

# Smoking Ban Economic Effect Analysis

November 17, 2005

# Smoking Ban Economic Effect Analysis

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## Scope

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# Smoking Ban Economic Effect Analysis

## *Scope*

In light of the proposed smoking ban, PricewaterhouseCoopers LLP (“PricewaterhouseCoopers” or “PwC”) has been engaged to provide the following services:

- perform a preliminary analysis of the effect of the smoking ban on Delaware's three gaming facilities and isolate the effects of the smoking ban from other potential mitigating factors. This analysis will not include any tests that measure statistical significance;
- prepare an abbreviated response to the report from the New Jersey Group Against Smoking Pollution entitled Trends in Smokefree Gaming, dated September 13, 2005;
- estimate the effect of a smoking ban on the Atlantic City casino market's gaming revenues;
- estimate the associated job loss;
- prepare an executive summary; and
- participate in a presentation of our findings.

## Methods and Conclusions

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# Smoking Ban Economic Effect Analysis

## *Methods and Conclusions*

A summary of the method that was used in the analysis is presented below.

### **Estimated Effect of Smoking Ban on Delaware**

- PwC performed an extensive literature search which included:
  - regulatory filings;
  - industry surveys such as Harrah's Profile of the American Casino Gambler;
  - economic impact studies from various states and countries with current and proposed smoking ban regulations; and
  - reports from several pro- and anti-environmental tobacco smoke groups.
- We interviewed the management teams from all three of the Delaware racinos:
  - Dover Downs;
  - Harrington Raceway; and
  - Delaware Park Racetrack and Slots.
- PwC also interviewed an official from the Delaware Video Lottery regulatory agency.

# Smoking Ban Economic Effect Analysis

## *Methods and Conclusions*

### **Estimated Effect of Smoking Ban on Delaware (continued)**

- To present a more detailed view of the smoking ban's effect on revenues, measures taken to mitigate the smoking ban in Delaware ("Mitigating Measures") were identified, quantified and isolated from gaming revenues. The Mitigating Measures included legislation authorizing operators to:
  - add up to 500 more video lottery terminals ("VLTs") at each racino;
  - extend their operating hours from 2:00AM to 4:00AM, seven days per week;
  - introduce credit play;
  - eliminate the \$100 betting limit; and
  - provide larger, more progressive jackpots and franchise games.
- Based upon our interviews, literature search and existing gaming industry knowledge, we adjusted the reported gaming revenues for the Mitigating Measures by:
  - calculating the win/machine/day for the additional VLTs and deducting the associated estimated gaming revenues;
  - estimating the revenue generated by each racino during the 2:00AM to 4:00AM time period and deducting the estimated incremental gaming revenues; and
  - identifying the estimated effect of the remaining Mitigating Measures, and deducting the corresponding gaming revenues.

# Smoking Ban Economic Effect Analysis

## *Methods and Conclusions*

### Estimated Effect of Smoking Ban on Delaware (continued)

- A summary of the estimated adjusted gaming revenues is presented below (refer to the Appendix for the detailed analysis).

Delaware	1999	2000	2001	2002	2003	2004	2-Year Cumulative Effect
<b>Total adjusted estimated revenues</b>	\$412,493,300	\$485,095,300	\$526,639,900	\$565,909,900	\$499,066,553	\$457,680,412	
<b>Year over year percentage change</b>		17.60%	8.56%	7.46%	-11.81%	-8.29%	-19.12%

# Smoking Ban Economic Effect Analysis

## *Methods and Conclusions*

### **Estimated Effect of Smoking Ban on Dover Downs**

- Further study was conducted to estimate the effect of the smoking ban on Dover Downs. Reasons for analyzing Dover Downs are as follows:
  - Dover Downs is the only public company amongst the three racinos in Delaware; and
  - Dover Downs is the only racino in Delaware that includes hotel and conference center components, thus selected as the most qualified comparable to the Atlantic City casino resorts.
- The Mitigating Measures were also addressed in the Dover Downs analysis. After isolating and deducting the estimated effect of the Mitigating Measures from Dover Downs' gaming revenue, the estimated adjusted gaming revenue was used to identify and estimate changes in player behavior in response to the smoking ban, including:
  - the number of total trips taken by smokers and non-smokers;
  - the average gaming spend per trip for smokers and non-smokers; and
  - the average number of visits for smokers and non-smokers.

