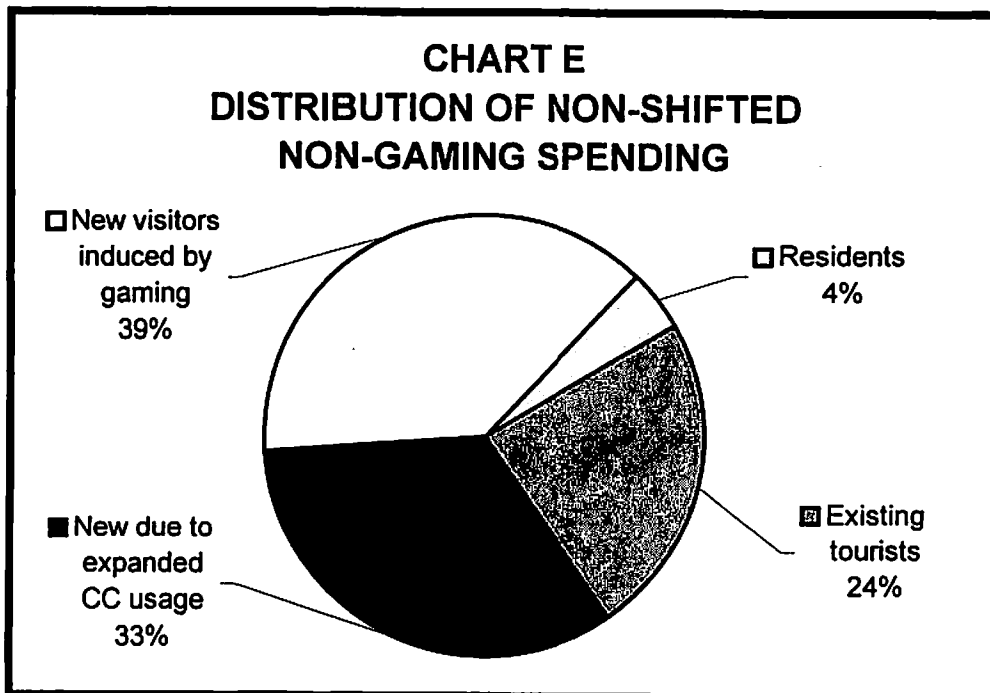
The four categories are totaled in Table 4-6.

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TABLE 4-6 TOTALS FOR NON-SHIFTED NON-GAMING SPENDING	
Category	\$ Amount
"Existing" visitors	95,834,726
New visitors due to new/expanded events at the convention center	133,440,000
New visitors due to gaming option	156,600,000
Residents	17,366,591
TOTAL	\$402,641,317

The narrative for the market hold analysis identified a number of possible additional visits that may occur but for various reasons were not included in the analysis. Inclusion of such visitors would also increase the non-gaming capture estimates.

Chart E further emphasizes the proportions. Of particular note is that the new convention center visitors, while representing only a small portion of the gaming dollars, become a very significant contributor to the non-gaming total because of all the spending these visitors bring to the State.



One intriguing spending aspect that is not included in the analysis but is worth noting is the tendency for casino visitors who "come out ahead" at a casino to likely spend those dollars on the near term in the host community. This phenomena would swell the impacts, but is not formally estimated.

KEY CHAPTER FIGURES/FINDINGS

- **Total Non-Shifted, Non-Gaming Spending: \$402.6 million annually.**
- **The vast majority of this spending occurs "off-site"---not on the casino property itself.**
- **The largest source of non-shifted spending is the group of new tourists attracted to Hawaii by the addition of the gaming option.**
- **The ability of casinos to attract more and larger events to the convention center has the potential to result in a very significant influx of additional tourism spending.**

CHAPTER FIVE CAPTURED SPENDING TOTALS AND SENSITIVITY DISCUSSION

OBJECTIVE OF CHAPTER

This Chapter totals the gaming and non-gaming amounts to arrive at the foundation figures for total new or retained dollars for the Hawaiian economy. Further comments are also offered that place the figures within the overall context of casino gaming and the sensitivity of the analysis to changes in assumptions.

TOTAL NEW SPENDING

The gaming and non-gaming totals for the four categories of casino visitors are totaled in Table 5-1. Each of the component figures was introduced in Chapter Three or Four. The total is over \$711 million annually.

