

THE IMPORTANCE OF FISCAL IMPACT ANALYSES IN THE APPROVAL OF CASINO PROJECTS

Candace Evart and Eugenia Larmore

INTRODUCTION

In 2008, the State of Kansas entertained proposals from gaming operators to conduct casino gambling in four areas of the state. Fiscal impact analyses played an important role in the review of these proposals by State officials. This paper discusses the benefits of fiscal impact analyses for decision-makers, the lessons learned from the Kansas review process and the applicability of fiscal impact analyses to proposed commercial and Tribal casino projects.

KANSAS GAMING-LEGISLATIVE BACKGROUND

In 2007 the Kansas Legislature passed the Kansas Expanded Lottery Act, the enabling legislation allowing “lottery gaming facilities” in specific areas or zones of the State. Gaming could be located at existing race tracks and/or in stand-alone facilities with each zone limited to two facilities: one race track and one stand-alone. The legislation listed four geographic areas:

- the northeast zone, identified as the Wyandotte County area in which Kansas City is located.
- the southeast zone, consisting of the rural counties of Cherokee and Crawford
- the south central zone of Sedgwick and Sumner Counties with the largest cities in each being Wichita and Wellington respectively, and
- the southwest zone, identified as Ford County in which Dodge City is located.

The legislation required each zone or county to hold a special election to determine if the qualified voters wanted a gaming facility in their county. All but Sedgwick County (Wichita) in the south central zone voted in favor of gaming. The population of each County is presented in the table below, although it is recognized that the facilities would draw from other counties and states.

County	2008 Est. Population
Wyandotte	154,287
Cherokee/Crawford	59,950
Sumner	23,616
Ford	33,293

The competitive process of selecting a gaming operator in each zone began with the submittal of proposals from gaming operators to the Kansas Lottery Commission. Twelve proposals were submitted for the four gaming zones although some of the gaming operators withdrew their

applications during the selection process. The table below lists the proposers, the zone in which they applied, and the gaming operator.

**State of Kansas
2008 Gaming Proposals**

Proposer	Gaming Operator
Northeast Zone	
Golden Heartland, Inc.	Golden Heartland
Kansas Entertainment, LLC	Hard Rock
Legends Sun	Mohegan Sun
Pinnacle Entertainment, Inc.	Pinnacle Entertainment
Sands Kansas, LLC	Las Vegas Sands
Kansas City	
Edwardsville	
South Central Zone	
Marvel Gaming, LLC	Marvel Gaming
Penn Sumner, LLC	Penn National
Sumner Gaming, LLC	Harrah's Entertainment
Sumer Gaming Ventures, LLC	MGM Mirage/Foxwoods
Southeast Zone	
Kansas Penn Gaming, LLC	Penn National
Southwest Zone	
Butler National Service Corp.	Navegante Group
Dodge City Resort & Gaming, LLC	Ingenus Management and Consulting, LLC

The Kansas Lottery Commission then approved management contracts with one or all of the prospective “gaming facility managers,” if the Commission determined that the gaming facility would promote tourism and economic development. The following factors were considered in the determination: the size of the proposed facility, its location and ability to be a tourist and entertainment destination, the estimated number of tourists it would draw, the number and type of games offered, and its non-gaming amenities. Additionally, the proposal had to show an infrastructure investment of \$225 million in the northeast, southeast and south central zones and \$50 million in the southwest zone.

The “price of admission” to be in the pool of prospective operators was a privilege fee of \$25 million in the northeast, southeast and south central zones and \$5.5 million in the southwest zone. The fee would be refunded to those not selected by the Lottery Commission to be the gaming facility manager. Unlike other commercial gaming jurisdictions, the Kansas law stipulated that the gaming operator would not own the facility, but would manage it. The law placed “full, complete and ultimate ownership and operational control of the gaming operation of

the lottery gaming facility with the Kansas lottery. The Kansas lottery shall not delegate and shall explicitly retain the power to overrule any action of the lottery gaming facility manager affecting the gaming operation without prior notice. The Kansas lottery shall retain full control over all decisions concerning lottery gaming facility games”.¹

As manager, the gaming operator was required to pay 22% of the gross gaming revenue to the State; this revenue was dedicated to the reduction of state debt, the funding of state infrastructure improvements and the reduction of local ad valorem (property) tax. An additional 2% of gross gaming revenue was to be paid to the State for problem gambling and addiction programs. Finally, 3% of gross gaming revenue was to be paid to local governments, those cities and counties in which the facility was located. A total tax rate of 27% was thus assessed against the gross gaming revenue of each lottery gaming facility.

