

# New Mexico Consortium

New Mexico Full Casino  
Gaming Market and Impact Study

February 2019

Private & Confidential

Union Gaming Analytics



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## Introduction

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Union Gaming Analytics (“Union”) has been engaged by Sunland Park Racetrack and Casino, Ruidoso Downs and Billy the Kid Casino, Sun Ray Park and Casino, Zia Park Racetrack and Casino, and New Mexico Horsemen’s Association (collectively “the Consortium”) to perform a Gaming Market and Economic Impact Study in the State of New Mexico that projects the effects of allowing full-scale casino gambling at the state’s five racetrack casinos and, potentially, the addition of a 6<sup>th</sup> racetrack casino license. Our report is intended to measure the total revenue to operators from expanding the racetrack casino offerings to include: unlimited number of slots, live table games, sports betting, and other regulatory changes, as well as the economic impact and potential tax revenue which may be realized by state and local governments.

Note the various scenarios (and underlying assumptions) contemplated herein were provided by the Consortium under the terms of our engagement and do not represent the opinion of Union Gaming. Union was provided with privileged confidential data by members of the Consortium which was used to reach our projections. To protect the confidentiality of the data, we have consolidated all numbers on a statewide basis comprising all five racetracks plus our projections for the sixth license location.

Also note, while all scenarios found in this report have been analyzed to provide a broader projection of potential outcomes, Consortium members are not necessarily supportive of the changes assumed for each scenario, especially that of adding a sixth racetrack licensee. It should not be assumed that inclusion of the elements of each scenario herein implies support for such changes by the members of the Consortium.

## About Union Gaming

Union Gaming is a boutique investment bank and advisory firm focused exclusively on the global gaming industry, which we define as the \$500 billion-plus market that includes land-based casinos, lottery, online, and pari-mutuel wagering. The company specializes in global equity, high-yield research, securities dealings, investment banking, and advisory partnership. Through its Union Gaming Analytics subsidiary, the company conducts gaming, feasibility, and economic impact studies for government and corporate entities. The company also provides legislative and regulatory support for gaming-related activities globally. Founded in 2009, the company is headquartered in Las Vegas, with offices in Hong Kong, Macau, and New York, NY.

## Use of study & name

Union Gaming’s study is solely for the use and information of the Consortium and is only to be used in considering the matters to which this study relates. Such study may not be relied upon by any other person, including, but not limited to, any security holder, employee, or creditor of any member of the Consortium and may not be used or relied upon for any other purpose without obtaining Union’s written consent, with such consent not to be unreasonably withheld by Union. If such consent is given, recipient(s) of this document should be aware that portions of this document have relied upon information supplied by the subject company who paid for our services. This information may not have been independently verified by Union Gaming and therefore should not be relied upon for any purpose and should be considered informational only. In addition, the Consortium agrees that any reference to Union Gaming in any release, communication, or other material is subject to Union Gaming’s prior written approval, which may be given or withheld in its reasonable discretion for each such reference.

Any questions regarding the contents of this report should be directed to Bill Allsup, Director of Union Gaming Analytics at 702-866-0743.

## Executive summary

Below is a summary of our findings should New Mexico's five racetrack casinos and a sixth racetrack casino in Clovis be allowed to open full casinos along with a number of regulatory changes in order to allow them to see improved performance. Our report also includes analysis of a scenario where regulatory changes are made and full casinos are allowed, but the sixth casino license for Clovis is not issued.

### Gaming revenue potential of full-scale casinos

Under a scenario that allows full-scale commercial gaming at six racetrack casinos, in addition to other regulatory changes, gaming revenue is expected to reach \$464 million (within a range of \$425 million to \$502 million). However, in order to reach this amount, significant capital investment would be required at all six racetrack casinos in order to stimulate the levels of demand needed. Other regulatory changes, like the approval of casino complimentarys and all-day (24/7) casino operations are also important factors that help reach the forecasted amount.

**Figure 1: Gaming revenue projections**

	Current	Low	Base	High
Slot gaming revenue	230,200,000	348,633,734	373,030,067	395,250,982
Table gaming revenue	0	76,561,643	91,460,845	106,545,917
<b>Total gaming revenue</b>	<b>230,200,000</b>	<b>425,195,377</b>	<b>464,490,912</b>	<b>501,796,898</b>

Source: Union Gaming

### Incremental gaming revenue at racetrack casinos

The base-case forecast of \$464 million represents a \$234 million, or 102%, increase in gaming revenue relative to 2018. Average gaming revenue for each of the six racetrack casinos in the base-case scenario is \$77 million, which compares to average 2018 gaming revenue for each of the five existing racetrack casinos of \$46 million. This represents an average increase in gaming revenue per racetrack of 68%.

Importantly, the majority of the incremental \$234 million in gaming revenue would come from customers who live in Texas, rather than in-state. The three racetrack casinos in eastern New Mexico, Clovis (assumed), Sunland Park, and Zia Park, would capture most of this incremental gaming revenue coming from residents of Texas.

### Benefits to the state and local communities

#### Gaming taxes

Under the base-case scenario, incremental gaming taxes are anticipated to be \$50.9 million, with another \$28.6 million in incremental horsemen's purses. Additionally, these taxes may supplement any potential reduction in revenue sharing payments from tribal casinos as a result of a potential shift to Class II machines. Any revenues from Class II machines are not subject to tribal revenue sharing agreements contained in the 2015 compacts between the state and each tribe.

