

**Evaluation of Economic Impact Analysis: Seminole Tribe of FL
Issues & Concerns
ADDENDUM REGARDING CONVENTION BUSINESS**

Before the widespread expansion of legalized gambling, the primary purpose of travelling to casino-based resorts was for the opportunity to gamble. This situation has changed in recent years. According to a study by Morrison, Braunlich, Cai and O’Leary, “With casinos becoming accessible to a much wider population, casino resorts are now competing with other resort types and attracting a much broader share of the vacation market.” This direct competition with other resorts and luxury hotels will cause a shift in customers from existing Florida-based resorts and convention centers to the expanded facilities contemplated by the Seminole Tribe.¹ This addendum attempts to address the potential economic impact of this shift.

In conducting this analysis, use was made of the data contained within *Hard Rock Hotel Holdings, LLC Annual Report* filed with the Securities and Exchange Commission for the fiscal year ending December 31, 2008. This limited liability company was formed to acquire Hard Rock Hotel, Inc., which owned the Hard Rock Hotel & Casino in Las Vegas, Nevada. While the registered trademark is controlled by the Seminole Tribe of Florida, the physical hotel/casino in Las Vegas is not. The physical hotel/casino in Las Vegas is currently the sole generator of the LLC’s revenues.

The LLC’s stated belief is that the Hard Rock Hotel & Casino in Las Vegas is a “premier destination entertainment resort.” Its target customer base is between the ages of 25 and 45 – that is, youthful individuals who seek an “entertainment and gaming experience with the services and amenities associated with a boutique luxury resort hotel.” The LLC’s marketing efforts are targeted at both the visitor market (tourists and business travelers) as well as local patrons. In this regard, many of its targeted customers reside in California. According to the Annual Report, the Hard Rock Hotel & Casino hosts a number of corporate events, conventions, banquets and private parties for up to 3,000 persons. As of December 31, 2008, the LLC had 1,176 full-time employees and 488 on-call employees.

To the extent that the Seminole Tribe has given the LLC the exclusive, royalty-free and perpetual right to use and exploit the “Hard Rock Hotel” and the “Hard Rock Casino” trademarks in connection with hotel/casino operations or casino operations in the State of Illinois and all states and possessions of the United States that are located west of the Mississippi River, including the entire state of Louisiana, but excluding Texas, except for the Greater Houston area, it can be surmised that the Seminole Tribe does not perceive these areas to be among its prime target customer base. On the other hand, the eastern coast of the United States appears to be fully within the LLC’s prime target customer base.

¹ In announcing its fourth quarter losses, Harrah’s Entertainment Inc. pointed to lower traffic volume and declining spend per visitor, but noted particularly “weakness in the corporate-meeting business.”

The LLC is undertaking a \$766 million initiative for the expansion, renovation and refurbishment of the Hard Rock Hotel & Casino in Las Vegas over a more than two-year period. This compares to the \$2.9 billion contemplated by the Seminole Tribe at five facilities in less than twelve months. While the Seminole Tribe did not specify a specific date for the initiation or completion of the various capital investments in its Economic Impact Analysis, it is assumed for the purpose of this addendum that completion occurs within eighteen months.

Because the Seminole Tribe’s Economic Impact Analysis indicates that the Tribe will not proceed with the capital expansion in the absence of the authorization for table gaming, it is important to consider the compact’s impact on competing businesses. The first issue is to determine the amount of **convention-related cannibalization** from other Florida entities that can be expected from the proposed master-planned resort development. This analysis generally *excludes* the impact associated with the table game expansion, particularly as it relates to attendance by residents from the surrounding communities.

According to the Encyclopedia of Tourism, the term “convention business” is used to “describe any commercial activity that results from travel for the purpose of attending a convention, congress, exposition, trade show or other similar assembly, whether regional, national, continental or global in scope, organized on a regular or occasional basis. Along with corporate meetings, which refer to smaller gatherings of employees from single organizations, it comprises the segment of business tourism known as the conference and meetings market.” For the purpose of this addendum, the terms “convention” or “convention-related” has the meaning described above.

Several studies have found that casino resort vacationers are more likely to stay within the confines of the resort than other vacationers. Therefore, a decision to go to a casino resort will likely affect more leisure dollars than just lodging. With this in mind, composite spending packages were developed for the low estimate based on recent Florida experience. The spending packages include lodging, food and retail expenditures for goods, services and basic leisure activities – but exclude the expenses of travel to and from the destination.² The portion of expenditures related to lodging costs per night were considerably less than the reported rates for either the Hard Rock Hollywood or Hard Rock Las Vegas casino resorts. The dollar values associated with shifted activity reflect these composite spending packages. The high estimate uses some of the same underlying assumptions, but is based on the incremental impacts shown in the Seminole Tribe’s Economic Impact Analysis.