# Smoking Ban Economic Effect Analysis

## Methods and Conclusions

### Estimated Effect of Smoking Ban on Dover Downs (continued)

- Several assumptions were used to estimate the effect of the smoking ban on Dover Downs' gaming revenue. These assumptions were derived from the information gathered from research and interviews, including:
  - approximately 50 percent of the Delaware gaming market's customers are smokers; and
  - the relative gaming spend of smokers is approximately 10 percent higher than non-smokers.
- A summary of the estimated adjusted gaming revenues for Dover Downs is presented below (refer to the Appendix for the detailed analysis).

Dover Downs	1999	2000	2001	2002	2003	2004	2-Year Cumulative Effect
Total adjusted estimated revenues	141,300,000	\$156,999,600	\$168,373,700	\$186,893,500	\$167,083,351	\$148,775,942	
Year over year percentage change		11.11%	7.24%	11.00%	-10.60%	-10.96%	-20.40%

# Smoking Ban Economic Effect Analysis

## *Methods and Conclusions*

### **Preliminary Atlantic City Estimated Effect**

- The Casino Association of New Jersey previously provided PwC with actual player data for the last twelve months ended November 2004. PwC used this actual player data to estimate 2005 player behavior.
- Using the information gathered from the analysis of the Delaware racino market and the study of Dover Downs, an analysis was conducted on the possible effects of a smoking ban on the Atlantic City casino market.
- Based on player behavior in the Delaware market, several assumptions were made regarding Atlantic City players' response to a smoking ban such as:
  - the change in the number of players;
  - the change in the number of trips made to a casino per year; and
  - the change in the average players' gaming spend.
- The Delaware player percentage of smokers was applied to remain conservative although an Atlantic City player database poll conducted by Aztar Corporation indicated that approximately 60 percent of their players were smokers.
- Assumptions regarding new gaming venues in Pennsylvania, which allow smoking, were not made in the analysis, but proximate alternate venues may increase the amount of Atlantic City gaming revenue losses.
- It should be noted that the effect on Atlantic City's gaming revenues may also be more severe than Delaware's because the Atlantic City casinos cannot implement many of the Mitigating Measures such as extended hours and credit play.

# Smoking Ban Economic Effect Analysis

## Methods and Conclusions

### Preliminary Atlantic City Estimated Effect (continued)

➤ The estimated effect of a smoking ban in Atlantic City is presented below:

	LTM ending		Smoking Ban Adjustment				Estimated Cumulative Percentage Change
	November 2004 (1)	Base Year (2)	Smoking Ban Year One (3)	Percentage Change Year One	Smoking Ban Year Two (3)	Percentage Change Year Two	
Number of players							
Smokers		4,314,340	4,278,461	-0.83%	4,251,923	-0.62%	
Nonsmokers		4,314,340	4,480,276	3.85%	4,480,276	0.00%	
Total number of players	8,628,679	8,628,679	8,758,736	1.51%	8,732,199	-0.30%	
Number of trips							
Smokers		15,608,144	13,583,036	-12.97%	11,405,951	-16.03%	
Nonsmokers		15,608,144	16,208,457	3.85%	16,208,457	0.00%	
Total trips	31,216,288	31,216,288	29,791,493	-4.56%	27,614,409	-7.31%	
Average gaming spend per trip							
Smokers		\$165.89	\$145.50	-12.29%	\$130.92	-10.02%	
Nonsmokers		\$150.09	\$150.09	0.00%	\$150.09	0.00%	
Weighted average total gaming spend	\$151.98	\$157.99	\$147.85	-6.42%	\$140.75	-4.80%	
Average number of visits							
Smokers		3.62	3.17	-12.24%	2.68	-15.50%	
Nonsmokers		3.62	3.62	0.00%	3.62	0.00%	
Weighted average of total visits	3.62	3.62	3.40	-5.88%	3.19	-6.18%	
Gaming revenues (in millions)							
Smokers		\$2,589	\$1,976	-23.67%	\$1,493	-24.44%	
Nonsmokers		\$2,343	\$2,433	3.85%	\$2,433	0.00%	
Total gaming revenues	\$4,744	\$4,932	\$4,409	-10.60%	\$3,926	-10.96%	-20.40%