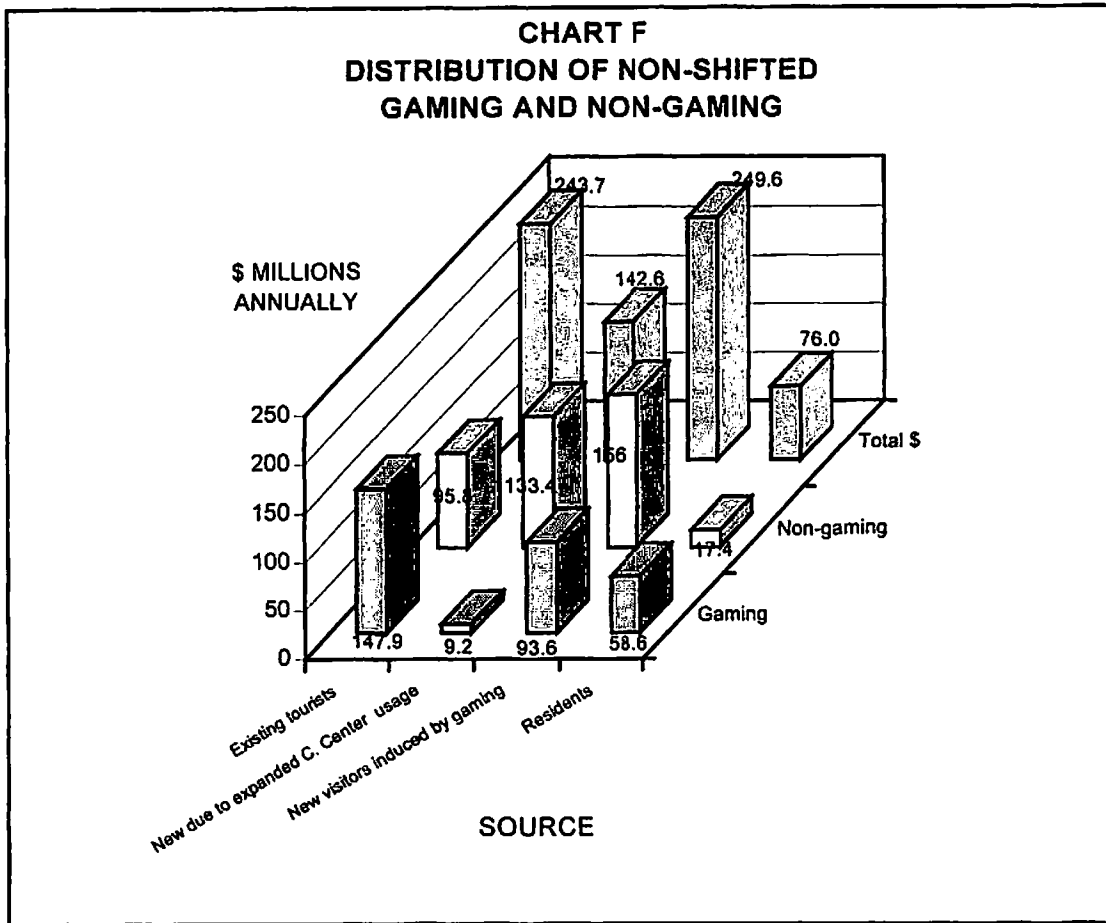
TABLE 5-1 ANNUAL NON-SHIFTED SPENDING TOTALS			
Category	Gaming	Non-Gaming	Total \$
"Existing" Visitors	147,862,365	95,834,726	243,697,091
New Due To New/Expanded Convention Center Events	9,178,200	133,440,000	142,618,200
New Visitors Due to Gaming Option	93,600,000	156,000,000	249,600,000
Residents	58,590,649	17,366,591	75,957,240
TOTAL	\$309,231,214	\$402,641,317	\$711,872,531

A few points regarding the figures merit reiteration. The total represents only non-shifted spending. Care was taken throughout to identify and exclude spending that would likely have occurred anyway in the Hawaiian economy. The gross economic activity attributable to the casinos will be higher than the net total calculated above.

The totals do not include any ripple effects or multipliers from successive rounds of spending as the additional dollars move through the state economy. This phenomenon is discussed further in the employment analysis. It has the impact of more than doubling the net economic activity.

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Chart F is used to display the various proportions of gaming and non-gaming spending within one chart.



The narrative identified several other forms of potential incremental spending that were not incorporated into the numerical estimates due to lack of sufficient statistical evidence. These hold potential to further increase the actual economic benefits to be realized. For example, the analysis does not include any shifting of dollars from illegal gaming within the State, although the level of illegal gaming may be substantial and the amount of dollars shifted potentially meaningful.

Another example is that the analysis also did not include any economic benefits reaped from preventing the continued erosion of the existing tourist base.

A final example is that the standard factors for off-site spending could be increased in recognition of the likely phenomena that occurs when "winners" at the casinos spend their "extra" dollars in Hawaii on additional goods and services.

SENSITIVITY OF ESTIMATES AND CONTEXT WITHIN GAMING INDUSTRY

Any report such as this relies on a variety of factors and assumptions drawn from the experience in other venues. Obviously, individuals with a rigid "anti-gaming" view may choose to challenge the assumptions. Even those with more of an open mind might select differing factors for their own estimates. This is understood before this type of project is undertaken and before the results published. Review is welcomed. Even though Hawaii does not presently have any form of legalized gaming, there is confidence in the factors chosen and the figures generated:

- There is a wealth of casino experience in a variety of venues. Two decades ago only Nevada and Atlantic City results could be reviewed, but now the data from many types of venues is available.
- There is a wide array of tourism data for Hawaii, as well as Las Vegas and other tourism and casino venues that provide a solid base for existing tourism rates and spending habits.
- An increasing amount of information is becoming available regarding casino developments in Australia, New Zealand, and South Korea. Data is also available concerning the tourism trends of Japanese citizens.
- The estimates generated for the two casinos represent only small fractions of the total existing casino market. Anyone with confidence in Hawaii would likely agree that the proportions are obtainable given other state attributes.
- The estimates and assumptions are consistent in magnitude with other tourism studies performed for projects in Hawaii.

- Even with the "new" tourists attracted, the total of all tourists coming to Hawaii would not be inconsistent with totals achieved a decade ago. The overall infrastructure can handle the demand generated and the interest of people in coming to Hawaii is within previous achievements. The addition of the casino simply serves to prevent further erosion and to bring back some of the market that has been lost.
- In all cases factors were chosen that are viewed as conservative--more likely to be exceeded (in terms of economic impact) than unmet. Therefore, while any one factor could prove to be overly optimistic, the confluence of all the conservative factors creates overall captured spending totals that are clearly obtainable, more likely to be exceeded than unmet.
- The most worrisome future factor for any market projection is the overall economy. This is particularly important for the Hawaii casino projections because tourism figures will be impacted by any recessions in the Mainland or Japanese economy. Interestingly though, if there is a major economic downturn the importance of the casinos to the state probably increases, even if the gross totals achieved are slightly lower. This is because the overall state economy is so highly dependent on tourism spending in general.

CHAPTER SIX EMPLOYMENT AND PUBLIC REVENUE IMPACTS

OBJECTIVES OF CHAPTER

The previous chapters discussed and enumerated economic activity figures and new spending. These terms and calculations, while fundamental to the analysis, do not themselves describe how the people of Hawaii will benefit from the addition of the two casinos. In Chapter Six the report uses the figures previously generated as a foundation to develop estimates and insight into the jobs and public revenues that will be generated---the primary reasons why the casinos will benefit the state.