**Figure 2: Gaming revenue and tax projections**

	Low	Base	High
<b>Total gaming revenue forecast</b>	<b>425,195,377</b>	<b>464,490,912</b>	<b>501,796,898</b>
Incremental slot tax revenue (26%)	30,792,771	37,135,817	42,913,255
Incremental table tax revenue (15%)	11,484,246	13,719,127	15,981,888
<b>Incremental tax revenue to the state</b>	<b>42,277,017</b>	<b>50,854,944</b>	<b>58,895,143</b>
Incremental horsemen's purses (20%)	23,686,747	28,566,013	33,010,196

Source: Union Gaming

### Economic and employment impact

To estimate economic impact, we analyzed the impact of our projected incremental revenues, by segment. We used the most recently available data for New Mexico economic activity by major category and then utilizing the IMPLAN model of additional inputs creating incremental direct, indirect and induced outputs we measured expected economic growth in New Mexico only. Our analysis shows a total economic impact of approximately \$521 million, and a total employment impact of 4,029 full-time equivalent (FTE) jobs.

**Figure 3: Economic and employment impact under base-case scenario**

<b>Economic impact</b>	
Direct	327,605,143
Indirect	112,394,300
Induced	80,969,570
<b>Total economic impact</b>	<b>520,969,013</b>
<b>Employment impact</b>	
Direct	2,566
Indirect	889
Induced	574
<b>Total employment impact</b>	<b>4,029</b>

*Source: Union Gaming*

It is important to note that the above economic and employment impacts do not include what would be substantial incremental positive impacts from capital deployed for construction purposes. Namely, in order to reach the base-case gaming revenue forecast, most, if not all, of the existing racetrack casinos would need to embark on significant capital projects in order to improve their facilities to a certain level that would stimulate the appropriate levels of demand.

## **Gaming in New Mexico**

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In 1990, the state of New Mexico, via Governor Bruce King, began the process of negotiating gaming compacts with several different tribes following the 1988 passage of the Indian Gaming Regulatory Act (IGRA) at the federal level. Following various lawsuits at both the in-state and federal levels, as well as the election of Governor Gary Johnson, 13 gaming compacts were finally consummated in 1997.

By 1999 the New Mexico State Legislature adopted the Compact Negotiation Act to structure future negotiations between the state and tribes. In 2001 the tribal gaming compacts were renegotiated with 11 of the original 13 tribes signing the new gaming compacts. In 2003 the Navajo Nation signed the 2001 gaming compact, which was then followed by the 2004 and 2005 signings of the 2001 gaming compact by the two tribes that had not initially signed the 2001 gaming compact. Amendments to the 2001 gaming compact were approved by the New Mexico State Legislature in 2007 and were signed by nine gaming tribes and two non-gaming tribes.

### **Existing casino supply: slots, tables, and hotel rooms**

We have estimated the total number of slot machines, table games, and hotel rooms currently in operation across the state's five racetrack casinos and 21 tribal casinos. The five racetrack casinos operate a total of 3,014 slot machines, no table games, and have 232 hotel rooms. The tribal casinos operate a total of 16,581 slot machines, 242 table games, and have 1,650 hotel rooms.

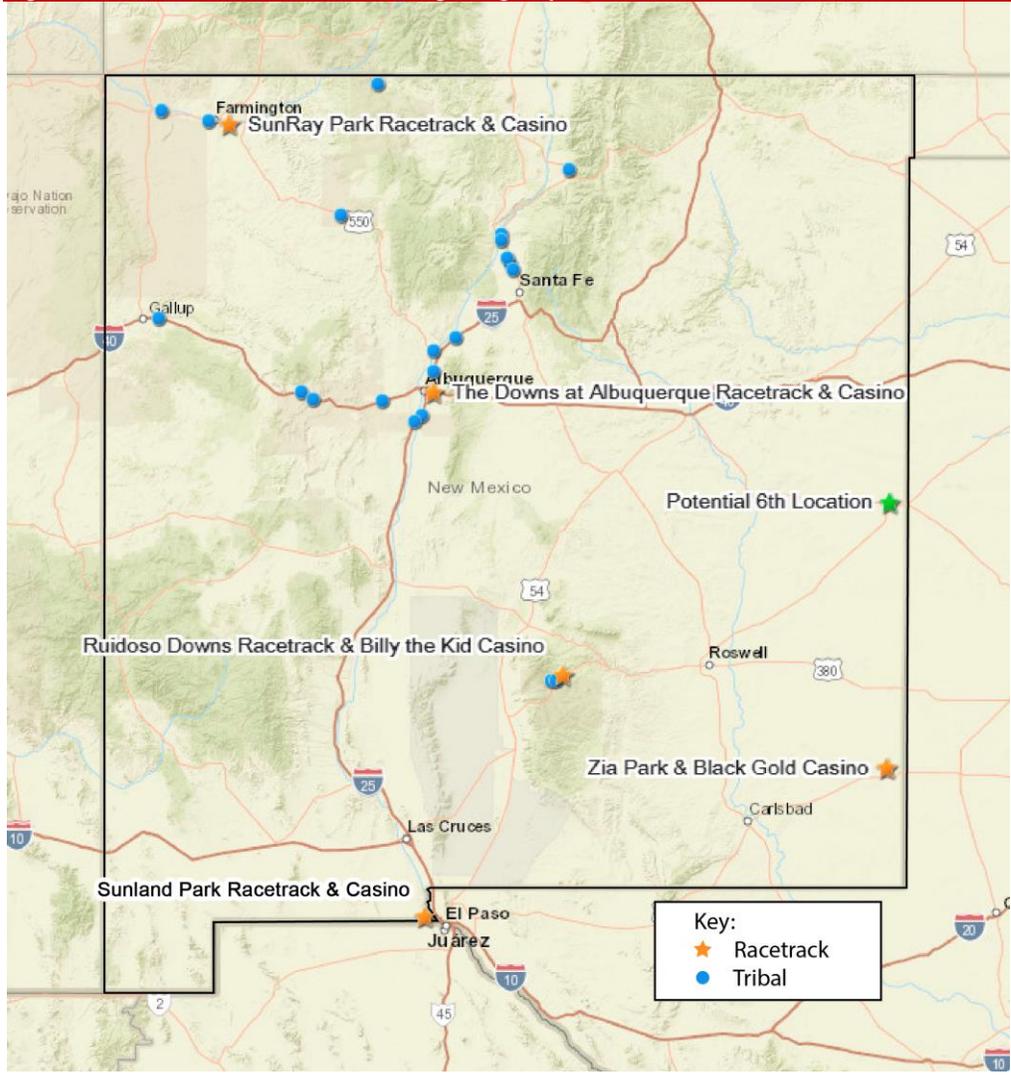
Of the 19,595 slot machines in the state, only 15% are operated at racetrack casinos, while 85% operated at tribal casinos. Table games are, of course, exclusive to the tribal casinos. Only two racetracks have hotels, and they collectively account for just 12% of total hotel room supply relative to 88% at the tribal casinos.