The Kansas Expanded Lottery Act created a Lottery Gaming Facility Review Board responsible for determining which management contract between the gaming operator and the Lottery Commission in each zone “best maximizes revenue, encourages tourism and otherwise serves the interests of the people of Kansas.” The seven members of the Review Board were appointed by the governor, president of the senate, and speaker of the house.

The Review Board worked with the Kansas Racing and Gaming Commission and its staff in the execution of its duties and was to “conduct public hearings, take testimony, solicit the advice of experts and investigate the merits of each contract submitted...” The cost to retain experts, consultants, and professionals to assist the Board in its evaluation of the contracts was at the expense of the prospective gaming operators.

THE REVIEW PROCESS

The review process started in early 2008 with the Kansas Racing and Gaming Commission developing a list of consultants or experts in the casino gaming field with the assistance of a lead consultant from the University of Nevada Reno.² This list was submitted to the Review Board for its consideration and approval after checking the consultants’ background and experience for potential conflicts of interest with any of the proposers. The consultants were charged with the responsibility of analyzing and evaluating the operators’ proposals, comparing and contrasting them, and summarizing the differences for the Review Board in an open meeting.

The areas of expertise represented by the consultants were:

- Market Analysis: annual number of visitors, breakdown between tourist and local residents, win per device and annual gross gaming revenue;
- Economic Analysis: impact on the regional economy in terms of jobs and purchases of goods and services;
- Fiscal Impact Analysis: impact on local and state governments’ revenue and service costs;

¹ This quote as well as other information under “Legislative Background” is taken from SB 66, passed in the 2007 Kansas legislative session.

² Dr. William R. Eadington, Director of the Institute for the Study of Gambling and Commercial Gaming, University of Nevada Reno.

- Analysis of Marketing Programs: branding, outreach, player loyalty programs;
- Financial Analysis: analysis of the financial health of the proposer and the ability to fund/complete/operate the project.

We were retained to review the fiscal impacts of each project on State and local governments, including cities, counties and school districts. Our experience and involvement with the review and selection process, spread over five months, form the basis for the findings and observations in this paper.

Due to the relatively quick timeframe stipulated in Statute for the Review Board to render its recommendations, the consultants needed to extract pertinent information from the proposals quickly to allow analysis and comparisons among the submissions. An information request document was designed by the consulting team and forwarded to each proposer for completion within a designated time frame. This procedure solved a number of problems: 1. it saved each consultant the time required to pore through the proposals extracting only the information relevant to their area of expertise and responsibility and thus reduced duplication of effort and cost to the Racing and Gaming Commission; 2. it put the onus on the proposer to extract the correct information eliminating any criticism that the consultants erroneously recorded information.

The information request document is attached as Appendix 1 in its entirety, but in summary, it contained eight sections requesting information on:

- Time line of projects from construction start to opening date;
- Description of facility, including number of games, hotel rooms, square footage and number of restaurants, bars, retail, convention facilities, sports/recreation outlets and parking spaces;
- Construction phases and investment by year and by type (land, buildings, rolling stock, landscaping, gaming devices, etc.), sources of funds, and construction employment and associated payroll;
- Visitation and spending patterns over a five-year period, broken down by tourist v. resident or local;
- Economic impact information, including estimated spending on specific types of services by tourists v. residents or locals. The intent was to provide a foundation to estimate the amount of new direct spending in the region and then to estimate the indirect and induced spending using an input/output methodology;
- Operating employment and corresponding payroll projections for each cost center for first five years of operation;
- *Pro forma* income statement for first five years of operation;
- Public sector revenue and costs generated by the development during the construction stage and over the first five years of operation. Additionally, any financial incentives offered by the proposers for the impacted local governments were requested.

A separate request document was forwarded to all proposers that asked for financial information on the company including:

- Financing structure and funding sources for proposed facility;

- Historical balance sheet of company;
- Historical income statement of company;
- Historical cash flow statement;
- Company's other planned or in progress projects and corresponding costs.

Open Meetings and Transparency in the Review Process

The need for an open and transparent selection process was of primary importance to the Review Board from the outset. The Racing and Gaming Commission posted all gaming facility proposals and the consultants' reports on its web site. The Board held a public hearing in each zone to hear the proposers' presentations, the consultants' findings, and to take public input.

The hearings were also available online and the final meeting which included deliberations and the selection decision was open to the public. Most of the proposers in their closing comments to the Board remarked on the fair and open selection process and the cooperation of the staff of the Racing and Gaming commission.