In addition to the direct employment gained, the Chapter introduces "induced" or ripple effect employment created by successive rounds of spending generated by the purchases of direct and indirect employees. It also discusses how the casinos themselves will become major subcontractors of goods and services.

The primary analysis is based upon an itemized calculation of the impacts. An alternative analysis, simply using gross DBDET factors for new tourism spending, is also offered. This alternative method results in similar totals.

The final section reviews the impacts that will occur during the construction stage.

EMPLOYMENT (base method)

Considerations and methodology

Various factors are utilized to transform the dollars captured for the economy figures into estimates of net added employment. The term "Full-time Equated" (FTE) position is used to calculate one full-year job (two half time or half-year jobs would equal one FTE). In that the mission is to calculate jobs from "non-shifted" spending the actual employment at the casinos would be greater than the figures exhibited in the tables.

Employment created by a casino can be grouped in the following manner:

- On-site involved with gaming operations.
- On-site involved in non-gaming operations (e.g. food and beverage).
- Off-site involved with casino customer spending (hotels, restaurants, etc.).
- Off-site with casino subcontractors.
- Induced employment from the successive rounds of spending created by the employees in the above groups.

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Calculations of direct and indirect employment impact

The customer spending figures derived in the previous chapter form the base for estimating the number of jobs created. The "one job per gross revenue" factors are clearly identified, and stem from industry averages. The key base figures, factors, and calculations are exhibited in Table 6-1.

The gaming jobs are a direct calculation from the non-shifted casino hold, using a job creation factor of one full-time position for each \$90,000 in revenues. This represents approximately 11 jobs per million in revenues. The pay level (excluding benefits) for the average position would probably be in the vicinity of \$30,000. It is reiterated that the calculations are based upon only the incremental spending. The actual number of permanent jobs at the casinos will likely exceed 4,000.

TABLE 6-1 FULL-TIME EQUATED POSITIONS ADDED--ONGOING OPERATIONS (from incremental spending only)			
	\$ FIGURE	\$/JOB FACTOR	JOBS
Gaming (Includes Admin.)	309,231,214	90,000	3,436
Non-Gaming			
At Casinos	80,528,263	85,000	947
Off Casino Site	322,113,053	85,000	4,026
Casino Subcontractors	108,230,925	95,000	1,139
ADDED FTEs FROM DIRECT AND INDIRECT SPENDING			9,549
Induced Employment (Ripple Effect)	2.05 total	1.05 increment	10,026
NET ADDED JOBS INCLUDING INDUCED			19,575

The total "on-site" employment figure generated is 4,383 (3,436 gaming related and 947 non-gaming). A figure of 4,000 or more jobs is not uncommon for a major casino on the Mainland, let alone two separated (though modest in size) facilities.

Slightly lower factors are used for the non-gaming jobs in order to reflect somewhat lower average pay levels. We assume that of the non-gaming jobs, one-fifth will be created on-site and four-fifths at nearby restaurants, hotels, retail outlets, etc.

The "off-site" total of 4,026 is somewhat higher than would likely be generated for equivalently successful casinos on the Mainland. This is because of the higher total capture per visitor that Hawaii can be expected to obtain due to longer stays within the state by out-of-state visitors.

Casinos are major purchasers of goods and services. Subcontracts can easily represent 35% of gaming revenues. A long list of goods and services are purchased from casinos. A few examples include printing, facility renovation, uniforms, advertising, and food and beverage distributors.

Ripple effect

The ripple effect of additional jobs being created from the successive rounds of spending within the economy is a commonly accepted principle in economics. It is also a calculation that sometimes is exaggerated by zealous proponents of new projects. In this document, we take a conservative approach to the ripple effect, but the figures remain very substantial. **To assure a defensible figure, the methodology eliminated non-shifted revenues from the base of the calculation.**

In order to estimate the amount of induced employment, the federal RIMS-2 multiplier is utilized, although a modest 2.05 rate is chosen rather than a 2.2+ factor that can be appropriately used for entertainment & leisure industry related jobs. This methodology yields results similar to the job multiplier developed by the State of Hawaii for tourism.

Even without consideration of the ripple effect, the number of direct and indirect jobs is still very substantial, and offers strong reasons why the projects should be approved.

Non-enumerated employment categories

Several additional categories exist involving on-going employment that may be favorably impacted but cannot be formally included in the estimates. These include:

- Additional spending from "winners" on local goods and services.
- Existing positions saved at companies with tenuous economic foundations that are strengthened because of added income from casino subcontracts.
- Airline industry positions.

- Favorable impact on all industry due to reduced tax burden because of public revenues generated by casinos.
- Retention of the existing jobs within the tourist industry.

These items are not formally enumerated due to insufficient statistical foundation, but are very real considerations and should prove to further extend the total job impact of the two casinos.

Summary comment

The two casinos will create thousands of new jobs directly on-site, and thousands off-site at other places of business. They will also be major purchasers of goods and services and thus will create a significant number of jobs with subcontractors. The total direct and indirect employment estimate equates to 9,549. This figure is limited to those jobs stemming from non-shifted spending. **Use of a modest 2.05 multiplier calculates the overall employment impact at 19,575.**

INCREMENTAL PUBLIC REVENUES (base method)

Considerations and methodology

The casinos will directly generate significant tax revenues, and indirectly generate millions more through taxes on employees, subcontractors, and the spending on goods and services by customers. This section addresses various public revenue considerations and offers estimates of the incremental tax gain. A gaming tax scenario is offered for descriptive purposes only. The actual tax rates involved will be a separate public policy matter.

Gaming tax

It is assumed that the casinos will pay some form of gaming tax based upon total gaming revenues. Such taxes are common at other gaming venues, although the rates differ and each state has its own idiosyncrasies. Moreover, the gaming tax itself needs to be placed within a context of the other business and excise taxes invoked by the state or local jurisdiction.