**Figure 4: New Mexico racetrack and tribal gaming supply**

<b>Name</b>	<b>Racetrack / Tribe</b>	<b>Slots</b>	<b>Tables</b>	<b>Hotel</b>
Ruidoso Downs Racetrack & Billy the Kid Casino	Racetrack	325	0	0
Sunland Park Racetrack & Casino	Racetrack	773	0	78
SunRay Park Racetrack & Casino	Racetrack	476	0	0
The Downs at Albuquerque Racetrack & Casino	Racetrack	690	0	0
Zia Park Racetrack & Casino	Racetrack	750	0	154
<i>Racetrack casino sub-total</i>		<i>3,014</i>	<i>0</i>	<i>232</i>
Apache Nugget Travel Center and Casino	Jicarilla Apache	130	0	0
Black Mesa Casino	San Felipe Pueblo	680	7	0
Buffalo Thunder Resort and Casino	Pojoaque Pueblo	1,200	18	395
Camel Rock Casino	Tesuque Pueblo	550	5	0
Casino Apache Travel Center	Mescalero Apache	380	10	0
Cities of Gold Casino	Pojoaque Pueblo	503	0	0
Dancing Eagle Casino	Laguna Pueblo	600	0	0
Fire Rock Casino	Navajo Nation	1,100	7	0
Flowing Water Casino	Navajo Nation	130	0	0
Inn of the Mountain Gods	Mescalero Apache	840	35	273
Isleta Resort and Casino	Isleta Pueblo	1,743	34	201
Northern Edge Casino	Navajo Nation	750	10	0
Ohkay Casino	Ohkay Owingeh	700	3	101
Palace West Casino	Isleta Pueblo	261	0	0
Route 66 Casino	Laguna Pueblo	1,375	34	154
Sandia Casino	Sandia Pueblo	2,300	38	228
Santa Ana Star Casino	Santa Ana Pueblo	1,600	21	0
Santa Claran Casino Hotel	Santa Clara Pueblo	680	6	122
Sky City Casino	Acoma Pueblo	669	10	134
Taos Mountain Casino	Taos Pueblo	200	4	0
Wild Horse Casino and Hotel	Jicarilla Apache	190	0	42
<i>Tribal casino sub-total</i>		<i>16,581</i>	<i>242</i>	<i>1,650</i>
<b>Total racetrack and tribal</b>		<b>19,595</b>	<b>242</b>	<b>1,882</b>

Source: New Mexico Gaming Control Board, Union Gaming

**Figure 5: New Mexico racetrack and tribal gaming map**



Source: Union Gaming

## Potential sixth license

The New Mexico Gaming Control Board is considering the issuance of a 6th racetrack casino license as allowed per the Indian Gaming Compact. For the purposes of this analysis, the 6th racetrack casino license is anticipated to be located in Clovis, given a preponderance of recent RFP submissions were for this location and the Racing Commission's feasibility study suggested a racetrack casino in Clovis would generate the most gaming revenue. As noted in the introduction, inclusion of this analysis and the impact on the potential revenue and tax generation by a Clovis location should not imply the members of the Consortium endorse or support issuance of such a license.

Clovis is in east-central New Mexico on the Texas border. Importantly, geographic realities suggest that a significant majority of any revenues generated at a Clovis casino would come from residents of Texas. Further, these same geographic realities also suggest that there should be virtually no cannibalization of revenues at any of the tribal casinos, although revenue impacts at Zia Park are likely and some lesser impacts to Ruidoso Downs may occur.

The following lists detail the distances and drive times between Clovis and other New Mexico casinos, as well as detailing the drive times between these properties and what we expect the most relevant Clovis feeder markets will be. We also refer to the map herein that denotes all racetrack and tribal gaming facilities, the primary feeder markets in Texas, as well as Clovis.