(1) Based upon actual data from the New Jersey Casino Association.

(2) PwC used the actual player data for the last twelve months ("LTM") ended November 2004 to estimate 2005 player behavior and applied the approximate growth rate experienced during the LTM period ended September 2005.

(3) Adjustments based on PwC's estimated effect of the smoking ban on Dover Downs.

# Smoking Ban Economic Effect Analysis

## Methods and Conclusions

### Preliminary Atlantic City Estimated Effect (continued)

- The following assumptions, based on the Dover Downs analysis, were incorporated into the Atlantic City estimates:

Assumptions:	Smoking Ban		
	Base Year	Year 1	Year 2
Estimated percentage of players that are smokers (1)	50%	49%	49%
Estimated percentage of players that are nonsmokers (1)	50%	51%	51%
Adjusted gaming spend for smokers (2)	10%	-3%	-13%
Estimated change in the number of players			
Smokers	NA	-0.83%	-0.62%
Nonsmokers		3.85%	0.00%
Estimated change in the number of trips			
Smokers	NA	-12.97%	-16.03%
Nonsmokers		3.85%	0.00%
Estimated change in the average number of visits			
Smokers	NA	-12.24%	-15.50%
Nonsmokers		0.00%	0.00%
Estimated change in average gaming spend			
Smokers	NA	-12.29%	-10.02%
Nonsmokers		0.00%	0.00%

- (1) Base Year percentage of smokers at 50% is based on Delaware player behavior. It should be noted that this is a conservative assumption because the Aztar Corporation player survey found that 60% of players in Atlantic City are smokers. During the Smoking Ban Year 1 and Year 2, the percentage of smokers to nonsmokers changes as a result of the decrease in the number of smoking players and the increase in the number of nonsmoking players.
- (2) Base year percentage is based on information gathered from operator interviews, which indicated that smokers spend approximately 10% more than nonsmokers.

# Smoking Ban Economic Effect Analysis

## Methods and Conclusions

### Employment Loss Analysis

- The following table presents an estimate of the Atlantic City employment market without the smoking ban.

	2004	2005	2006
Estimated Employment	45,501	45,006	44,516
Estimated Annualized Growth Rate (1)	(1.09%)		

- To estimate the effect of the smoking ban on Atlantic City's employment, an assumed variable percentage based on employees by department was incorporated. The following table presents an estimate of the effect of the smoking ban on Atlantic City's employment.

	2004	Year 1	Year 2
Employment	45,501		
Estimated Adjusted Revenue (in millions)		\$4,409	\$3,926
Assumed Percentage Decline Due to Smoking Ban		(10.60%)	(10.96%)
Assumed Variable Percentage (based on employees by department)		35.0%	35.0%
Estimated Decline in Employment Due to Revenue Decline		(3.71%)	(3.83%)
Estimated Employment Level		43,336	42,809
Estimated Incremental Employment Loss		1670	1707
Estimated Cumulative Employment Loss			3377

(1) Based upon the compound average growth rate from 1997 to 2004 in Atlantic City employment levels.

