

Appendix B-3
Supplemental Competitive Effects Assessment



MEMORANDUM

To: Acorn Environmental – Koi Nation
From: GMA Consulting
DATE: March 12, 2024
RE: Koi – Supplemental Competitive Effects Discussion

RESULTS AND ANALYSIS

CASE STUDY: IMPACT OF SIGNIFICANT REVENUE DECLINES

After conducting extensive research and analysis, the consulting team at GMA has identified several markets where casinos have experienced impacts to their gaming revenues by more than 20% and yet managed to remain open. This analysis was focused on commercial gaming markets, as information was readily and publicly available (whereas this data is not available in tribal gaming markets). The markets analyzed within this report were selected as they had experienced some level of market expansion in the last two decades.

Within its analysis, the Consulting Team found that gaming revenue disruptions were caused by various factors beyond gaming expansion, including the economic recession, regulatory factors, and increased competition from new entrants into the market.

The COVID-19 pandemic also resulted in significant gaming revenue impacts across multiple jurisdictions; however, as many businesses received economic aid via governmental programs like the Paycheck Protection Program and recovered more quickly due to economic impact or stimulus checks being utilized for discretionary expenditures, GMA chose not to focus on these examples for its analysis.

GMA observed several instances of properties facing significant challenges due to the emergence of new competitors, regulatory changes (like smoking bans) and/or macro-economic market factors, resulting in substantial impacts to gaming revenues. However, despite these obstacles,

these casinos were able to adapt and regrow revenue after impact via strategic initiatives, operational changes, and/or product improvement/expansion. Of the analyzed markets presented in this memorandum, there were no casino closures as a result of the measured gaming revenue impacts.¹

Revenue figures presented in the following section are either presented as net revenue (with freeplay removed) or gross revenue (inclusive of freeplay) depending on the statistics reported in each jurisdiction.

CHICAGOLAND MARKET AREA

The wake of the 2008 financial crisis presented challenges for businesses across the nation, and the casino industry was especially negatively impacted by the economic downturn. In the greater Chicagoland market, comprising casinos in northern Illinois and northern Indiana, each casino within the market area experienced substantial declines in gaming revenues, surpassing 20% in year-over-year (“Y-O-Y”) comparisons.

While most establishments saw quick recovery from the financial crisis, casinos like the Grand Victoria were not so quickly revived. Grand Victoria Casino saw a 13.5% decrease in net gaming revenue, falling from \$338.7 million to \$293.0 million. When compared to 2007 figures, the casino saw a 33.0% decline in net gaming revenue over the two-year span.

In advance of the Great Recession, the implementation of the Smoke Free Illinois Act in January 2008, which prohibited smoking in enclosed workplaces, markedly decreased casino attendance with rippling effects throughout casino operations in Illinois. Several casinos in the market experienced gaming revenue declines near or over 20% in comparison to the prior year of 2007, including Grand Victoria (-22.4%), Hollywood Casino Aurora (-19.3%), Harrah’s Joliet Hotel & casino (-21.9%), and Hollywood Casino Joliet (-23.4%). Each of these casinos is still in operation today.

Further challenges for Grand Victoria were ahead after the opening of Rivers Casino in July 2011, which led to a significant decline in gaming revenue for Grand Victoria, which is situated just 30

¹ In 2014, GMA did note the closures of multiple casinos in the Atlantic City market, including Showboat and Trump Plaza. These casinos had experienced several years of declining gaming revenue before closure, indicative of inadequate management and failure to adapt to evolving markets such as NY, PA, and others, as opposed to new players entering their respective market. Revel Casino, burdened by substantial debt from development expenses, also ceased operations that year. Today, rebranded as Ocean Casino, it is one of the highest ranking Atlantic City casinos.

minutes away from the new property. The opening of the new Rivers Casino in 2011 marked a 17.4% Y-O-Y decrease in net gaming revenues, which ballooned to 26.0% in 2012 when comparing over the two-year period. While this revenue impact was significant, the Grand Victoria remained open for business until 2018, when ownership eventually sold from MGM and Hyatt to Eldorado Resorts (later renamed Caesars Entertainment). Caesars Entertainment still operates the casino today, which just recently underwent a \$4 million expansion in 2022, underscoring its continued longevity in the market today.

Elsewhere in the market, casinos continued to face challenges alongside the economic turmoil of the time. The Hollywood Casino Joliet encountered this firsthand when the establishment experienced a fire during a renovation in 2009. This led to a sharp decline in net gaming revenue of roughly \$63.9 million from the previous year (-34.8% impact), and an exaggerated spike the following year in 2010. As a result of the fire, it took the casino longer to establish a new baseline for revenue returns. While not fully recovering to pre-recession levels, the Hollywood Joliet adapted to the changing economic landscape, stabilizing its operations and achieving stabilized revenue figures between 2015 and 2019.

