
AGENDA
KANSAS LOTTERY GAMING FACILITY REVIEW BOARD
8:30 am, Tuesday, April 6, 2010

Topeka Ramada Inn
420 SE Sixth St., Topeka, Kansas

- A. CALL TO ORDER
- B. APPROVAL OF THE AGENDA
- C. BOARD ITEMS
 - 1. Regarding the south central gaming zone:
 - a. Presentations by and responses to board questions posed to staff, Review Board consultants and the applicants
 - b. Presentation by Sumner County (15 minutes)
 - c. Presentation by Chisholm Creek Casino and Resort (15 minutes)
- D. PUBLIC COMMENT

Persons interested in making comments to the board may do so during this time. Those speaking must provide their name, address and, if affiliated with a specific group, identify that group. Each person will have two minutes to address the board.
- E. EXECUTIVE SESSION
 - 1. Background reports
- F. FINAL ACTION
 - 1. Discussion and vote on the lottery gaming facility management contract for the south central zone
- G. STAFF REPORTS
 - 1. Executive Director
- H. ADJOURNMENT

Please note that this packet will be updated when anticipated information is received. All interested parties should monitor the KRGC website for supplemental information as it becomes available.

Please visit the KRGC website at www.krgc.ks.gov for any updates.

SUMMARY OF CONSULTANT REPORTS FOR THE REVISED CHISHOLM CREEK PROPOSAL

Prepared by
William R. Eadington, Ph.D.

For Consideration at the Review Board Meeting, April 6, 2010

BACKGROUND

In December 2009, Chisholm Creek Casino Resort LLC, the only remaining bidder for a Lottery Gaming Facility Manager's License in South Central Kansas under the Kansas Expanded Lottery Act (KELA), requested renegotiations on their proposed contract with the Kansas Lottery before the Review Board had had the opportunity to vote on the merits of their proposal. This request was apparently motivated by the possibility of development of a Class III tribal casino in Park City, Kansas, just north of Wichita, by the Wyandotte Tribe. Between December and February 2010, Chisholm Creek and the Kansas Lottery negotiated an amended contract, which now comes before the Review Board for consideration.

During the teleconferenced meeting held on March 3, 2010, the Review Board asked the Board's consulting team to review the amended contract and provide information which would be useful for Board members to make the decision on whether acceptance of the Chisholm Creek contract "best serves the interests of the people of Kansas." In light of the fact that the renegotiated contract had many features similar to the original contract under consideration by the Review Board, it was decided that only certain portions of the consultants' prior efforts would be revisited.

It was also decided that only three scenarios would be examined for the new contract by select consultants. These scenarios would be the Phase I proposal, as well as Phase II, Scenario I and Phase II, Scenario III, as described on pp. 74-101 of the Agenda Packet for March 3, and summarized on p. 101 of the same document.

Each of the two firms which had undertaken independent revenue estimates for the state's proposed Lottery Gaming Facilities – Wells Gaming Research of Reno, Nevada, and Cummings Associates of Arlington, Massachusetts – were asked to once again forecast gross gaming revenues for the proposed casino facility, but only under these three scenarios. These estimates were undertaken independently of one another by the two consultants, with each consultant using their respective proprietary gravity models for forecasting gaming revenues for the Chisholm Creek proposals.

Raving Consultants of Reno, Nevada, whose primary responsibility had been to evaluate the non-gaming amenities in the various Lottery Gaming Facility proposals in 2009, was asked to once again examine non-gaming amenities for Chisholm Creek, and to update

their “Raving Amenity Scorecard,” a tool developed to evaluate the non-gaming assets of proposals against a standard established by Raving Consultants with the following explanation:

“The underlying assumption for the Raving Consulting Alternative Minimum Destination Casino Design was based on the minimum size of facility and accompanying amenities that in our consulting opinion a casino company, not constrained by access to capital markets, would build to meet the requirements of the Kansas law.

“What has come to be called ‘The Raving Minimums’ ... was established as a way to compare each applicant’s non-gaming amenity proposal against a core standard, since there were no proposals to compare against each other. In our opinion, based on our professional experience, the minimums we expressed present a minimum non-gaming amenity package (not our personal preference) that could promote tourism.”¹

Union Gaming of Las Vegas, Nevada was asked to update the financial reports and analysis that they had previously undertaken regarding Lakes Gaming, Och-Ziff, and Clairvest, the equity partners in Chisholm Creek Casino Resort LLC. In particular, they were asked to determine if there had been any material changes in the financial conditions of any of the three entities since late 2009 that might affect the ability or willingness of Chisholm Creek to execute and complete their development, as proposed in the amended contract.