FISCAL IMPACT ANALYSIS

While many consultants worked with the Review Board on different aspects and impacts of the casino industry, Our role was to analyze each proposal's fiscal or financial impact on local governments. We provided summary documents to the Review Board that:

- Compared the fiscal analysis provided by the proposers to that of the fiscal consultants' and explained the differences
- Summarized the financial incentives offered by the proposers to local governments and compared how they differed among the zones and proposers

What Is a Fiscal Impact Analysis?

A Fiscal Impact Analysis (FIA) estimates the impact of a development, land use or policy change on the revenues and costs of local and state governments, usually local government, as was the case in the Kansas project. Mostly, these reports are created for and paid by the developer, sometimes as a requirement by the local government reviewing the project. This informational, quantitative tool measures the financial impact of the development or land use change on local governments' finances and answers questions such as:

- Will the development and the public services it requires be a drain on the local government's budget or will it provide a tax surplus to the entity to be used for other needed public services?
- Will the development require the addition of more K-12 classrooms and teachers or is sufficient space available to absorb additional students?
- Will the development require fire protection apparatus or stations that currently are not included in the Fire District's inventory?

An FIA answers all these concerns and questions through a three-part process.

1. An FIA estimates the additional or incremental revenue that a city, county, school district or other local government entity will receive from the development. These revenues include taxes, permits, and user fees.
2. An FIA estimates the costs of public services required for the residents and employees of the development. Costs include those for police and fire protection, building inspection, parks and recreation, social services, education, road maintenance and a host of others.
3. Finally, estimated development-related revenues are compared to the estimated costs to service the development to determine if a revenue surplus or deficit exists.

Revenue deficits when projected in an FIA provide a “red flag” to both decisions-makers and developers and encourage negotiation to mitigate or eliminate the deficit position. For instance:

- Land can be donated for schools or parks, reducing or eliminating the jurisdictions’ spending for land.
- A fire truck or other heavy equipment can be donated.
- A Development Agreement with the jurisdiction can be drafted that allows the developer to front the costs of infrastructure or operations to be repaid in later years when tax revenues start flowing.

The point is that the FIA arms the developer and governmental decision-makers with an informational tool that projects how a development, land use or policy change will impact the financial condition of jurisdictions. If the analysis shows a revenue surplus, the developer has provided the local entity an added incentive for approval. If it shows a deficit, the developer will be ready to respond with incentives and solutions and open negotiations with the decision-making board.

The foundation for the estimated governmental revenue and costs in the FIA is the development itself--its size, land use, land costs, building construction costs, number of employees and associated total residents, and build out time frame. Using these estimates and projections, the analysis estimates revenues to be generated by the development, including property tax, sales tax, business license fees, gaming revenues, lodging tax and other sources. Estimated costs include police, fire, streets/roads, parks, and administrative overhead among others. Data utilized in these analyses are collected from interviews with local government representatives (Finance, Clerk, Police, Fire, etc.), from entity budgets, conversations with developers and the consultant’s understanding of and experience with local government finance.

It is often said that a fiscal impact analysis, like many other projections, is more of an art than a science. It is so. A fiscal impact analysis will not estimate the exact impact of a development. However, if done properly, it will provide a government entity with a clear picture of whether a particular project will generate a revenue surplus or a deficit. Along with analyses for economic impacts, traffic impacts, and environmental impacts, a fiscal impact analysis is an invaluable tool for developers and governments alike.

In the case of the Kansas gaming Review Board, it was important for the members to know the financial implications of a development’s impact on local governments. This knowledge assisted

them in fulfilling their obligations for due diligence and allowed them to address questions posed by public.

In addition, the FIA allowed the Board to compare multiple projects proposed for the same area--northwest zone, south central zone and southwest zone. Each proposal could be evaluated based on the benefits to the local jurisdictions as well as the potential fiscal deficits. While the Review Board's decision to recommend a particular proposal rested on many evaluation criteria in addition to the findings of the fiscal impact analysis, the FIA played an essential role.

EXPERIENCE OF KANSAS SELECTION PROCESS AND FISCAL IMPACT FINDINGS

The Kansas Expanded Lottery act required 3% of gross gaming revenue be dedicated to city and county governments, divided evenly in the northeast and southwest zones between the city and county in which the facility is located. In the southeast and south central zones, the 3% was divided equally among the city in which the facility is located and the two counties stipulated in Statute. The question for the Review Board was whether this funding would cover the costs of publicly provided services to the facility or whether the local governments would be in a deficit financial position. The answer to this question was addressed through a fiscal impact analysis.