- Clovis <-> Hobbs (Zia Park): 125 miles, 2 hours and 12 minutes
- Clovis <-> Ruidoso (Ruidoso Downs): 180 miles, 2 hours and 57 minutes
- Clovis <-> Albuquerque: 221 miles, 3 hours 29 minutes
- Clovis <-> Santa Fe: 216 miles, 3 hours and 32 minutes

The above list demonstrates that the drive-time between Clovis and the closest in-state casino, Zia Park in Hobbs, is approximately 2 hours and 12 minutes, with the balance at approximately 3 hours or more. As such, and given the sparsely populated route between Clovis and Hobbs, a casino in Clovis would generally not cannibalize a material number of in-state customers. However, when analyzing distances and drive-times between Clovis and Hobbs and various feeder markets in Texas, it is apparent that modest cannibalization of Zia Park customers from the Lubbock, TX feeder market could be expected.

- Clovis <-> Amarillo, TX: 103 miles, 1 hour and 41 minutes
- Clovis <-> Lubbock, TX: 98 miles, 1 hour and 35 minutes
- Clovis <-> Midland-Odessa, TX: 201 miles, 3 hours and 15 minutes
- Hobbs (Zia Park) <-> Amarillo, TX: 219 miles, 3 hours and 30 minutes
- Hobbs (Zia Park) <-> Lubbock, TX: 113 miles, 1 hour and 53 minutes
- Hobbs (Zia Park) <-> Midland-Odessa, TX: 95 miles, 1 hour and 43 minutes

## **Current regulatory limitations**

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The current regulatory construct places the five existing racetrack casinos at a material disadvantage relative to the tribal casinos. This limits the revenue potential of the racetrack casinos, and in turn limits the tax revenue potential for the state.

The racetrack casinos are encumbered relative to their tribal peers by:

1. A requirement to hold a minimum of four live race days per week with a minimum of nine races each race day
2. A limitation of no table games
3. A limitation of 600 slot machines, or up to 750 if another racetrack casino allocates additional slot machines and receives approval of both the New Mexico Gaming Control Board and the New Mexico Racing Commission
4. A requirement that slot machines can only be operated on days when the racetrack holds live race days or simulcasts horse race meets in other locations
5. A limitation to the hours of operations of slot machines of no more than 18 hours per day and 112 hours per week; the weekly limitation of 112 hours equates to an average of no more than 16 hours per day

In contrast to the racetrack casinos, tribes primarily self-regulate as stipulated in the gaming compacts signed with the state. Further, the tribes are not subject to any of the regulatory limitations as highlighted above. Generally speaking, the tribes can offer as many gaming positions of various types (e.g. a spectrum of different table games and slot machines) as demand warrants.

# Gaming revenue projections

## Assumptions

In reaching our forecasts herein, the following assumptions were made:

- Full-scale casino gaming at racetracks is approved, including table games; leading to...
- Significant capital investment at racetrack casinos in order to drive demand
- Sports betting at racetrack casinos is approved
- No sixth casino license is issued
- Unlimited slot and table positions are allowed at each racetrack casino
- A 26% tax rate on slot gaming revenue; 15% tax rate on table gaming revenue
- Casino revenue projections represent the first fully stabilized year of optimal revenue after a gradual ramp-up period of up to two years
- Rational competitive responses from tribal casinos are expected

## Gaming revenue forecast

Gaming revenue at the existing five racetrack casinos was approximately \$230 million in 2018, a figure which has been broadly flat for three consecutive years, although down from a recent peak of approximately \$265 million in 2015.

Based on a confluence of proprietary demographic, economic, and competitive inputs, as well as the above assumptions, we forecast steady-state racetrack casino gaming revenue to be \$389 million in our base-case scenario. The range in casino gaming revenue, including low and high scenarios is \$355 million to \$421 million.

### Casino gaming revenue and tax projections

The base-case forecast of \$389 million represents a \$159 million, or 69%, increase in gaming revenue relative to 2018. Based on this forecast, average gaming revenue for each of the five racetrack casinos in the base-case scenario is \$77 million, which compares to average 2018 gaming revenue for each of the five existing racetrack casinos of \$46 million.

Under the base-case scenario, incremental gaming taxes are anticipated to be \$32.7 million, with another \$16.1 million in incremental horsemen's purses. This amount of \$32.7 million is additive to the approximately \$60 million paid on existing gaming revenue of \$230 million as of 2018.

**Figure 6: Gaming revenue and tax projections**

	<b>Low</b>	<b>Base</b>	<b>High</b>
Slot gaming revenue	289,170,734	310,516,067	329,685,982
Table gaming revenue	66,222,533	78,708,565	91,197,407
<b>Total gaming revenue</b>	<b>355,393,267</b>	<b>389,224,632</b>	<b>420,883,388</b>
Incremental slot tax revenue (26%)	15,332,391	20,882,177	25,866,355
Incremental table tax revenue (15%)	9,933,380	11,806,285	13,679,611
<b>Incremental tax revenue to the state</b>	<b>25,265,771</b>	<b>32,688,462</b>	<b>39,545,966</b>
Incremental horsemen's purse (20%)	11,794,147	16,063,213	19,897,196

Source: Union Gaming

**Figure 7: Current gaming and tax revenues / revenue sharing**

	Current		Total
	Racetracks	Tribal	
Slot	230,200,000	781,478,527	1,011,678,527
Table	–	–	–
<b>Total</b>	<b>230,200,000</b>	<b>781,478,527</b>	<b>1,011,678,527</b>
Slot Tax Revenue	59,852,000	69,551,589	129,403,589
Table Tax Revenue	–	–	–
<b>Total Tax Revenue to State</b>	<b>59,852,000</b>	<b>69,551,589</b>	<b>129,403,589</b>
Horsemen's Purses (20%)	46,040,000	–	46,040,000