## **GASP Report Response**

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# Smoking Ban Economic Effect Analysis

## *GASP Report Response*

New Jersey Group Against Smoking Pollution (“GASP”) presents the following statements and conclusions in its report titled “Trends in Smokefree Gaming,” dated September 13, 2005 (“GASP Report”). The italicized text in this section explains why these statements and conclusions are unfounded.

### **GASP Statement One**

- Caesars Entertainment filings never mentioned that the Eastern Region was affected by the Delaware smokefree law.

*PricewaterhouseCoopers’ Response: In Caesars Entertainment, Inc.’s (“Caesars Entertainment”) annual 10-K for fiscal year 2002, it states that Caesars Entertainment owns and operates three casino resorts in Atlantic City, while only providing management services to Dover Downs in Delaware. Thus, the sole source of income from Dover Downs is management fees. The Caesars Entertainment’s quarterly report for first quarter of 2003 indicated that Dover Downs’ net revenue consisted of less than 0.3% of the total net revenue in the Caesar Entertainment’s Eastern Region. Clearly, Dover Down’s management fee represents an immaterial percentage of the revenues for Caesars Entertainment’s Eastern Region, which explains the absence of reference to the effect of Delaware’s smokefree law.*

# Smoking Ban Economic Effect Analysis

## *GASP Report Response*

### **GASP Statement Two**

- Although Dover Downs' filings predicted a negative impact on business from the smokefree law, the report filed by Dover Downs states that the CEO was "extremely happy with the 4<sup>th</sup> quarter [2004] results", and that its hotel's occupancy rate for the year was at 95%.

*PricewaterhouseCoopers' Response: While the Chief Executive Officer of Dover Downs states that he was "extremely happy with the 4<sup>th</sup> quarter results" for 2004, other factors, such as the change in regulations which allowed the addition of 500 video lottery machines at each racino, contributed to the increase in gaming revenue thereby masking a portion of the smoking ban's negative effect. On page 6 of the GASP Report, the analyst even points out that the increase in slot earnings was due to other factors, including:*

- *new legislation going into effect, that allows for more slots, higher betting limits, credit play and longer hours; and*
- *completed renovation and construction of the facility.*

*Furthermore, the GASP Report fails to mention the gaming revenue decline which Dover Downs disclosed for 2003. The annual report for 2003 states that during the first year of the smoking ban, Dover Downs' slot win declined approximately 11.3% compared to the previous year.*

# Smoking Ban Economic Effect Analysis

## *GASP Report Response*

### **GASP Statement Three**

- The results of the University of California study showed no significant effect of the smokefree law for either total revenues or average revenues per machine.

*PricewaterhouseCoopers' Response: While the University of California study, written by Glantz, Mandel and Alamar ("Mandel et. al"), suggests that there was no significant effect of the smokefree law in Delaware for either total revenues or average revenues per machine, other studies such as one written by Michael R. Pakko ("Pakko"), research economist at the Federal Reserve Bank of St. Louis, titled "Smoke-Free Law Did Affect Revenue from Gaming in Delaware" states that total inflation-adjusted gaming revenues were estimated to have declined by nearly \$6.5 million per month after the implementation of Delaware's Clean Indoor Air Act. In addition, Pakko identifies inadequacies in the assumptions that Mandel et al. used, as well as flaws in the accuracy and robustness of the results in their study.*

## Appendix

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# Smoking Ban Economic Effect Analysis