An information request document specific to public sector fiscal impacts was forwarded to each proposer. Requested cost and revenue estimates from the proposers included:

Capital Costs	Operating Costs	Revenues
Streets/Roads	Law Enforcement	Property Tax
Drainage	Fire Protection/EMS	Sales Tax
Sewer and water	K-12 Education	Gaming Tax
K-12 education		
Public safety		

The information request spreadsheet is shown below and highlights the public sector services, capital and operating costs, and revenue sources most likely to be impacted by a gaming facility. It is populated with "sample" costs and revenues.

All proposers submitted this form with varying degrees of completeness and supporting documentation. Our methodology emphasized an independent approach to the fiscal impacts, so that while the submitted impacts were reviewed, our findings could be, and in most cases, were substantially different. The tangible product submitted to the Review Board was a one-page summary sheet showing the differences between the two fiscal estimates, the proposers' and ours.

The fiscal impacts emphasized local governments' revenues and costs, specifically those for city, county and school districts. It was assumed that the State's gaming tax of 22% of gross gaming revenue would cover the State's costs to provide services to the visitors and employees of the casinos. To collect information on revenue, cost and service level information, we reviewed budget, audit reports and web-based information; questionnaires were sent to the providers, followed by a phone interview to clarify or obtain additional information.

COSTS	Construction Period		Operating -- 1st Five years				
	Year 1	Year 2	Year 1	Year 2	Year 3	Year 4	Year 5
INFRASTRUCTURE							
Roads/Streets Improvements	\$ 4,700,000						
% Funded by Proposer	100						
% Funded by Public Sector							
Water/Sewer Improvements	\$ 4,600,000						
% Funded by Proposer	50						
% Funded by Public Sector	50						
Storm Drains	\$ 500,000						
% Funded by Proposer	100						
% Funded by Public Sector							
Law Enforcement		\$ 4,200,000					
% Funded by Proposer		75					
% Funded by Public Sector		25					
Fire Protection/EMS	Included with Law Enf.						
% Funded by Proposer							
% Funded by Public Sector							
K-12 Education		\$ 2,300,000					
% Funded by Proposer		50					
% Funded by Public Sector		50					
OPERATING							
K-12 Education							
Additional Teachers			5	5	6	7	8
Salaries/Benefits			\$ 218,000	\$ 225,000	\$ 271,000	\$ 321,000	\$ 375,000
Additional Support Staff			1	1	1	1	2
Salaries/Benefits			22,000	22,600	23,300	24,000	49,500
Law Enforcement							
Additional Uniformed			5	5	5	5	5
Salaries/Benefits			\$ 293,000	\$ 305,000	\$ 317,000	\$ 320,000	\$ 343,000
Additional Non-Unif.			1	1	1	1	1
Salaries/Benefits			36,000	37,000	37,800	39,000	40,000
Capital Equipment			-	-	-	-	-
Rolling Stock			150,000		160,000		170,000
Fire Protection							
Additional Uniformed			4	4	4	4	4
Salaries/Benefits			\$ 180,000	\$ 187,000	\$ 195,000	\$ 202,000	\$ 211,000
Additional Non-Unif.			-	-	-	-	-
Salaries/Benefits							
Capital Equipment							
Rolling Stock			150,000				
Ambulance Service							
Additional Personnel			-	-	-	-	-
Salaries/Benefits			-	-	-	-	-
Capital Equipment			-	-	-	-	-
Rolling Stock			-	-	-	-	-
REVENUE							
Property Tax							
State			\$ 50,000	\$ 54,000	\$ 58,300	\$ 63,000	\$ 68,000
City			250,000	270,000	295,000	350,000	340,000
County			1,250,000	1,350,000	1,458,000	1,574,000	1,700,600
Sales/Use Tax							
City			\$ 50,000	\$ 215,000	\$ 228,000	\$ 232,000	\$ 243,000
County			100,000	418,000	444,000	448,000	471,000
Gaming Tax							
State			\$ 12,300,000	\$ 49,400,000	\$ 60,500,000	\$ 67,600,000	\$ 69,600,000
City			515,000	2,063,000	2,523,000	2,736,000	2,818,000
County			1,032,000	4,126,000	5,047,000	5,472,000	5,636,000

One of the basic assumptions of the fiscal impact analysis was that existing service levels would be maintained for the casino facilities. Thus, if law enforcement's response time to a call for service was ten minutes, the same service level would be provided to the casino facility. The revenue and costs estimates were based on the existing service levels.