For descriptive purposes, we assume a 10% gaming tax on total gaming revenues (hold). This is higher than Nevada and Mississippi, roughly equivalent to Atlantic City, higher than most Native American payment agreements, but lower than riverboat states. In any event, the actual level is a separate policy and competitive balance issue among all the parties involved.

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In Table 6-2 the total tax payments are calculated at 10% of total hold.

TABLE 6-2 SCENARIO FOR GAMING TAX PAYMENTS (Assumed Gaming Tax Rate: 10%)	
Source	Annual Revenues
Total Annual Gaming Tax Payments	\$43,119,145
Payments representing "new" or non-shifted tax revenues	\$37,021,133

A portion of this figure would be from shifted revenues. In the methodology used to estimate total hold the analysis arrived at a figure of 28.2% for the proportion of total hold that represented a shift from other spending within the state. This shifted spending would also have been subject to taxation, but almost definitely at a lower rate. If we assume the rate captured by the state was half of the ten-percent level achieved by the gaming tax, an estimate can be generated that approximately \$6 million of the \$43 million might otherwise have been captured by the state.

Therefore, the "new" revenues from the gaming tax alone are estimated to be approximately \$37 million annually. The casino may also be subject to certain property and corporation taxes

State income and sales/excise taxes

Various state income taxes and sales/excise taxes will be generated. Income taxes were calculated from direct and indirect employment at a rate of 3.8% and an average *adjusted taxable income* of \$25,000 for all jobs created. **This generates an income tax estimate of \$18,596,214 annually (not including any shifted spending).**

An average sales/excise tax figure of 4% is placed on non-shifted non-gaming spending (without any additional multiplier). Given the types of expenditures involves (food, beverage, lodging, etc) the proportion is likely conservative. **This methodology generates an estimate of \$16,105,653 for annual sales/excise revenues received by state or local government, and does not include any shifted spending.**

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TABLE 6-3 BASE SCENARIO FOR STATE INCOME AND SALES/EXCISE TAXES	
Source	Yearly \$ Amount
From employee income taxes (Direct, indirect, & induced employment)	18,596,638
From sales/excise taxes on direct non-gaming spending	16,105,653
Total Annual Revenues*	\$34,702,251

* Does not include any shifted spending, sales/excise taxes on expenditures by employees or by firms contracting with the casinos.

Total of gaming, income, and excise taxes

Summing the figures from the above charts generates a total for the gaming, income, and sales/excise taxes of \$71.7 million derived from new spending. This is viewed as a conservative estimate, and does not include any taxes generated from shifted spending.

TABLE 6-4 BASE SCENARIO FOR TOTAL NON-SHIFTED GAMING, INCOME, AND SALES/EXCISE TAXES GENERATED ANNUALLY	
Source	Yearly \$ Amount
Gaming Taxes (from Table 6-2)	37,021,133
Income, Sales, and Excise taxes (from Table 6-3)	34,702,251
Total Annual Revenues	\$71,723,384

Other public revenue considerations

A variety of other sources of public revenue exist that will stem from the project, although enumeration is not attempted at this juncture. Such sources include:

- Miscellaneous permit and use fees.
- Property taxes.
- Taxes paid by firms contracting with the casinos.
- Parking revenues, particularly near the convention center.
- Rental car taxes; taxi and limousine licenses, and bus fares.
- Gasoline taxes.
- Hotel/motel room taxes.
- Airline/airport fees generated from incremental travelers/flights.
- Other recreational fees paid by new tourists.
- Spending by airlines and airline staff.

State spending allowed by the increased revenues creates additional economic activity and thus further tax revenues.

The new employment also has the potential to reduce state income maintenance and Medicare costs.

In addition, by enhancing the use of the convention center the casinos serve to allow the dollars now supporting the center to potentially be directed to other purposes.

There will also be significant tax revenues generated from the construction stage of the project. This includes the personal income taxes of construction employees, the corporate fees paid by the construction companies, and miscellaneous permits.

REFERENCE PARAMETER---TAX IMPACTS USING GROSS DBEDT FACTORS

The impacts of the tourism spending creating by casinos differ from other forms of spending; for example, the revenue tax paid by a casino is unique in the tourism industry. When comparing methods used for other tourism impact studies, there is also a difficulty in assuring that similar definitions (for example, for direct, indirect, and induced impacts) are utilized. Even with these qualifiers, it is useful to note an alternative approach to impact calculations as a reference point for the detailed calculations made in this report.

The DBEDT publishes a table estimating economic activity generated by "tourism spending." Specifically, the information was presented in the 1999 *State of Hawaii Data Book* in **Table 7.25--Economic Activity Generated by Visitor-Related Expenditures: 1985 to 1998**. It is interesting to utilize the factors generated by the DBEDT and to apply them to the non-shifted spending created by the two casinos.

The DBEDT table estimates that \$11,231 million in tourism spending (including direct expenditures by visitors, airline and ship crews, and overseas airlines) in 1997 generated \$7,020 million in Gross State Product, \$4,573 million in Household Income, and \$903 million in State and County Tax Revenues. In the previous chapters in this study a total figure of \$711 million was generated for non-shifted direct and indirect spending; with a figure of \$636 million if all spending by residents was excluded.

If the same DBEDT percentages are applied to the \$635 million figure, estimates are generated of \$397 million annually in increased gross state product, \$259 million in increased household income, and \$32 million in increased state and county tax revenues. Adding the special revenue tax of 10% brings the estimates very close to the figures generated in the previous tables. Moreover, if other tax implication factors are added (such as any dollars from retained spending in Hawaii by residents or induced employment spending as well as direct and indirect), the grand total from this alternative calculation would climb above our base estimates.

Again, this alternative approach is offered only as a reference point. It does support the position that the methodology and impact figures provided in the base analysis are prudent.