Source: Union Gaming

### Incremental gaming revenue and taxes, including sports betting

Utilizing the base case slot and table gaming revenue forecast in the above section, we highlight the base case incremental slot gaming revenue of \$80.3 million (from \$230.2 million in 2018 to \$310.5 million) and the increase in table games revenue of \$78.7 million (from zero in 2018). In addition to the expansion of traditional casino games in the form of slots and tables, we have also modeled the incremental revenues associated with the expansion of sports betting at racetrack casinos, as well as incremental traditional casino gaming revenue from sports betting customers. We forecast incremental sports betting revenue of approximately \$15.3 million and another \$30.1 million in incremental casino gaming revenue derived from sports betting customers. These amounts of \$15.3 million and \$30.1 million are incremental to the base case scenario of \$234 million in incremental gaming revenue.

With respect to sports betting, it is anticipated that Texas residents will patronize the two existing casinos located in close proximity to the border (at Sunland Park and at Zia Park), as well as Ruidoso Downs which draws a large share of its revenues from Texas residents. The fact that Texas is a primary feeder market of these three locations is significant as legal sports betting does not exist in Texas. These players are likely to contribute to what is referred to in the gaming industry as crossover play. That is to say that sports betting customers from Texas should also generate material amounts of crossover play on traditional casino games as they spend time in New Mexico racetrack casinos.

**Figure 8: Incremental revenue (base case)**

Incremental:	Revenue
Slot gaming revenue	80,316,067
Table gaming revenue	78,708,565
Sports betting gaming revenue	15,287,116
Incremental casino gaming revenue from sports customers	30,069,609
<b>Total</b>	<b>204,381,357</b>

Source: Union Gaming

## New Mexico statewide tax impacts

### Current tax receipts / revenue sharing payments

#### Racetrack casinos

Gaming revenues at racetrack casinos are taxed at a rate of 26% for slots. Tax receipts to the state were approximately \$60 million in FY2018 based on approximately \$230 million in gaming revenue.

#### Tribal casinos

As part of the 2015 Indian Gaming Compact, New Mexico tribal casinos entered into a revenue sharing agreement with the state that, as of FY2019, had a maximum revenue share of 10% (on gaming revenues of \$80 million or higher). It is estimated that the state received approximately \$70 million in revenue sharing payments in FY2018.

Note tribal sharing amounts have varied since compact implementation in 2015 due to disagreements between the tribes and the state. There is no certainty that tribes will continue to contribute \$70 million or more in the future as tribes are only required to share revenues on Class III gaming machines, which is what they currently offer for the most part today. Tribes are not obligated to share revenues from Class II machines and a few tribes have begun to install these machines. Should Class II machines become a larger share of tribal casino offerings, along with table games and sports betting, which also do not require revenue sharing under the compacts, the state may see lower revenues being shared by the tribes in the future.

Union Gaming has seen the evolution of Class II games since being introduced into the market. The technological advances for Class II systems, as well as the improvement in game content offered on the machines has progressed to the point where these machines can match the game performance of Class III machines. Their improved performance makes the potential for the state to see declining revenues from compacts a real possibility.

**Figure 9: Tribal revenue sharing agreement per 2015 Indian Gaming Compact**

Annual Adjusted Net Win	July 1, 2015 – June 30, 2018	July 1, 2018 – June 30, 2030	July 1, 2030 – June 30, 2037
Under \$20 million:	2% of the first \$6 million, and 8.50% on the rest	2% of the first \$6 million, and 8.75% on the rest	2% of the first \$6 million, and 9.50% on the rest
\$20-\$40 million:	8.50%	8.75%	9.50%
\$40-\$80 million:	9.00%	9.50%	10.25%
More than \$80 million:	9.00%	10.00%	10.75%

Source: New Mexico Gaming Control Board

### Projected incremental tax revenue

Based on the incremental levels of gaming revenues detailed herein, estimated *incremental* taxes to the state as paid by the racetrack casinos in a scenario where gaming is expanded, are nearly \$42 million. When including the approximately \$60 million currently paid, total estimated gaming taxes paid to the state by the racetrack casinos are approximately \$102 million.

**Figure 10: Incremental revenue and incremental tax projections (base case)**

Incremental:	Revenue	Tax	Tax rate
Slot gaming revenue	80,316,067	20,882,177	26%
Table gaming revenue	78,708,565	11,806,285	15%
Sports betting gaming revenue	15,287,116	1,528,712	10%
Incremental casino gaming revenue from sports customers	30,069,609	7,517,402	25%
<b>Total</b>	<b>204,381,357</b>	<b>41,734,576</b>	

Source: Union Gaming

## Gaming revenue projections with sixth license

### Assumptions

In reaching our forecasts herein, the following assumptions were made:

- Full-scale casino gaming at racetracks is approved, including table games; leading to...
- Significant capital investment at racetrack casinos in order to drive demand
- A 6th racetrack casino license is issued (in Clovis)
- Sports betting at racetrack casinos is approved
- Significant capital investment is made at each racetrack casino in order to reach full potential
- Unlimited slot and table positions are allowed at each racetrack casino
- A 26% tax rate on slot gaming revenue; 15% tax rate on table gaming revenue
- Casino revenue projections represent the first fully stabilized year of optimal revenue after a gradual ramp-up period of up to two years
- Rational competitive responses from tribal casinos are expected

### Gaming revenue forecast

Gaming revenue at the existing five racetrack casinos was approximately \$230 million in 2018, a figure which has been broadly flat for three consecutive years, although down from a recent peak of approximately \$265 million in 2015.