CINCINNATI/SOUTHERN INDIANA MARKET AREA

In the Cincinnati/Southern Indiana market area, GMA observed gross gaming revenue decreases of 31.8% and 21.2% from 2012 to 2013 for the Hollywood Casino Lawrenceburg and the Grand Victoria Casino & Resort Rising Star, respectively. These same casinos experienced further declines in gaming revenues of 27.3% and 26.0% into 2014. GMA attributes this decline to the opening of the Hard Rock Casino in Cincinnati in 2013, following Ohio's 2009 constitutional amendment authorizing one casino in each of the state's four largest cities: Cleveland, Cincinnati, Columbus, and Toledo.

The Hard Rock facility is located just over 30 minutes away from the Hollywood Casino & Hotel in Lawrenceburg and is within an hour's drive away from the Grand Victoria Rising Star. According to the Indiana Gaming Commission, the Hard Rock Cincinnati became the region's top casino within its seventh month of operation.

Once again, each casino within the Cincinnati Indianapolis market area faced similar significant declines in gaming revenues to the Chicagoland market region due to the 2008 financial crisis. Particularly, the Grand Victoria Rising Star experienced the most pronounced single-year decline of 17.6%. Moreover, when considering a biennial Y-O-Y comparison, this establishment sustained a 25.0% decrease in gaming revenue figures in 2009 comparative to 2007 revenues.

While both of Grand Victoria Rising Star and Hollywood Casino faced challenges from new market entrants as well as economic conditions, both establishments remain open and continue to serve patrons today.

ATLANTIC CITY MARKET AREA

In the Atlantic City market region, GMA noted a significant 27.0% decline in gross gaming revenue for Harrah's Atlantic City Casino in their biennial Y-O-Y comparison between 2009 and 2011. This decrease occurred after the sale and renovation of Trump Marina, previously owned by Trump Entertainment Resorts, to Landry's, Inc., which in turn renamed the facility the Golden Nugget Atlantic City. Prior to the renovation of Golden Nugget, Harrah's had experienced several negative single-year and biennial Y-O-Y comparisons.

Despite facing challenges, Harrah's successfully remained below a 20% decrease in gaming revenue threshold during the 2008 financial crisis. However, the opening of the Golden Nugget further exacerbated Harrah's situation, resulting in negative Y-O-Y growth each year from 2011 to 2016, peaking at a 31.0% drop from 2013 to 2015. Ultimately, Harrah's underwent a renovation in 2016, and by 2019, began reporting gaming figures comparable to its pre-2011 numbers.

Although Harrah's may not have been impacted to the degree of other properties during the 2008 recession, the region as a whole was not immune to market fluctuations. Caesar's Atlantic City saw declining biennial Y-O-Y gaming revenues of 21.1% from 2007 to 2009 and 24.8% from 2008 to 2010. While the recession hit the property extremely hard, Caesar's was able to remain open after withstanding such a loss.

GREATER CONNECTICUT MARKET AREA

Over the past decade, both Foxwoods Resort Casino and Mohegan Sun have experienced an almost continuous decrease in gaming revenues due to constant market expansion across the market area, including gaming expansion in New York, Massachusetts, and Rhode Island.

Even with Foxwoods undergoing renovation and opening its second hotel tower in 2008 and the addition of the Tanger Outlet Mall, a luxury retail complex, in 2015, the establishment continued to experience negative year-over-year comparisons from 2006-2017. Likewise, Mohegan Sun introduced their 400-room, 242,000 square-foot hotel tower in 2016, and it was only in that same year that they reversed their trend of declining revenue, reporting a 3.0% increase in gaming revenue from the year prior. During this time, Mohegan sun saw slot revenue fall from \$917.6 million in 2006 to \$597.4 million in 2016, representing a 34.9% decrease over this time period.

Like Mohegan Sun, Foxwoods Resort reported slot revenues of \$816.8 million in 2006 and saw its revenue drop to \$456.2 million by the end of 2016, representing a staggering 44.2% decrease over this timespan. This negative trend continued into 2019 for both casinos, with Foxwood reporting \$432.3 million and Mohegan Sun reporting \$549.9 million in slot revenue that year, a 47.1% and 40.1% decline, respectively. Although revenues never returned to pre-recession levels, both Foxwoods and Mohegan Sun successfully repositioned themselves to remain open.

RIVER ROCK EXPANSION IMPACT ANALYSIS

In the initial scope of work, GMA estimated the expected impact a new Koi Nation casino, located northeast of Santa Rosa, California, would have on gross gaming revenues at competing casinos within the market in calendar year 2033. This analysis was predicated on gaming revenue projections prepared for the Project by another consultant of the Nation. River Rock, a tribal casino owned by the Dry Creek Rancheria Band of Pomo Indians, is in relatively close proximity to the proposed site of the Koi Nation casino compared to other casinos in the region, and thus was projected to experience a local market gaming revenue impact of -24.2%.

As the market continues to develop, River Rock Casino recently received approval from Sonoma County to expand its gaming offering to 1,500 slot machines, which would come in tandem with an allowance for a host of upgrades and renovations aimed to increase the quality of casino and non-gaming product offering.

To demonstrate the impact that these proposed improvements would have within the previously completed model, GMA prepared an additional impact scenario assuming that River Rock expands with these amenities. As a result of this analysis, it is anticipated if River Rock were to expand before the Koi project opens, it would experience a -17.6% impact to local market gaming revenue.