NO REQUEST FOR PUBLIC SUBSIDY--ENTIRELY PRIVATE SECTOR RISK

It is again noted that other projects possessing the objective of increasing the amount of tourism and tourist spending typically involve direct public investment in capital costs, and in some instances an operating subsidy. **The casino proposal does not require any direct public funding, furthermore, the entire investment risk will be private.**

CONSTRUCTION IMPACTS

The report has focused on annual, repeating revenues, and thus permanent jobs and public revenues. It merits identification that the construction represents large-scale investments that will generate significant employment and tax revenues.

In an earlier discussion of sizing the report chose \$375,000,000 as a reasonable scenario for a gross new investment figure for the two facilities combined. A conservative factor can be used that \$125,000 of total construction expenditure produces one person year of construction employment. This yields an estimate of **3,000 employee years** of construction employment at the casino construction site.

The total investment and construction employment figures do not include any hotel investment (either new structures or improvements to existing lodging) or other off-site improvements spawned by the economic activity. These "other" investments could potentially be of the same magnitude as the casinos themselves.

The multiplier effect (successive rounds of spending by the employees and subcontractors involved) would serve to more than double the jobs estimates.

SUMMARY OF KEY CHAPTER CALCULATIONS

On-going Employment (FTEs):

From Non-Shifted Gaming Spending.....	3,436
From Non-Shifted Non-gaming Spending	4,973
At In-state Casino Subcontractors.....	1,139
Non-Shifted Direct and Indirect Employment Subtotal	9,549

Potentially Created By Multiplier Effect.....	10,026
Total Net Jobs Including Multiplier Effect.....	19,575

Construction Employment (Direct Only) 3,000 Employee Years

Annual Public Revenues (for items calculated):

Gross from Gaming Tax (at 10% rate)\$43.1 million

Incremental Tax Gained From Selected Sources

Gaming Tax (increment only)	\$37.0 million
Income and Excise Taxes (non-shifted only)	\$34.7 million
Total Increment (from these sources).....	\$71.7 million

If all possible direct, indirect, and induced revenue sources were incorporated into the analysis, total governmental revenues generated by the two casinos could exceed \$100 million annually.

CHAPTER SEVEN SHIPBOARD GAMING COMPARISON

INTRODUCTION

The primary mission of this study has been the economic impacts of the dual land-based casinos on Oahu. The findings have demonstrated that a compelling case exists that the benefits of approving quality casino gaming can prove to be extremely significant for Hawaii.

The State has been approached before regarding other gaming options. Pari-mutuel horseracing and shipboard casinos have been the subjects of a gaming study performed by the DBEDT (referenced previously).

This Chapter contrasts various characteristics of landbased casinos and shipboard gaming. An attempt is not made to duplicate for shipboard gaming the detail of analysis given to the two Oahu casinos. Various comparisons, however, can be made from available data and results in other states.

GENERAL CATEGORIES OF SHIPBOARD GAMING

The category "shipboard gaming" actually includes a range of subcategories. In the interests of clarity, four subcategories are suggested:

International cruise ships

- Large vessels travelling international waters, offering a casino area.
- Little or even negative state and local economic impact from gaming.
- Little or no state regulation of casino area.

Small excursion boats

- Small vessels, gaming only allowed in international waters.
- May operate with only the tacit approval of the state.
- Examples exist in Florida, Texas, and New York.

Traditional riverboats

- Patterned after classic paddleboats of the late 1800s.
- Actually cruise meaningful distances on rivers or lakes.
- Vessels typically possess gaming areas from 15,000 to 25,000 sq. ft.
- Iowa was original example, although larger vessels are now common.

"Modern" (little if any movement) docked gaming "ships"

- May not move at all, or at most a few hundred yards, although usually still must meet basic maritime safety standards.
- "Cruise times" for entrance and exit may be enforced, even when moored.
- Essentially a gimmick to expand upon traditional riverboat concept.
- Gaming areas typically in range from 20,000 to 35,000 sq. ft.
- Examples include Missouri, Mississippi.
- May be united with dockside hotel.

In all cases, it is reasonable to assume that the vessels proposed for use for shipboard gaming in Hawaii would be constructed in another state or country. This is a very important consideration when comparing both the amount and speed of the economic development generated by landbased versus shipboard casinos. The landbased would generate a large number of construction jobs in Hawaii. The jobs commence even before the facility opens. The capital spending also benefits local construction firms and suppliers. Gaming vessels built in other states, or nations, generate little in terms of construction benefits for Hawaii (perhaps some minimal dock improvements).

In the comparisons in this Chapter, it is generally assumed that the shipboard gaming proposed for Hawaii would involve vessels that cruise only short distances from their docks.

SUMMARY REVENUE AND SIZE DATA FROM OTHER STATES

It may be self evident that landbased casinos have intrinsic size and economic impact benefits compared to cruiseboats. Yet, it is still useful to offer summary data pertinent to the comparison. Without providing a lengthy analysis of all possible aspects, the report introduces below various key figures that exhibit the difference in scale between the riverboats and landbased casinos.

The top gaming states have landbased casinos

In 1997 there were 10 states with active, non-Native American casinos. The opening of 2 casinos in Detroit in 1999 has moved this number to 11.

The largest casino gaming states in terms of revenues and visitors, Nevada and New Jersey, both have casinos that are entirely landbased. These two states accounted for over half all non-Native American casino gaming revenues in 1998. For 1999, Nevada casinos reported gross gaming revenues of over \$9 billion, and Atlantic City casinos realized over \$4.1 billion.

Gaming area sizes and revenues

In Illinois, the riverboats have "casino square footage" ranging in size from 8,100 sq. ft. to 37,160 sq. ft. Iowa riverboats range from 10,577 sq. ft. to 38,437 sq. ft. (source: *Casino Journal, April 2000*). This compares with a typical Las Vegas strip casino that will have 100,000 or more sq. ft. of gaming space. The Soaring Eagle Native American casino in Mt. Pleasant, Michigan has well over 200,000 sq. ft. of gaming space.