Finally, both Raving Consultants and Union Gaming were asked to evaluate and comment upon the management reputation and competence of Lakes Gaming as the casino operator for Chisholm Creek, to determine if there was good reason to believe that, once the Lottery Gaming Facility was constructed and in operation, that the management team would likely act in an appropriate and rational manner. Raving and Union, drawing from their direct gaming industry experience and extensive contacts with numerous gaming companies in the United States, were instructed to independently prepare opinions on this issue.

It was decided that updates of other portions of prior consulting reports, including those studies that examined fiscal impacts, construction costs, and direct and indirect economic impacts, would not change materially from prior analyses that had been done on the original Chisholm Creek proposal. Thus, the previous work submitted by Meridian Business Advisors, Civic Economics, and Construction Cost Systems regarding Chisholm Creek remains in effect for consideration by the Review Board.

¹ E-mail correspondence between Dennis Conrad of Raving Consultants and William R. Eadington, October 9, 2009.

GENERAL CONSIDERATIONS

At the March 3, 2010 meeting, Chairman Matt All of the Review Board posed the fundamental question under consideration for members of the Board:

Based upon the evidence presented by the applicants and by the Board's consultants, can they determine whether the current contract, if executed and implemented, is the best contract that can reasonably be expected by the people of the state of Kansas?

In light of the distressed economic environment that has prevailed in the United States since late 2007, and the ongoing financial difficulties of many of the major American casino companies – including many who had bid on Lottery Gaming Facility Management licenses in 2008 – it has to be disappointing for the state of Kansas that only a single bidder had remained at the culmination of the bidding process in both the South Central and the North East Zones. For the South Central Zone, members of the Review Board are now confronted with the question of whether to accept the contract with Chisholm Creek, or alternatively to reject it and then re-open the bidding process for a third time for this Zone's license.

Rejection would postpone the development of a Lottery Gaming Facility in Sumner County for at least another 12 to 24 months, if not longer. Indeed, given the contentiousness of the politics of casinos in Kansas, there is a possibility that postponement could result in a sequence of events where no casino is ever built in Sumner County under the KELA. There is no guarantee that underlying economic conditions, either for the regional or national economy, or those confronting candidate companies for such a license, would change significantly between the present time and the next time proposals would be solicited. Furthermore, if a tribal casino is authorized for the Wyandotte Tribe in Park City, then postponement of the licensing of a Sumner County casino, in hopes of getting a better offer for the state at a later time, might allow the tribal casino to achieve a substantial "first mover" advantage, and thus erode the economic potential of a Lottery Gaming Facility casino.

On the other hand, if this contract is approved, then the Board needs to assess the risk that the winning applicants would not be able or willing to execute their contract (as occurred with the winning applicant in Sumner County in 2008), or, once the lottery gaming facility is completed, they would not be able or willing to respond appropriately to prevailing economic conditions, including competition from a tribal casino in Park City, in a manner that would best fulfill the interests of the state. The analyses provided by the consultants for the amended contract are intended to assist in responding to these issues.

ANALYSIS

The underlying perspective for evaluating the consulting reports and other information is the following. If a "generic" applicant were to be awarded a license to operate a casino in

Mulvane at the north end of Sumner County at the size proposed in Phase I by Chisholm Creek with the casino opening around 2012 or 2013, then the casino will perform according to the revenue estimates provided by the Wells Gaming and Cummings Associates forecasts. It is assumed that the “generic” applicant has the financial capabilities and willingness to fulfill the terms of the contract within the specified time frame, and it also has the management and strategic competence to respond appropriately to the competitive marketplace should a tribal casino develop in Park City. Furthermore, if the “generic” operator does not have competition from a tribal casino in Park City, it will act in a manner that maximizes the profitability of the casino operation (within the law and the Lottery contract) for the benefit of its owners. Finally, if a Class III tribal casino is opened about the same time with (about) 1,300 slot machines and 40 table games, this would clearly result in less revenues for the Mulvane casino (as forecast by Wells and Cummings), but it would also trigger reasonable and appropriate competitive responses from a competent “generic” applicant.

In simple terms, does Chisholm Creek Resort and Casino LLC meet the criteria described for this “generic” applicant?