Despite the naming conventions, both the high and low estimates can be considered conservative projections of the direct losses that can be expected by competing hotels and motels for convention-related lodging and associated expenditures. No multipliers have been used to take account of indirect losses.

<u>Low Dollar Value</u>	<u>High Dollar Value</u>	<u>Avg Dollar Value</u>	
\$ 58,399,741	\$ 61,451,093	\$ 59,925,417	<i>Convention-Related Cannibalization</i>

² Several studies have found that tourists who gamble – particularly international visitors – spend more money than the average tourist on their vacations. This phenomenon is not addressed in the basic spending package.

The second issue is to determine the amount of **leisure-related cannibalization** from other Florida entities that can be expected from the proposed master-planned resort development. This analysis also *excludes* the impact associated with the table game expansion. Once again, the high and low estimates can be considered conservative projections of the direct losses that can be expected by competing hotels and motels for convention-related lodging and associated expenditures. No multipliers have been used to take account of indirect losses, and the methodology was similar to the explanation provided above. A key difference is that lower rates of cannibalization are assumed for leisure travel. This assumption is based on several studies that found the main attraction for a casino-based vacation is the opportunity to gamble.

<u>Low Dollar Value</u>	<u>High Dollar Value</u>	<u>Avg Dollar Value</u>	
\$ 36,939,250	\$ 38,869,304	\$ 37,904,277	<i>Leisure-Related Cannibalization</i>

The **total minimum shift of business** from competing hotels and motels for convention-related lodging and associated expenses to the expanded Seminole facilities is shown below. The stated losses do not include the impacts to other attractions, pari-mutuel facilities, equipment and room rental at convention centers, or any activities that would have been chosen by residents from surrounding communities in the casino's absence.

<u>Low Dollar Value</u>	<u>High Dollar Value</u>	<u>Avg Dollar Value</u>	
\$ 58,399,741	\$ 61,451,093	\$ 59,925,417	<i>Convention-Related Cannibalization</i>
\$ 36,939,250	\$ 38,869,304	\$ 37,904,277	<i>Leisure-Related Cannibalization</i>
<u>\$ 95,338,991</u>	<u>\$ 100,320,397</u>	<u>\$ 97,829,694</u>	<i>Total Business Shift</i>

Although sales tax applies to spending by patrons at the non-gaming Seminole-operated facilities such as restaurants, retail, lodging and entertainment, tribal immunity prevents the enforcement of the collection and remittance of sales tax. This means that any business shift from Florida convention-related businesses to the expanded Seminole facilities will come at the expense of **foregone sales taxes** that the state would have otherwise collected. These figures do not include foregone sales tax revenues from *current* business operations.

	<u>Low Dollar Value</u>	<u>High Dollar Value</u>	<u>Avg Dollar Value</u>
STATE SALES TAX LOSS FROM BUSINESS SHIFT:	\$ 5,720,340	\$ 6,019,224	\$ 5,869,782

Florida businesses in the convention and lodging industry will also be at a competitive disadvantage to the expanded Seminole-operated facilities. The Seminole Tribe not only sells items free from sales taxation, but the Tribe and any of its solely owned entities purchase on a sales tax-exempt basis as well.

The pari-mutuel facilities that operate slot machines provide an example of the challenge this creates. Currently, the slot machines at pari-mutuel facilities have a 50% tax rate on the net income per machine. Similar to the sales tax situation described above, slot machine earnings at

Seminole Tribe's facilities are not taxed. This simple difference provides the Tribe with a \$272.5 million tax advantage once the expansion plan is completed.

Table: Foregone Tax Collections Related to Slots

SLOTS:		2010-11	2011-12
Slot Machines -State		7081	7081
Income Per Machine		137.74	141.43
Total Income		\$ 355,997,983	\$ 365,535,028
State Income		\$ 177,998,992	\$ 182,767,514
Slots - Existing Seminole		6941	
Slots - New from Seminole Expansion		3900	
TOTAL SLOTS		10841	
Income Per Machine - State		137.74	
TOTAL INCOME		\$ 545,032,359	
A Foregone Taxes at State Rate		\$ 272,516,180	
	All Machines	\$272.5 million	
B Foregone Taxes at State Rate		\$ 98,036,445	
	New Machines	\$98.0 million	