We has a proprietary model used to estimate the fiscal impact of any type of real estate development. Portions of the output from that model are included in Appendix 2. The model is driven by a group of build out assumptions, provided in most part by the developer, to estimate revenues (property tax, sales tax, lodging tax, building permits, income tax and other revenue). Assumptions regarding changes in population, tourism and employment due to the development primarily drive the cost estimates for law enforcement, fire protection, public works and other costs. Selected output on estimated expenditures is shown in Appendix 2.

Fiscal Impact Findings

In the southwest zone, two proposals were submitted. The fiscal impact of one of the proposals is presented in Table 1, which summarizes the information submitted by the proposer (top part of page) and the impact estimated by us (bottom part of the page). This format provided an easy comparison for the Review Board and served as the foundation for questions of both the consultants and proposers. The fiscal analysis summarizes five years of estimated revenue and costs, including a three-year construction period plus two full years of operating revenue and costs.

The summary document above presents several issues of note when comparing the Proposer's estimates to those of the consultant:

- The Proposer's revenue estimate understated total revenue to the State, City, County and School District by \$28 million, \$39 million vs. our estimate of \$68 million. The proposer omitted estimates for revenue sources of importance to all levels of government: property tax, sales/use tax, income tax, lodging tax, and state school aid. **Finding: Had the Review Board not had a fiscal impact expert develop the estimates, the proposer's submittal could have been less favorably received.**
- The proposer's cost estimate was understated, \$900,000 vs. \$21 million from us, primarily because it lacked consideration for school operating and capital construction to service the new employees and their children migrating to the area to take casino facility jobs. **Finding: Without the expert's analysis, the Review Board would not have had the full picture on local governments' costs generated by the casinos.**
- Both fiscal estimates, the proposer's and ours, showed revenue exceeding costs for the State, City and County. The school district estimates differed substantially with the proposer showing a deficit of \$250,000 and we, a deficit of \$6.2 million. **Finding: The fiscal impact expert provided a more complete estimate of the impact.**

**TABLE 1
FISCAL IMPACT--5 YEAR SUMMARY***

* 3 Years Construction + 2 Full Years Operating

Proposer's Estimates				
	<u>State</u>	<u>Dodge City</u>	<u>Ford County</u>	<u>K-12 Schools</u>
REVENUE:				
Gaming Rev. Sharing	\$ 31,800,000	\$ 1,987,500	\$ 1,987,500	\$ -
Property Tax	-	1,834,894	1,478,678	-
Sales/Use Tax	-	-	-	-
Income Tax	-	-	-	-
Lodging Tax	-	-	-	-
Developer Contribution	-	68,450	-	-
Total	\$ 31,800,000	\$ 3,890,844	\$ 3,466,178	\$ -
COSTS:				
Law Enforcement	\$ -	\$ 392,119	\$ -	\$ -
Public Works	-	114,083	-	-
Education	-	-	-	251,288
Fire Protection/EMS	-	161,338	-	-
Total	\$ -	\$ 667,540	\$ -	\$ 251,288
Surplus/(Deficit)	\$ 31,800,000	\$ 3,223,304	\$ 3,466,178	\$ (251,288)
Consultant's Estimates				
	<u>State</u>	<u>Dodge City</u>	<u>Ford County</u>	<u>K-12 Schools</u>
REVENUE:				
Gaming Rev. Sharing	\$ 38,144,503	\$ 2,384,031	\$ 2,384,031	\$ -
Property Tax	67,118	2,167,736	1,746,905	2,507,085
Sales/Use Tax	3,421,500	645,566	1,065,184	-
Income Tax	2,398,455	-	-	-
Building Fees	-	-	-	-
Lodging Tax	594,625	785,354	185,119	-
School State Aid	-	-	-	9,462,569
Developer Contribution	-	-	-	-
Total	\$ 44,626,201	\$ 5,982,687	\$ 5,381,240	\$ 11,969,654
COSTS:				
Law Enforcement	\$ -	\$ 1,093,737	\$ 909,317	\$ -
Public Works	-	-	-	-
Education	-	-	-	18,144,637
Building Inspection	-	-	-	-
Fire Protection/EMS	-	390,261	-	-
Admin. Overhead	-	305,701	-	-
Total	\$ -	\$ 1,789,698	\$ 909,317	\$ 18,144,637
Surplus/(Deficit)	\$ 44,626,201	\$ 4,192,989	\$ 4,471,923	\$ (6,174,984)

A proposal from the south central zone is presented below in Table 2:

**TABLE 2
FISCAL IMPACT--3 YEAR SUMMARY**

Proposer's Estimates						
	<u>State</u>	<u>City of Mulvane</u>	<u>Sumner County</u>	<u>Sedgwick County</u>	<u>K-12 Schools</u>	
<u>REVENUE:</u>						
Gaming Rev. Sharing	\$ 61,896,900	\$ 2,579,038	\$ 2,579,038	\$ 2,579,038	\$ -	-
Property Tax	-	-	-	-	-	-
Sales/Use Tax	-	-	792,560	-	-	-
Income Tax	-	-	-	-	-	-
Developer Contribution	4,706,055	9,387,060	-	-	-	-
Total	\$ 66,602,955	\$ 11,966,098	\$ 3,371,598	\$ 2,579,038	\$ -	-
<u>COSTS:</u>						
Law Enforcement	\$ -	\$ 4,670,791	\$ 251,282	\$ -	\$ -	-
Public Works	4,706,055	5,093,450	-	-	-	-
Education	-	-	-	-	-	-
Fire Protection/EMS	-	-	2,528,995	-	-	-
Total	\$ 4,706,055	\$ 9,764,241	\$ 2,780,277	\$ -	\$ -	-
Surplus/(Deficit)	\$ 61,896,900	\$ 2,201,857	\$ 591,321	\$ 2,579,038	\$ -	-
Consultant's Estimates						
	<u>State</u>	<u>City of Mulvane</u>	<u>Sumner County</u>	<u>Sedgwick County</u>	<u>K-12 Schools</u>	
<u>REVENUE:</u>						
Gaming Rev. Sharing	\$ 44,764,307	\$ 1,865,179	\$ 1,865,179	\$ 1,865,179	\$ -	-
Property Tax	170,406	6,058,488	6,411,682	-	5,450,254	-
Sales/Use Tax	11,142,720	-	2,102,400	-	-	-
Income Tax	8,371,995	-	-	-	-	-
Building Fees	-	33,647	-	-	-	-
Developer Contribution	4,706,055	9,387,060	-	-	-	-
Total	\$ 69,155,483	\$ 17,344,374	\$ 10,379,261	\$ 1,865,179	\$ 5,450,254	-
<u>COSTS:</u>						
Law Enforcement	\$ -	\$ 3,045,616	\$ 1,210,902	\$ -	\$ -	-
Public Works	4,706,055	28,061,508	-	-	-	-
Education	-	-	-	-	9,842,269	-
Building Inspection	-	126,866	-	-	-	-
Fire Protection/EMS	-	5,677,545	-	-	-	-
Total	\$ 4,706,055	\$ 36,911,535	\$ 1,210,902	\$ -	\$ 9,842,269	-
Surplus/(Deficit)	\$ 64,449,428	\$ (19,567,161)	\$ 9,168,359	\$ 1,865,179	\$ (4,392,015)	-

This proposal highlights the need for an independent fiscal impact analysis as substantial differences in costs are submitted by the Proposer and the consultant. These differences are critical to policy-makers and their ultimate decision. Items of note in the above summary document mirror much of what was highlighted in the first comparison document from the southwest: underestimated or omitted revenue at the state and local level of government and underestimated costs. However, the magnitude of the underestimated costs in the summary above deserves special mention.

- The Proposer estimated costs of \$9.7 million to the City of Mulvane. We estimated \$37 million, a difference of \$27 million with the majority of the difference being in public

works. Given the City's budgetary constraints, it would be hard pressed to fund the improvements without financial contributions from the Proposer. **Finding: Without a fiscal impact analysis, these costs may not have been identified. The analysis provided the Review Board and the City the leverage needed to negotiate with the Proposer to assure the City's service costs were addressed.**

- The Proposer did not estimate revenue or costs for the school district, excluding an important governmental function with direct cost links to the gaming facility. The consultant estimated the casino would generate an \$18 million deficit to the school district because of the need for additional capital construction, staff and services to educate the estimated 450 additional students. **Finding: Without the independent fiscal impact analysis, the Review Board would not have had the full implication costs generated by the casino facility.**
- The importance of estimating infrastructure costs is highlighted in Table 2. The proposer estimated that the City of Mulvane would require \$5.0 million in public works infrastructure costs, while the consultant estimated \$28 million after discussions with the City representatives. **Finding: A fiscal impact analysis can estimate the amount of capital expenditures, usually up-front and substantial costs, required and help the developer and the local government representatives pinpoint where concessions and mitigation efforts will be most beneficial.**

In the northeast zone, two cities and the Unified Government, consisting of Wyandotte County and Kansas City, developed and agreed to an inter-local agreement to share the gaming tax revenue stipulated in state law. Statute requires that 3% of the gross gaming revenue (GGR) in the northeast zone be shared between the host county and city, 1.5 % to each. The inter-local agreement allowed two other Wyandotte County cities to enjoy the benefits of casino gaming by dividing the 1.5% city share among Kansas City, Bonner Springs and Edwardsville. The division gives 0.75% of the 1.5% to the host city and divides the remaining 0.75% between the other two cities based on miles of street center lanes and square miles of land area. In a time when all local governmental jurisdictions are fighting for every dime, this sharing of revenue was novel and highly commendable.