## Appendix

### Estimated Effect of Smoking Ban on Delaware

Smoking ban enacted November 27



Revenue (1)		Jan-02	Feb-02	Mar-02	Apr-02	May-02	Jun-02	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02
Delaware Park		\$19,468,500	\$22,794,400	\$27,028,400	\$22,488,400	\$21,226,400	\$26,190,300	\$21,486,800	\$21,542,600	\$26,295,600	\$19,954,200	\$20,615,900	\$19,117,500
Dover Downs		12,732,200	14,967,400	18,007,500	15,237,200	14,590,900	18,578,700	16,432,400	15,427,900	19,416,500	14,381,500	13,799,400	13,321,900
Harrington		7,779,200	9,206,400	11,123,200	9,284,100	8,964,600	11,342,400	8,519,500	8,932,000	11,289,900	8,588,600	8,000,000	7,777,500
Total market		\$39,979,900	\$46,968,200	\$56,159,100	\$47,009,700	\$44,781,900	\$56,111,400	\$46,438,700	\$45,902,500	\$57,002,000	\$42,924,300	\$42,415,300	\$40,216,900
Number of Terminals (1)													
Delaware Park		2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Dover Downs		2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Harrington		1,277	1,277	1,277	1,277	1,277	1,327	1,327	1,314	1,428	1,430	1,430	1,430
Total market		5,277	5,277	5,277	5,277	5,277	5,327	5,327	5,314	5,428	5,430	5,430	5,430
Win/Machine/Day													
Delaware Park		\$314.01	\$407.04	\$435.94	\$374.81	\$342.36	\$436.51	\$346.56	\$347.46	\$438.26	\$321.84	\$343.60	\$308.35
Dover Downs		205.36	267.28	290.44	253.95	235.34	309.65	265.04	248.84	323.61	231.96	229.99	214.87
Harrington		196.51	257.48	280.98	242.34	226.45	284.91	207.10	219.28	263.54	193.74	186.48	175.45
Total market		\$244.40	\$317.88	\$343.30	\$296.95	\$273.75	\$351.11	\$281.21	\$278.65	\$350.05	\$255.00	\$260.38	\$238.92
Adjustments (2)													
<i>Revenue due to increase in VLT's (3):</i>													
Delaware Park	Effect on Revenue												
Dover Downs													
Harrington													
<i>Extended operating hours (4):</i>													
Delaware Park		2.00%											
Dover Downs		0.50%											
Harrington		1.50%											
<i>Facility upgrades (5):</i>													
		0.00%											
<i>Larger jackpots (4):</i>													
		0.50%											
<i>Change in hold percentage (4):</i>													
		0.00%											
<i>Removal of betting limit (4):</i>													
Dover Downs		0.50%											
<i>Introduction of credit play (4):</i>													
Dover Downs		2.00%											
Delaware Park		2.00%											
Total adjustments													
<b>Adjusted estimated revenue</b>		\$39,979,900	\$46,968,200	\$56,159,100	\$47,009,700	\$44,781,900	\$56,111,400	\$46,438,700	\$45,902,500	\$57,002,000	\$42,924,300	\$42,415,300	\$40,216,900

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# Smoking Ban Economic Effect Analysis