The riverboat with the largest gross revenue figure in December of 1999 was the Grand Victoria in Illinois, with \$29.7 million. The average for Illinois, Indiana, and Missouri riverboats in December of 1999 was approximately \$7.9 million. In Atlantic City, the casino with the largest reported gross revenue was the Taj Mahal, at over \$45.3 million during December of 1999. The average at Atlantic City casinos that month was over \$25 million.

Native American landbased casinos range from very small to the largest in North America. Reporting requirements vary, but some figures are available for the larger facilities. The Foxwoods casino in Connecticut will have gaming revenues in the vicinity of \$1,000,000,000 this year, and the nearby Mohegon Sun will likely exceed \$700,000,000. The Soaring Eagle casino in Mt. Pleasant, Michigan approached or exceeded one-half billion dollars in gaming revenues last year.

Las Vegas strip casinos are, of course, in a class by themselves. The Strip reported over \$393 million in revenues for the month of December 1999.

The casinos in Windsor, Ontario and Niagara Falls, Ontario are landbased. Each will attract over \$400 million in gaming revenues this year. It is interesting to note that after the permanent casino in Windsor opened (replacing the landbased interim casino) and competition was on the horizon from the planned opening of landbased casinos in Detroit, the Ontario government decided to close the riverboat casino that had been docked in Windsor.

Out of state visitors--tourism destinations

Care should be taken in comparing non-gaming spending between venues because of local demographic differences. There is no question, however, that landbased casinos have historically drawn a larger share of out-of-state visitors than riverboats, and can be expected to attract higher levels of non-gaming spending to the area.

The proportion of longer distance visitors can be inferred by comparing the percentage that slot machines represent of the total gaming hold. Longer distance visitors typically will spend more in total and will more frequently play table games. Landbased casinos typically have a higher proportion of revenues from table games than riverboats. Slot hold represented 65.3% of Nevada gaming revenues in 1999 (the Strip casinos would have an even lower slot proportion), and Atlantic City casinos reported a 70.1% slot proportion. The riverboat states range from an 87.4% slot proportion in Iowa to 75% in Illinois and Louisiana.

California

The expansion of Native American casinos in California has been approved by two referenda and is now developing at a rapid pace. The casinos will be landbased, offering the same gaming options available in Las Vegas.

Foreign competition

The casino competition for the Japanese tourist from Australia, New Zealand, and the Philippines is landbased. The South Korean competition has primarily landbased venues, augmented by gaming ferryboats.

Summary comment regarding data from other venues

The historic data from other states is clear in exhibiting that landbased casinos typically are larger in nature than shipboard, realize greater revenues, and attract more visitors.

GENERIC COMPARISON OF ATTRIBUTIES FOR HAWAII

In an earlier chapter the characteristics of the two Oahu casinos were described. The DBEDT shipboard gaming analysis, and historic information from riverboat states, can be used to develop a generic view of the characteristics of shipboard gaming if allowed in Hawaii. The specifics of the size and location of proposed facilities would still need to be determined, but reasonable comparisons can be made. Table 7-1 provides a list of what are viewed as the most important advantages of landbased casinos.

**TABLE 7-1
ADVANTAGES OF LANDBASED CASINOS COMPARED TO SHIPBOARD GAMING**

Landbased are of larger size and more flexible

- Larger in total gaming area, offering more gaming options.
- Create a stronger magnet to new and existing tourists.
- More flexible to meet future changes in the market.

Landbased create immediate impact during construction

- Creating much more construction spending and jobs.
- A capital investment of over \$200 million (perhaps far more), the vast majority of which will be made through local contractors.
- A riverboat would likely be constructed in a different state or country, and would generate only modest dockside investment.

Landbased have location and design flexibility

- Specific locations of the landbased casinos can be chosen to maximize community benefits instead of being restricted to a dock area.
- Exhibits permanent commitment on the part of private investors.
- Architecture can blend with existing structures.

Landbased can attract more visitors due to size and non-gaming attributes

- Much stronger lure for new and past visitors from the Mainland.
- Much more competitive for dollars state residents now spend on trips to other gaming venues (and probably also illegal betting).
- Much stronger lure to Japanese and other Asian tourists, both new and those now passing through the state.

Landbased have competitive speed of impact

- A permanent landbased casino may take longer to construct than a riverboat, but a temporary/interim facility would not.
- Licensing by the state will require time; in Detroit, the interim casinos (landbased) were essentially fully constructed before permitting concluded.
- The construction dollars of landbased casinos would almost immediately represent a major injection into the state economy, but a shipboard gaming vessel would be constructed elsewhere.

Summary--landbased would realize far greater new dollars for the state economy

- All aspects point to greater economic benefits, from jobs to tax revenues.
- The biggest advantage is the greater ability to attract new tourists and capture new spending from existing tourists.
- Landbased can more easily adapt to the competitive challenges of the future.

NOTES FROM NUMERICAL COMPARISONS

For elaboration only

The authors of this report have not performed an identical study to the one performed by the DBEDT of shipboard gaming in Hawaii. Caution must be taken when making any comparisons between two independent studies of separate (though related) topics. Yet, it is interesting to compare the estimates generated in this report with those in the DBEDT study. The two studies do not use identical techniques and are not in agreement on all facets. It is not suggested that the DBEDT would arrive at estimates for landbased casinos identical to those generated in this study (their figures could be higher or lower). Yet, it is fair to note that both studies used reasonably similar databases, assumptions and approaches. Both were careful to consider both gross spending and net (non-shifted) spending.

DBEDT shipboard gaming figures

The DBEDT developed "Pessimistic", "Moderate", and "Optimistic" figures for various size, market capture, and impact estimates. The study arrived at the following key assumptions and estimates for "Shipboard Gaming".