Proposers' Fiscal Incentives

In a competitive bidding process, the proposers often "sweeten the pot" to enhance their selection chances. The fiscal incentives can range from donation of land on which to build public facilities, restricted or non-restricted cash donations, purchases of equipment such as fire trucks, or funding infrastructure (road, sewer, water) required to service the development

The experience in Kansas showed different levels of voluntary incentives depending on the amount of competition and the size of the casino market or expected revenue from the facility. The Kansas City market garnered larger incentives than did Ford County or Sumner County, where the bidders were fewer and the potential revenue less.

The Unified Government of Wyandotte County, in the northeast zone and home to Kansas City, Kansas, drew up development agreements with each of the proposers prior to the start of public hearings by the Review Board. These agreements included:

- A description of the project in terms of capital investment, size and time frame for construction completion;
- A requirement that green technologies be used when possible;
- A requirement that the facility manager operate a shuttle service;
- A requirement to adhere to prevailing wage.

From a fiscal impact standpoint, however, the developer agreements were important because they required the developer to fund 100% of on-site and off-site infrastructure improvements related to the casino facility. These improvements could include roads/streets, water and sewer facilities, land for public safety facility, buildings and equipment, and extension of utilities. These can be substantial costs to local governments and the Unified Government of Wyandotte anticipated these costs and placed the funding responsibility on the proposers.

Further, the Development Agreement included negotiated “community contributions” taking the form of annual or one-time cash contributions or a percent of gross gaming revenue. These contributions were substantial as shown in Table 3 below, ranging from annual contributions of \$750,000 to \$1.1 million and one-time payments of \$1.0 million to \$6.0 million. In the northeast zone, Proposer 1 was recommended for the license by the Review Board because among other attractive components of its proposal, it offered the highest voluntary fiscal contributions of \$1.1 million annually to local governments and organizations, plus 1% of its gross gaming revenue to the Unified Government of Kansas City.

However, in the South Central Zone, Proposal 1 was recommended by the Review Board even though its incentives were not as attractive as other proposers. This shows that fiscal incentives are not the only decision-making criterion, but one of many including the project itself, the financial stability of the proposer and its ability to attract out of state and in-state tourists.

The fiscal incentives from the various proposers are presented in Table 3 that follows:

TABLE 3				
SUMMARY OF FISCAL INCENTIVES				
	Cash	% of GGR³	Infrastructure⁴	Land/ Facilities
Northeast Zone (Est. GGR \$167 -\$222 million)				
Proposer 1	\$1.135 m./yr to local governments and organizations	1% to Unified Government ⁵	100%	
Proposer 2	\$1.0 m/yr to local charities; one-time \$1.0 m. to local charities		100%	
Proposer 3	\$1.0 m./yr, 50% to schools, 50% to worthy causes		100%	
Proposer 4	One-time \$6.0 m. for social services and non-host schools; \$750K/year to County		100%	
S. Central Zone (Est. GGR \$121-\$185 million)				
Proposer 1			\$9.8 m	\$4.3 m for public safety facility
Proposer 2	One-time \$1m. to community	1% to econ. growth	\$24 m. for road, water/sewer and public safety facility	\$2.3 m. to golf club; up to \$7.5K for employ. housing
Proposer 3	One-time \$250K-historic buildings; +/- \$100K/year for other community organizations		\$12.6 m.	
S. West Zone (Est. GGR-\$50 million)				
Proposer 1			23.7% of cost	
Proposer 2		1% for tourism; \$50K/yr grants	60% of water and sewer	

³ GGR-Gross Gaming Revenue.

⁴ Wyandotte County, northeast zone, negotiated Development Agreements that required each proposer to fund 100% of all on-site and off-site infrastructure improvements related to the project.

⁵ Unified Government of Wyandotte which includes Kansas City, Kansas and Wyandotte County.

THE KANSAS EXPERIENCE AND APPLICABILITY TO INDIAN GAMING

Are the lessons learned from the Kansas gaming selection process applicable to Indian gaming? Most definitely. Both commercial and Indian gaming requires typical services provided by governments. Regardless of whether the Tribal government, local governments, or both provide services to the casino's patrons and employees, there will be a cost. Estimating that cost and the revenue to fund them will be developed through a fiscal impact analysis.