## Appendix

### Estimated Effect of Smoking Ban on Delaware (continued)

Revenue (1)		Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03
Delaware Park		\$17,324,900	\$16,338,100	\$23,076,700	\$18,477,900	\$18,891,800	\$22,443,700	\$20,115,100	\$24,954,900	\$17,430,900	\$17,713,400	\$22,228,500	\$14,893,600
Dover Downs		12,369,700	10,869,400	16,347,200	12,920,500	12,980,800	17,001,300	14,667,300	17,900,100	13,229,000	13,047,700	15,508,200	10,569,900
Harrington		7,141,500	6,652,000	10,311,700	7,555,800	8,241,700	10,619,600	7,704,800	10,794,700	8,028,300	8,101,700	9,442,100	6,105,200
Total market		\$36,836,100	\$33,859,500	\$49,735,600	\$38,954,200	\$40,114,300	\$50,064,600	\$42,487,200	\$53,649,700	\$38,688,200	\$38,862,800	\$47,178,800	\$31,568,700
Number of Terminals (1)													
Delaware Park		2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,007	2,021	2,089	2,184
Dover Downs		2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,064
Harrington		1,430	1,430	1,430	1,430	1,430	1,430	1,432	1,435	1,435	1,435	1,435	1,435
Total market		5,430	5,430	5,430	5,430	5,430	5,430	5,432	5,435	5,442	5,456	5,524	5,683
Win/Machine/Day													
Delaware Park		\$279.43	\$291.75	\$372.20	\$307.97	\$304.71	\$374.06	\$324.44	\$402.50	\$289.50	\$282.73	\$354.69	\$219.98
Dover Downs		199.51	194.10	263.66	215.34	209.37	283.36	236.57	288.71	220.48	210.45	258.47	165.20
Harrington		161.10	166.13	232.61	176.13	185.92	247.54	173.56	242.66	186.49	182.12	219.33	137.24
Total market		\$218.83	\$222.70	\$295.46	\$239.13	\$238.31	\$307.33	\$252.31	\$318.42	\$236.97	\$229.77	\$284.69	\$179.19
Adjustments (2)													
rease in number of VLT's (3):													
Delaware Park										7	21	89	184
Dover Downs													64
Harrington								2	5	5	5	5	5
Revenue due to increase in VLT's (3):													
Delaware Park													
Dover Downs													
Harrington													
Effect on Revenue													
Delaware Park													
Dover Downs													
Harrington													
Facility upgrades (5):													
Larger jackpots (4):													
Change in hold percentage (4):													
Removal of betting limit (4):													
Dover Downs													
Introduction of credit play (4):													
Dover Downs													
Delaware Park													
Total adjustments													
Adjusted estimated revenue		\$36,836,100	\$33,859,500	\$49,735,600	\$38,954,200	\$40,114,300	\$50,064,600	\$42,476,439	\$53,612,088	\$38,599,431	\$38,650,513	\$46,198,875	\$29,964,907

**Introduction of measures taken to mitigate the effects of the smoking ban** →

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# Smoking Ban Economic Effect Analysis