Based on a confluence of proprietary demographic, economic, and competitive inputs, as well as the above assumptions, we forecast steady-state racetrack casino gaming revenue to be \$464 million in our base-case scenario. The range in casino gaming revenue, including low and high scenarios is \$425 million to \$502 million.

### Casino gaming revenue and tax projections

The base-case forecast of \$464 million represents a \$234 million, or 102%, increase in gaming revenue relative to 2018. Based on this forecast, average gaming revenue for each of the six racetrack casinos in the base-case scenario is \$77 million, which compares to average 2018 gaming revenue for each of the five existing racetrack casinos of \$46 million. This represents an average increase in gaming revenue per racetrack of 68%.

Under the base-case scenario, incremental gaming taxes are anticipated to be \$50.9 million, with another \$28.6 million in incremental horsemen's purses. This amount of \$50.9 million is additive to the approximately \$60 million paid on existing gaming revenue of \$230 million as of 2018.

**Figure 11: Gaming revenue and tax projections**

	<b>Low</b>	<b>Base</b>	<b>High</b>
Slot gaming revenue	348,633,734	373,030,067	395,250,982
Table gaming revenue	76,561,643	91,460,845	106,545,917
<b>Total gaming revenue</b>	<b>425,195,377</b>	<b>464,490,912</b>	<b>501,796,898</b>
Incremental slot tax revenue (26%)	30,792,771	37,135,817	42,913,255
Incremental table tax revenue (15%)	11,484,246	13,719,127	15,981,888
<b>Incremental tax revenue to the state</b>	<b>42,277,017</b>	<b>50,854,944</b>	<b>58,895,143</b>
Incremental horsemen's purses (20%)	23,686,747	28,566,013	33,010,196

Source: Union Gaming

**Figure 12: Current gaming and tax revenues / revenue sharing**

	Current		
	Racetracks	Tribal	Total
Slot	230,200,000	781,478,527	1,011,678,527
Table	–	–	–
<b>Total</b>	<b>230,200,000</b>	<b>781,478,527</b>	<b>1,011,678,527</b>
Slot Tax Revenue	59,852,000	69,551,589	129,403,589
Table Tax Revenue	–	–	–
<b>Total Tax Revenue to State</b>	<b>59,852,000</b>	<b>69,551,589</b>	<b>129,403,589</b>
Horsemen's Purses (20%)	46,040,000	–	46,040,000

Source: Union Gaming

### Incremental gaming revenue and taxes, including sports betting

Utilizing the base case slot and table gaming revenue forecast in the above section, we highlight the base case incremental slot gaming revenue of \$142.8 million (from \$230.2 million in 2018 to \$373.0 million) and the increase in table games revenue of \$91.5 million (from zero in 2018). In addition to the expansion of traditional casino games in the form of slots and tables, we have also modeled the incremental revenues associated with the expansion of sports betting at racetrack casinos, as well as incremental traditional casino gaming revenue from sports betting customers. We forecast incremental sports betting revenue of approximately \$19.5 million and another \$37.1 million in incremental casino gaming revenue derived from sports betting customers. These amounts of \$19.5 million and \$37.1 million are incremental to the base case scenario of \$234 million in incremental gaming revenue.

Texas residents will contribute to even higher sports betting revenues if the potential 6th racetrack casino is opened in Clovis. Further, we expect incremental sports betting customer crossover play on traditional casino games at the eastern New Mexico casinos as they will largely target residents living over an hour or more away, leading to some trips being made by sports bettors who would otherwise not travel such a distance to visit a casino alone.

**Figure 13: Incremental revenue (base case)**

Incremental:	Revenue
Slot gaming revenue	142,830,067
Table gaming revenue	91,460,845
Sports betting gaming revenue	19,510,854
Incremental casino gaming revenue from sports customers	37,104,429
<b>Total</b>	<b>290,906,195</b>

Source: Union Gaming

### Projected incremental tax revenue

Based on the incremental levels of gaming revenues detailed herein, estimated *incremental* taxes to the state as paid by the racetrack casinos in a scenario where gaming is expanded, are in excess of \$62 million. When including the approximately \$60 million currently paid, total estimated gaming taxes paid to the state by the racetrack casinos are approximately \$122 million.

**Figure 14: Incremental revenue and incremental tax projections (base case)**

Incremental:	Revenue	Tax	Tax rate
Slot gaming revenue	142,830,067	37,135,817	26%
Table gaming revenue	91,460,845	13,719,127	15%
Sports betting gaming revenue	19,510,854	1,951,085	10%
Incremental casino gaming revenue from sports customers	37,104,429	9,276,107	25%
<b>Total</b>	<b>290,906,195</b>	<b>62,082,136</b>	

Source: Union Gaming

## Analysis of other potential regulatory changes

### Incremental gaming revenue is driven by a variety of factors

For the scenario where a sixth license is added, we estimate incremental slot and table revenues are approximately \$142.8 million and \$91.4 million, respectively, or a total of \$234.2 million. It is important to consider that currently unfulfilled gaming demand alone would not equate to this amount. However, this amount of incremental gaming revenue can be reached, in part via unfulfilled demand, as well as a mix of other regulatory factors that will stimulate further demand. These factors include:

- Approval of alcohol on casino floors
- Approval of all-day (24/7) casino operations
- Approval of casino complimentarys (comps)
- Approval of ATMs on casino floors
- Unlimited slot machines
- Unlimited table games

### Revenue impact by driver

Of the forecasted incremental gaming revenue of \$234.2 million, the following figure highlights how much of the \$234.2 million we expect comes from each of the potential regulatory changes noted above. Naturally, tapping currently unfulfilled demand in the form of unlimited slots and table games are the biggest contributors, at \$42.8 million and \$78.0 million, respectively. Collectively, unlimited slots and table games account for approximately 52% of incremental gaming revenue. The balance is led by casino comps at \$42.2 million (or an 18% contributor to incremental gaming revenue), followed by 24-hour casino operators at \$35.7 million (15%).

These figures are purely estimates based on our review and analysis of operations in other jurisdictions, and conversations we have had with market participants in New Mexico and in other states. Results will vary by location due to the idiosyncrasies found in customer bases at all casinos. Some locations may see greater relative impacts in certain categories due to competitors not having these restrictions on their operations, while others will see greater impact in other areas due to a regional market's residents having traditional preferences for different games. These projections are intended to be a guide as to how each individual driver may impact gaming revenues should all changes be approved and the racetrack casinos all significantly invest to expand into full casinos.

**Figure 15: Impact on revenue in (\$mm)**

	Incremental gaming revenue	Alcohol	24/7	Comps	ATM	Unlimited Slots	Table Games
Slot gaming revenue	142.8	9.9	35.7	28.5	7.1	42.8	18.5
Table gaming revenue	91.4	13.7	0	13.7	4.5	0	59.4
<b>Total</b>	<b>234.2</b>	<b>23.7</b>	<b>35.7</b>	<b>42.2</b>	<b>11.7</b>	<b>42.8</b>	<b>78.0</b>

Source: Union Gaming

## Economic impact

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### IMPLAN

We used IMPLAN to project the economic impacts of full-scale casino expansion at racetrack casinos in New Mexico. IMPLAN is an economic analysis tool that takes raw data from multiple sources such as the Bureau of Economic Analysis, the Census, and the Bureau of Labor Statistics, and is put together in tables which detail the transactions that take place between industries, households, businesses, and governments. These tables, known as Input-Output Tables, provide a model of the interdependence between various categories of producing and consuming sectors of the entire economy.

Using these tables, we input the expected growth in revenue to come from a new project, or in this case projects, and model expected changes to other categories due to growth in economic activity in the targeted category. These changes take place from both business-to-business purchases, as well as increased income provided to businesses and employees, which in turn lead to additional activity which may be unrelated to the modeled increases. These projections are estimates based on government data, which can be in some ways widely defined and therefore subject to some modest adjustments depending upon the circumstances of the intended projects. Total economic impact estimates the growth in the economy as a whole in the targeted region, from which one would expect incremental taxes to be collected and for more robust opportunities for residents to find jobs and for local businesses to generate more revenues.

### Economic impact of full-scale casinos

To estimate economic impact, we analyzed the impact of our projected incremental revenues, by segment. We used the most recently available data for New Mexico economic activity by major category and then utilizing the IMPLAN model of additional inputs creating incremental direct, indirect and induced outputs we measured expected economic growth in New Mexico only.

Each major category in the IMPLAN model has a different multiplier to measure indirect growth, which is economic activity generated by suppliers and ancillary businesses which benefit from the addition of the new business in the local and regional economy. For example, additional revenue from a restaurant increases the business levels of food suppliers, furniture retailers, delivery services, etc. Additionally, each major category has a different multiplier which measures induced growth, which is “second level” growth that occurs due to the introduction of more economic activity into the economy as a whole. New growth from both the direct and indirect sources provide additional income to workers and businesses in the region and that additional income is spent driving further economic growth at businesses which would otherwise be generally unrelated to a casino project in the proposed location.

In general, the largest beneficiaries of indirect and induced economic impact are real estate related, from workers buying or renting new residences. Professional services also see large incremental economic benefit from the service needs of the new industry and the growth it creates in other business segments at the casinos, and from the needs of the newly created employees with income to spend on services operating in their communities such as spending at dentists, doctors, and retail outlets.

### Economic impact at five existing locations

Our analysis based on adding full casinos at the five existing racetracks shows a total economic impact of approximately \$366 million, and a total employment impact of 3,212 full-time equivalent (FTE) jobs.

**Figure 16: Economic and employment impact under base-case scenario – existing racetracks**

<b>Economic impact</b>	
Direct	230,286,943
Indirect	78,641,694
Induced	57,451,088
<b>Total economic impact</b>	<b>366,379,725</b>
<b>Employment impact</b>	
Direct	2,034
Indirect	720
Induced	458
<b>Total employment impact</b>	<b>3,212</b>

Source: Union Gaming

### Economic impact at existing locations and sixth license in Clovis

Our analysis shows a total economic impact of approximately \$521 million, and a total employment impact of 4,029 full-time equivalent (FTE) jobs.