TABLE 7-2			
VARIOUS ESTIMATES FROM DBEDT SHIPBOARD GAMING STUDY			
(\$ in millions annually)			
	Pessimistic	Moderate	Optimistic
Total Admissions	1,388,000	2,081,000	3,424,000
Gaming positions per boat	800	800	800
Number of boats	2	2	3
Gross Revenues	\$105.5	\$161.3	\$283.0
New visitors non-gaming expenditures	0	0	\$40.7
Net job gains	998	1,508	3,795

The DBEDT study utilized "gaming expenditures per admission" factors that were very similar to the "average hold per visit" factors used in our study of the landbased casinos.

The DBEDT study also assumed that the vessels would not be built in Hawaii.

Comparisons

It is simplest to compare the gross revenue estimates from both studies. These estimates are least prone to be impacted by other assumptions regarding shifted versus non-shifted spending. The methodology used for the landbased casinos generated an estimate, from conservative assumptions, of 6.8 million visits (one person one entering one or more times during a single day). The "moderate" estimate for shipboard gaming in the DBEDT study was 2.1 million, with the "optimistic" at 3.4 million.

The gross annual gaming revenues for the two landbased casinos was estimated at \$431.2 million, with \$309.2 million being derived from non-shifted spending. If more optimistic assumptions were used, the estimates would be substantially higher. The figures can be contrasted with the "moderate" estimate developed in the DBEDT Shipboard Gaming study of \$161.3 million annually. Even the "optimistic" estimate of \$283.0 million annually in the DBEDT study was below the conservative figure generated for the landbased casinos.

The studies differ to a greater degree in their respective approaches to the capturing of new non-gaming revenues generated, thus additional care is appropriate when making comparisons. This analysis of landbased casinos generated a new spending attracted figure of \$402.6 million, while the DBEDT study, even in their "optimistic" projection, estimated only \$40.7 million. The difference can be attributed to the position that landbased casinos are more able to attract new visitors and new spending from existing visitors.

Given the nature and the likely locations of the vessels, the DBEDT study does not calculate any impact on the convention center. Enhancing use of the center is an important attribute of the landbased casinos.

The estimated net job figures in the DBEDT study are 1,508 (moderate) and 3,795 (optimistic). The landbased study estimates 9,549 net direct and indirect jobs from non-shifted spending. The multiplier effect would serve to more than double the totals and the differentials.

The public revenue figures in the two studies cannot be directly compared because of different assumptions on tax rates. If the same assumption of a 10% tax on gross revenues were used for both situations, the landbased casino would be paying a gaming tax of \$43.1 million annually, while the "moderate" shipboard gaming boats would be paying a total of \$16.1 million annually. The differential for income and sales taxes is even more significant because of the higher number of off-site spending and jobs created by the landbased casinos.

CONCLUDING COMMENTS ON COMPARISON WITH SHIPBOARD GAMING

A central theme of this study is that the development of quality casino gaming options would be extremely beneficial to maintaining the overall competitive viability of the state. Given the enormous importance of the tourism industry to the economy of Hawaii, it is absolutely essential that the state maintain (regain) its competitive edge and maintain (retain) market share.

Landbased casinos have a much higher likelihood of assuring the competitive viability---drawing new visitors and capturing more spending from existing visitors---than would likely occur through the use of shipboard gaming.

CHAPTER EIGHT OVERVIEW OF OTHER COMMUNITY IMPACTS

INTRODUCTION

The primary mission of this study has been to analyze the market and the economic impacts. Yet, when states or communities consider commencement of casino gaming the discussions are often dominated by (perhaps inappropriately named) non-economic issues. Opponents may suggest that there are community disadvantages from permitting casinos that outweigh the economic benefits.

A lengthy examination of all possible community issues is beyond the scope of this study. Indeed, no matter how great the detail from other states and how persuasive the impact figures from those areas may be it is unlikely that some opponents could be swayed. For reference purposes however, this Chapter provides information capsules on various community and social impact issues and considerations. This analysis can be expanded upon at a later point.

UNEMPLOYMENT---THE CORRELATE OF BAD SOCIAL IMPACTS

A crucial consideration in reviewing community impacts is that the universal statistical correlate with almost all "bad" community situations is the level of unemployment. It is established that higher unemployment correlates with higher levels of crime (particularly domestic violence), alcoholism, lowering property values, bankruptcies, welfare costs and higher costs for social services.

Landbased casino gaming in Hawaii has the clear potential to reduce unemployment and thus serve to reduce the incidence of negative social events and costs. Given the importance of tourism to the economy, the beneficial impacts of casino gaming may be even truer for Hawaii than other existing or potential gaming venues. Casinos will bring dollars and jobs into the state.

PRESENT GAMING OPPORTUNITIES

It is also important to note at the outset that even though Hawaii and Utah are the only two states without some form of legalized gaming, this does not mean that Hawaiians never wager. Previous chapters discussed the high level of visits Hawaiian citizens make to Nevada. It also must be assumed that there is a certain level of illegal (untaxed and unregulated) betting that occurs. Furthermore, there are now over 600 sites on the Internet that accept wagers. Citizen with a gambling problem can find outlets for their tendencies.

In terms of potential tourists and why they select certain locations, the data is clear that casino gaming has become a key sector of the tourist industry. Visitors from the Mainland and Japan are simply more likely to choose a venue that has a casino gaming option than a venue that does not. Allowing casinos in Hawaii draws spending to the state that would otherwise have occurred at other venues.

Essentially, government policies can determine to an extent "where" a person may wager, but has little influence on "whether" they wager.

TYPICAL CONCERNS--CAPSULE REVIEWS

Various issues and concerns that are commonly raised when considering casino gaming are identified below, with brief narratives and statistical references. Fortunately, with the growth of casino gaming during the past decade, there is a solid and growing foundation of information on community impacts. A decade ago only Nevada and New Jersey had regional data meriting review, and both situations are somewhat unique. The situation is entirely different in the year 2000. A wide variety of sources exist that have compiled information on impacts in specific states, cities and counties.