## Appendix

### Estimated Effect of Smoking Ban on Delaware (continued)

Revenue (1)		Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04
Delaware Park		\$18,163,200	\$25,799,900	\$21,024,300	\$20,692,600	\$25,426,900	\$20,754,200	\$21,516,100	\$25,828,000	\$20,618,500	\$25,583,500	\$19,178,400	\$17,010,400
Dover Downs		13,726,900	17,259,500	14,675,900	14,094,400	17,584,700	13,913,000	16,189,900	18,972,800	14,637,600	18,167,600	14,760,800	11,883,000
Harrington		7,660,200	10,605,500	8,872,600	8,328,200	10,304,800	8,648,700	8,181,600	10,494,200	8,989,500	10,029,600	7,706,500	6,035,200
Total market		\$39,550,300	\$53,664,900	\$44,572,800	\$43,115,200	\$53,316,400	\$43,315,900	\$45,887,600	\$55,295,000	\$44,245,600	\$53,780,700	\$41,645,700	\$34,928,600
Number of Terminals (1)													
Delaware Park		2,237	2,410	2,408	2,475	2,475	2,475	2,475	2,475	2,500	2,500	2,500	2,500
Dover Downs		2,088	2,298	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Harrington		1,435	1,435	1,437	1,435	1,435	1,435	1,435	1,435	1,435	1,435	1,435	1,435
Total market		5,760	6,143	6,345	6,410	6,410	6,410	6,410	6,410	6,435	6,435	6,435	6,435
Win/Machine/Day													
Delaware Park		\$261.92	\$369.15	\$281.65	\$278.69	\$331.40	\$279.52	\$280.43	\$336.63	\$274.91	\$330.11	\$255.71	\$219.49
Dover Downs		212.07	258.99	189.37	187.93	226.90	185.51	208.90	244.81	195.17	234.42	196.81	153.33
Harrington		172.20	254.85	199.17	193.45	231.65	200.90	183.92	235.90	208.82	225.46	179.01	135.67
Total market		\$221.50	\$301.24	\$226.61	\$224.21	\$268.31	\$225.25	\$230.93	\$278.27	\$229.19	\$269.60	\$215.72	\$175.09
Adjustments (2)													
<i>Increase in number of VLT's (3):</i>													
Delaware Park		237	410	408	475	475	475	475	475	500	500	500	500
Dover Downs		88	298	500	500	500	500	500	500	500	500	500	500
Harrington		5	5	7	5	5	5	5	5	5	5	5	5
<i>Revenue due to increase in VLT's (3):</i>													
Delaware Park		(\$1,924,309)	(\$4,389,195)	(\$3,562,257)	(\$3,971,307)	(\$4,879,910)	(\$3,983,129)	(\$4,129,353)	(\$4,956,889)	(\$4,123,700)	(\$5,116,700)	(\$3,835,680)	(\$3,402,080)
Dover Downs		(578,528)	(2,238,177)	(2,935,180)	(2,818,880)	(3,516,940)	(2,782,600)	(3,237,980)	(3,794,560)	(2,927,520)	(3,633,520)	(2,952,160)	(2,376,600)
Harrington		(26,691)	(36,953)	(43,221)	(29,018)	(35,905)	(30,135)	(28,507)	(36,565)	(31,322)	(34,946)	(26,852)	(21,029)
<i>Extended operating hours (4):</i>													
Delaware Park	2.00%	(363,264)	(515,998)	(420,486)	(413,852)	(508,538)	(415,084)	(430,322)	(516,560)	(412,370)	(511,670)	(383,568)	(340,208)
Dover Downs	0.50%	(68,635)	(86,298)	(73,380)	(70,472)	(87,924)	(69,565)	(80,950)	(94,864)	(73,188)	(90,838)	(73,804)	(59,415)
Harrington	1.50%	(114,903)	(159,083)	(133,089)	(124,923)	(154,572)	(129,731)	(122,724)	(157,413)	(134,843)	(150,444)	(115,598)	(90,528)
<i>Facility upgrades (5):</i>													
Larger jackpots (4):	0.50%	(197,752)	(268,325)	(222,864)	(215,576)	(266,582)	(216,580)	(229,438)	(276,475)	(221,228)	(268,904)	(208,229)	(174,643)
<i>Change in hold percentage (4):</i>													
Removal of betting limit (4):	0.50%						(69,565)	(80,950)	(94,864)	(73,188)	(90,838)	(73,804)	(59,415)
<i>Introduction of credit play (4):</i>													
Dover Downs	2.00%										(363,352)	(295,216)	(237,660)
Delaware Park	2.00%										(511,670)	(383,568)	(340,208)
Total adjustments		(3,274,081)	(7,694,027)	(7,390,476)	(7,644,028)	(9,450,371)	(7,696,388)	(8,340,223)	(9,928,190)	(7,997,359)	(10,772,882)	(8,348,478)	(7,101,786)
Adjusted estimated revenue		\$36,276,219	\$45,970,873	\$37,182,324	\$35,471,172	\$43,866,029	\$35,619,512	\$37,547,377	\$45,366,810	\$36,248,241	\$43,007,818	\$33,297,222	\$27,826,814

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# Smoking Ban Economic Effect Analysis

## *Appendix*

### **Estimated Effect of Smoking Ban on Delaware (continued)**

Footnotes for the estimated effect of the smoking ban on Delaware are listed below.

- (1) Source: Delaware State Lottery Monthly Proceeds and Track Data Report.
- (2) Adjustments to revenue to eliminate factors which mitigated the impact of the smoking ban.
- (3) Adjustments to revenue based on the number of machines added after the effective date of the smoking ban due to changes in legislation.
- (4) Percentages estimated based upon interviews with Delaware racino managers and Delaware Video Lottery official.
- (5) Facility upgrades included construction of outdoor smoking pavilions, which had a minimal effect according to Delaware racino managers.