We have been involved in many Tribal gaming enterprises and frequently the service delivery model relies on both local/state governments and Tribal government. For instance, Tribal police will make an arrest at a casino and the county law enforcement agency will transport the individual to the city/county jail. Likewise, Tribes often administer schools for their members who work in the casino, but non-tribal employees will require the services of the local school district.

However, some casino-generated services will be specific to cities/counties or states. These include road/street maintenance on roads leading to the casino, law enforcement on non-tribal roads, K-12 education for non-tribal employees' children, fire protection, emergency medical services and judicial court services. Even if an economically independent Tribe can provide all traditional public services on Tribal land, the casino will impact city/county governments once the casino patrons and employees leave the facility and Tribal land.

State and local governments are more aware of casino-generated impacts than they were in the years immediately after the enactment of the Indian Gaming Regulatory Act. There is now sufficient information in the public domain to heighten governments' awareness of the financial costs of casino gaming, leading to negotiations for mitigating revenue to cover costs.

Tribal governments considering casino gaming would be well advised to negotiate a Development Agreement with the local government service provider. Based on information from a fiscal impact analysis, both governments, tribal and city/county, can negotiate a fair and objective agreement, the intent of which is to allow both governments to pay its fair share of service costs. The Development Agreement can extend over many years, thus keeping unplanned demands to a minimum and allowing better financial planning from year to year for both the Tribe and local government.

Development agreements, once made known to the public, help soften or eliminate adverse public opinion to the casino project. It clearly states how the Tribe will financially mitigate traffic, public safety, educational and other impacts. It can also include financial offers for local charity or not-for-profit organizations in the area, a "sweetener" that is usually well received by the community.

Development agreements have begun to include provisions to address environmental and human safety concerns mandated by state statutes and local ordinances. Agreements include provisions requiring adherence to local building codes, state clean water standards, and state workers' compensation for injuries on the job.

SUMMARY OF CONCLUSIONS AND FINDINGS

The Kansas process for the selection of gaming operators highlighted several lessons valuable to other states or Tribes considering casino gaming.

1. The fiscal or financial impact of casinos on local governments is often overlooked as decision makers' attention is often drawn to the impacts on the private sector--more jobs, more spending by tourists, more economic development. However, as the provider of most public services required by the patrons and employees of the casino, it is critical that local governments know the financial impact of the casino and plan for it. The Kansas experience highlighted this impact with the Review Board taking an active role in questioning the proposers about the impact and the mitigating actions they proposed.
2. The recognition of the importance of local government financial impacts leads to the need to retain an independent expert to estimate the incremental revenue and costs generated by the casino. The Review Board required that each proposer estimate the fiscal impacts, but we found that many costs and revenues were omitted from proposals. The experience also showed that not only were costs often underestimated by the proposers, but also revenue, to the disadvantage of the proposers.
3. The identification of infrastructure costs to service the gaming facility—roads, utilities, sewer/water, fire stations, class rooms—is critical in the fiscal impact analysis as these can be substantial, up-front costs. As was done by the Unified Government of Wyandotte County, developer agreements should be drawn up stipulating what costs or percentage of costs will be funded by the developer and the government.
4. Due to time and budget constraints, we were unable to conduct on-site interviews with local government representatives, relying on telephone interviews instead. The collection of data and cooperation from government representatives is enhanced by on-site, face-to-face interviews, which are longer and thus more in-depth, providing better information on which to base the revenue and cost estimates. It is recommended that independent consultants pursue on-site interviews if at all possible.
5. Funding formulas for School Districts are complex in many states, and Kansas was no exception. If time permits, it is recommended that the independent consultant work with the State Department of Education to develop an estimate for K-12 funding for each impacted district given the addition of a casino within the District. Estimating the cost to the school district is a fairly easy analysis based on available capacity and absorption of the estimated number of new students generated by the casino employees.
6. A summary sheet comparing each proposer's fiscal impact and incentives allows the reviewing panel a quick overview of how each proposal compares to the others. In the Kansas experience, we developed such a summary sheet, it is shown as Appendix 3. The reviewing board must have a good understanding of the different tax rates/fee structures and service levels among the competing jurisdictions to address inevitable questions, such as "Why does Proposal 1 generate more property tax revenue than Proposer 2 when

the construction value of the project is the same?" The answer often rested in the differing tax rates assessed by different jurisdictions. It is the independent consultant's responsibility to explain the difference.

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