One of the more detailed recent studies is the "*Report to the Governor--The Social, Fiscal, and Economic Impacts of Legalized Gambling in Indiana*" produced by the Indiana Gambling Impact Study Commission. The primary analysts and authors are part of the Indiana University Center for Urban Policy and the Environment. The capsule discussion that follows often uses the "Indiana Report" as well as other sources.

Crime levels and arrests

The Indiana report researched a variety of crime data for five (and occasionally six) key counties hosting casinos and the data for the entire state. The casino counties are Dearborn, Harrison, Lake, LaPorte, and Vanderburgh. For some tables data from Ohio County was also incorporated. The data published in the Indiana report from the time span between 1992 and 1997 are contrasted in **Table 8-1** below (table developed by Michigan Consultants).

The casino counties exhibited better improvements (or lower increases) than the remainder of the state in all but one of the categories. This is a strong indicator of the community benefits brought by the casinos.

TABLE 8-1 CHANGE FROM 1992 TO 1997 IN TOTAL ARRESTS FIVE INDIANA CASINO COUNTIES AND THE REMAINDER OF STATE Data source: Indiana Gambling Impact Study Commission		
Type of Arrest	Change in "Casino Counties"	Change in Remainder of State
Disorderly Conduct	-49%	-15%
Public Intoxication	-30%	-11%
Driving under the influence	+11%	-30%
Offenses against families	+24%	+80%
Drug Abuse Violation	+11%	+108%
Fraud	-14%	+31%

The one exception was "Driving Under the Influence". Interestingly, further inspection of the data finds that four of the five counties exhibited a decrease in arrests in this category over the six-year period. One county (Lake County on the Chicago border) did show a major increase affecting the overall average. This factor is impacted by the millions of visitors to that area, and the millions of Indiana and Michigan visitors to Chicago who return through Lake County, and is not an indicator of increased alcohol consumption by residents.

It is particularly interesting to note that in several categories the total number of **arrests decreased**, suggesting lower law enforcement costs.

Michigan data corroborates the Indiana results. Michigan State University data for crime injury figures was examined for five counties in Michigan that have hosted major Native American casinos. For 1997, the last year that data was fully available on a county basis, the rate of injury for "*victims per 1000 Residents*" was 4.86 for the entire state, but only 3.50 for the five casino host counties. The "*Injured per 1000 Residents*" rate was 1.77 for the entire state, but only 1.36 in the five host counties.

Economic and Social indicators

The Indiana report also considered various social and economic indicators. The overall rate of unemployment in casino counties listed in their study fell from an unweighted average of 7.92% in 1992 to an unweighted average of 3.44% in 1998---an average decline of 57%. The total Indiana figure declined by 53%.

Households participating in a special Indiana program that aids with utility payments decreased by 61% between 1992 and 1998 for the casino counties, a better improvement than the 46% decrease in the remainder of the state. During the same period the number of households receiving public assistance declined by 40% in the casino counties, an impressive improvement, although less than the 53% level achieved in the remainder of the state.

One indicator of social impacts is the divorce rate. Between 1992 and 1998 the divorce rate in the "remainder of Indiana" declined by 6%, while the rate declined by 15% in the casino counties examined.

Bankruptcies

A key segment in the Indiana study reviewed bankruptcy information. The research was unique in that it actually surveyed over 1,000 petitioners for bankruptcy. On page 109 the final report reads:

"There is no evidence from this analysis that persons who file bankruptcy are more likely to engage in gambling or to have problems with gambling than a random sample of adults. Most petitioners who gambled did not believe that gambling contributed to their bankruptcy."

The report went on to estimate that only 2.4% of all people who file for bankruptcy were problem gamblers who attributed their bankruptcy to gambling.

Finally, it is appropriate to mention that even if legalized and regulated casinos did not exist it would not mean that individuals with gambling problem tendencies could not find outlets.

Land values

Some casino critics may suggest that casinos hurt land values, but statistical evidence indicates the opposite. A review of five Native American casino host communities in Michigan, using Michigan State University data, finds that the total state equalized valuation in the key host communities increased by a weighted average of 89% between 1991 and 1998. This compares to a 57% increase for the entire state. Firm data is not yet available, but many media reports suggest that land values in Detroit have rapidly escalated since the approval of casinos in the city.

Again, the primary influence is that casinos bring higher employment and better paying jobs. The result is higher land values.

Attractiveness to other businesses

The presence of casinos appears to have a positive impact on the location of other businesses in an area. This may be due to the taxes paid by the casino that serve to lower the tax burden on other firms, and the general physical improvements casinos tend to mean to a community. *Inc. Magazine* has consistently rated Las Vegas at the top of best places to begin a business. Clark County, Nevada (greater Las Vegas) has consistently been found near the top 10 lists of fastest growing areas in the United States. Employment at the casinos themselves is only one segment of the cause. The casinos have helped the area maintain low tax rates and attractive quality of life.

It is also noteworthy that two major international firms, General Motors and Compuware, both selected downtown Detroit sites (in walking distances to the casinos) for their national headquarters after casinos in Detroit were approved. Chrysler Canada selected Windsor, Ontario (host to a major casino and across the river from Detroit) as the preferred site for its new headquarters.

Environmental impacts

Some might argue that no growth or negative economic growth is best for the environment. Yet, residents can not enjoy an acceptable quality of life without a sound economy, and the environment may not be protected if adequate public revenues are not available.

Of all the types of economic development possible in Hawaii, it can be argued that casinos are the most environmentally benign. There are no industrial pollutants and the owners have a very direct personal incentive to assure guests that the venue is attractive and maintained at the highest quality levels. The tax revenues can also assist in funding environmental protection and community recreation programs

CONCLUDING CHAPTER COMMENTS

A better economy means a better quality of life. By bringing jobs and revenues to an area, particularly through dollars attracted from tourists from other states and countries, casinos improve the overall economic and social foundation of the community.