# Smoking Ban Economic Effect Analysis

## Appendix

### Estimated Effect of Smoking Ban on Dover Downs

Revenue	2002	2003	Percentage Change	2004	Percentage Change
Number of players					
Smokers	176,871	175,400	-0.83%	174,312	-0.62%
Nonsmokers	176,871	183,673	3.85%	183,673	0.00%
Total players	353,741	359,073	1.51%	357,985	-0.30%
Number of trips					
Smokers	1,300,000	1,131,329	-12.97%	950,000	-16.03%
Nonsmokers	1,300,000	1,350,000	3.85%	1,350,000	0.00%
Total trips (1)	2,600,000	2,481,329	-4.56%	2,300,000	-7.31%
Average gaming spend per trip					
Smokers (2)	\$75.48	\$66.20	-12.29%	\$59.57	-10.02%
Nonsmokers (3)	\$68.29	\$68.29	0.00%	\$68.29	0.00%
Weighted average total gaming spend	\$71.88	\$67.27	-6.42%	\$64.04	-4.80%
Average number of visits (4)					
Smokers	7.35	6.45	-12.24%	5.45	-15.50%
Nonsmokers	7.35	7.35	0.00%	7.35	0.00%
Weighted average of total visits	7.35	6.92	-5.89%	6.49	-6.19%
Gaming revenues (in millions)					
Smokers	\$98,119,088	\$74,894,538	-23.67%	\$56,587,129	-24.44%
Nonsmokers	\$88,774,413	\$92,188,813	3.85%	\$92,188,813	0.00%
Total gaming revenues (5)	\$186,893,500	\$167,083,351	-10.60%	\$148,775,942	-10.96%

#### Assumptions:

Estimated percentage of customers that are smokers (6)	50%
Estimated percentage of customers that are nonsmokers (6)	50%
Adjusted gaming spend for smokers (6)	10%

# Smoking Ban Economic Effect Analysis

## *Appendix*

### **Estimated Effect of Smoking Ban on Dover Downs (continued)**

Footnotes for the estimated effect of the smoking ban on Dover Downs are listed below.

- (1) Based upon Dover Downs Entertainment Inc. 2002 10K.
- (2) Decrease in spend based on assumption that time spent outside smoking reduces time spent playing.
- (3) Assumed no increase in gaming spend from non-smokers.
- (4) Approximated using Harrah's Profile of the American Casino Gambler: 2002, 2003, 2004.
- (5) Based on revenues adjusted by PwC to eliminate factors which mitigated the impact of the smoking ban.
- (6) Based on information gathered from operator interviews.

# Smoking Ban Economic Effect Analysis

## Appendix

### Historical Growth Rates for Atlantic City and Connecticut Gaming Markets

Atlantic City (1)	1999	2000	2001	2002	2003	2004
<b>Total annual revenues</b>	4,119,507	4,275,783	4,279,189	4,359,137	4,480,807	4,807,242
<b>Year over year percentage change</b>		<b>3.79%</b>	<b>0.08%</b>	<b>1.87%</b>	<b>2.79%</b>	<b>7.29%</b>

(1) Source: New Jersey Casino Control Commission.

Connecticut (1)	2000	2001	2002	2003	2004
<b>Mohegan Sun (2)</b>	540,300	578,400	718,900	777,000	833,000
<b>Foxwoods (3)</b>	756,940	762,735	796,153	785,202	787,532
<b>Total</b>	1,297,240	1,341,135	1,515,053	1,562,202	1,620,532
<b>Year over year percentage change</b>	<b>unavailable</b>	<b>3.38%</b>	<b>12.97%</b>	<b>3.11%</b>	<b>3.73%</b>

(1) These figures represent slot revenues only. Figures for Foxwoods table game revenue were unavailable.

(2) Mohegan Tribal Gaming Authority 2002 and 2004 Annual Reports.

(3) Connecticut Division of Special Revenue Schedule of Selected Video Facsimile/Slot Machine Data.