**Figure 17: Economic and employment impact under base-case scenario – sixth license added**

<b>Economic impact</b>	
Direct	327,605,143
Indirect	112,394,300
Induced	80,969,570
<b>Total economic impact</b>	<b>520,969,013</b>
<b>Employment impact</b>	
Direct	2,566
Indirect	889
Induced	574
<b>Total employment impact</b>	<b>4,029</b>

Source: Union Gaming

## **Appendix – Low Investment Projection**

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We also considered a low investment case projection for New Mexico’s racetracks should they be allowed to expand to full casinos. In our previously detailed projections, we assumed every location would invest significant capital in order to compete with other existing casinos and to further attract patrons from outside their local area, especially from Texas. We were also asked to contemplate what the increased revenue could be if the racetracks expanded minimally in order to add table games and perhaps some modest additional slot machines, but for the most part only had modest investments to expand their current facilities. This would mostly result in continuing to use existing casino and racing space to add table games, and it would mean little or no additional non-gaming amenities, nor additional hotel rooms.

### **Assumptions**

In reaching our forecasts herein, the following assumptions were made:

- Full-scale casino gaming at racetracks is approved, including table games
- A 6th racetrack casino license is issued (in Clovis)
- Sports betting at racetrack casinos is approved
- Unlimited slot and table positions are allowed at each racetrack casino; however, we project minimal slot increases and modest table offerings for most locations
- A 26% tax rate on slot gaming revenue; 15% tax rate on table gaming revenue
- Racetracks respond to the changes with modest additional investments, mostly to build out areas to allow them to host live table games and provide patrons with access to the new gaming areas
- Casino revenue projections represent the first fully stabilized year of optimal revenue after a gradual ramp-up period of up to two years
- Rational competitive responses from tribal casinos are expected

### **Gaming revenue forecast**

Based on a confluence of proprietary demographic, economic, and competitive inputs, as well as the above assumptions, we forecast steady-state racetrack casino gaming revenue to be \$400 million in our base-case scenario under these limited investment assumptions. The range in casino gaming revenue, including low and high scenarios is \$379 million to \$420 million. This represents approximately 14% lower gaming revenues for the base-case than our projections with greater investment at the racetracks.

### **Casino gaming revenue and tax projections**

The base-case forecast of \$400 million represents a \$170 million, or 74%, increase in gaming revenue relative to FY18. Based on this forecast, average gaming revenue for each of the six racetrack casinos in the base-case scenario is \$67 million, which compares to average 2018 gaming revenue for each of the five existing racetrack casinos of \$46 million. Under the base-case scenario, incremental gaming taxes are anticipated to be \$36 million, with another \$18 million in incremental horsemen’s purses.

Ultimately, we don’t expect this low-investment scenario to be pursued by all racetracks. It is possible some locations may invest and develop their casino operations conservatively for a few years to observe growth in play levels and potential return on investment from expanded gaming. We expect most or all locations to eventually find significant investment necessary to attract the highest value patrons, with such investments already having been made by many of New Mexico’s tribal casinos.

**Figure 18: Gaming revenue and tax projections**

	Low	Base	High
Slot gaming revenue	313,557,540	321,993,072	330,423,767
Table gaming revenue	65,508,252	77,732,229	90,056,636
<b>Total gaming revenue</b>	<b>379,065,792</b>	<b>399,725,301</b>	<b>420,480,402</b>
Incremental slot tax revenue (26%)	21,672,960	23,866,199	26,058,179
Incremental table tax revenue (15%)	9,826,238	11,659,834	13,508,495
<b>Incremental tax revenue to the state</b>	<b>31,499,198</b>	<b>35,526,033</b>	<b>39,566,675</b>
Incremental horsemen's purse (20%)	16,671,508	18,358,614	20,044,753

Source: Union Gaming

### Incremental gaming revenue and taxes, including sports betting

Utilizing the base case slot and table gaming revenue forecast in the above section, we highlight the base case incremental slot gaming revenue of \$91.8 million (from \$230.2 million in 2018 to \$322.0 million) and the increase in table games revenue of \$77.7 million (from zero in 2018). In addition to the expansion of traditional casino games in the form of slots and tables, we have also modeled the incremental revenues associated with the expansion of sports betting at racetrack casinos, as well as incremental traditional casino gaming revenue from sports betting customers. We maintain our forecast of incremental sports betting revenue of approximately \$19.5 million and another \$37.1 million in incremental casino gaming revenue derived from sports betting customers.

**Figure 19: Current gaming and tax revenues**

	Current		
	Racetracks	Tribal	Total
Slot	230,200,000	781,478,527	1,011,678,527
Table	–	–	–
<b>Total</b>	<b>230,200,000</b>	<b>781,478,527</b>	<b>1,011,678,527</b>
Slot Tax Revenue	59,852,000	69,551,589	129,403,589
Table Tax Revenue	–	–	–
<b>Total Tax Revenue to State</b>	<b>59,852,000</b>	<b>69,551,589</b>	<b>129,403,589</b>
Horsemen's Purse (20%)	46,040,000	–	46,040,000

Source: Union Gaming

**Figure 20: Incremental revenue (base case)**

Incremental:	Revenue
Slot gaming revenue	91,793,072
Table gaming revenue	77,732,229
Sports betting gaming revenue	19,510,854
Incremental casino gaming revenue from sports customers	37,104,429
<b>Total</b>	<b>226,140,583</b>

Source: Union Gaming

**Figure 21: Incremental tax (base case)**

Incremental:	Revenue
Slot gaming revenue (26%)	23,866,199
Table gaming revenue (15%)	11,659,834
Sports betting gaming revenue (10%)	1,951,085
Incremental casino gaming revenue from sports customers (25%)	9,276,107
<b>Total</b>	<b>46,753,226</b>

Source: Union Gaming