A few things should be noted about this scenario:

1. Even with a tribal casino competing against a Lottery Gaming Facility in the Wichita marketplace, there would still only be two casinos to serve a market with roughly half a million population and a per capita income close to the national average. In comparison, the Reno, Nevada metropolitan area – which has a population comparable to the Wichita area and per capita income about 20% higher than Wichita – sustains 32 casinos which collectively generated about \$850 million in gross gaming revenues in FY-2009. Of this amount, perhaps 30% came from local residents. Thus, the likelihood that a Mulvane casino could be successful even with tribal competition remains quite high;
2. The introduction of a substantial competitor into a casino marketplace that otherwise would provide a monopoly for its “generic” licensee would bring about a significant competitive response from the incumbent company. Even though this would likely reduce both revenues and profits for the incumbent, the “reasonable” competitive response would typically lower the price of gaming for customers, and enhance the quality and diversity of non-gaming offerings, as both competitors would be vying with one another for customer loyalty and market share. In this manner, competition is almost always beneficial for the consumer. In the case of South Central Kansas, this would also likely enhance the tourism attractiveness of the casino facilities in the area in light of the increased non-gaming amenities and more consumer friendly pricing;
3. Whatever the competitive environment, a competent “generic” licensee would adjust the gaming and non-gaming offerings to underlying economic and demand conditions in a manner that would best serve its own interests, within the constraints imposed by the law and the contract. Even as a monopolist, such a

“generic” company would increase the size of its gaming and non-gaming offerings if demand so warranted. Under competition, the appropriate response to demand and competitive conditions might call for increasing or decreasing the size of facilities, but would almost certainly result in lower, more consumer-oriented pricing.

In light of these observations, the critical questions for the Review Board to consider relate to the financial resources, the inclinations, and the management competence of the Chisholm Creek group. In particular, the questions the Review Board should ask and answer to their own satisfaction are:

1. Does Chisholm Creek Resort and Casino LLC have the financial wherewithal and willingness to complete the obligations of the contract in developing and opening the Lottery Gaming Facility on the timeline proposed in the contract and in various public presentations; and
2. Does Lakes Gaming have the experience and management competence to respond appropriately to significant competition that might evolve in the metropolitan Wichita marketplace?

The accompanying reports, submitted by Wells Gaming Research, Cummings Associates, Raving Consultants, and Union Gaming, each contribute insights into specific dimensions of these questions. It is up to the individual Review Board members to assimilate that information, along with all the other material that has been presented by the applicants and the Lottery, to draw their own conclusions.

Cummings Associates

Additional Projections for Chisholm Creek

March 29, 2010

Additional Projections for Chisholm Creek

Summary

In order to assist the Kansas Lottery Gaming Facility Review Board's assessment of the new contract with Chisholm Creek, I have prepared projections for likely gaming revenues at Chisholm Creek under several of the scenarios envisioned by that contract. These are:

Phase I (2013\$) (Base Case)	1,300 slots, 40 tables, 100 rooms NO INDIAN CASINO	\$167.9 million ¹
Phase II (2015\$) (Scenario III)	2,000 slots, 50 tables, 150 rooms NO INDIAN CASINO	\$193.0 million
Phase II (2015\$) (Scenario I)	1,700 slots, 50 tables, 150 rooms WITH INDIAN CASINO ²	\$111.0 million

Discussion

Phase I / Base Case

The configuration of the casino proposed by Chisholm Creek for Phase I is almost identical to that which I assumed in my last set of projections (November 23, 2009): 1,300 slot machines, 200-seat restaurant, and 100-room hotel (on site but not assumed to be attached). The only change that matters to my projections is an increase in the number of table games from 30 to 40. This raises my projections (set, as before, in the year 2013 as representative of Phase I) by \$1.4 million, from my previous estimate of \$166.5 million to my current projection of \$167.9 million.

Wells Research, Dr. Eadington and I have reviewed the recent performance of casinos in the Midwest (and elsewhere in the U.S.), and have concluded that our best estimate of future trends remains unchanged from our previous assumptions: zero growth, as a whole, through calendar 2010, followed by a resumption of "normal" growth due to inflation and rising incomes of three percent per year through 2015.

¹ This projection is \$1.4 million higher than my previous projection due to an increase from 30 table games to 40 in Phase I.

² Indian casino at Park City now assumed to operate 1,300 slot machines and 40 table games under compact with the State. The projected impacts are therefore much more severe than my previous projections, which assumed a smaller, Class II casino.

Phase II / Scenario III (No competition from a casino in Park City)

With no local competition, Chisholm Creek's plans for Phase II include expansion to 2,000 slot machines, 50 table games, and 150 rooms at the hotel. (They also include two additional restaurants, 17,000 sq. ft. of conference space, and 30,000 sq. ft. of entertainment space. My methodology is not sufficiently detailed that these other enhancements matter. I suspect, however, that they would place Chisholm Creek slightly to the upside of my "Midwest Standard" benchmark rather than, arguably, barely there.)

According to the contract, the additional features specified for Phase II under this scenario are not required until twelve years following opening. As we have in previous reports, however, Wells Research and I present our projections for Phase II as if it were complete in 2015.

Under these conditions, my projections are for total gaming win of \$193 million.³

Phase II / Scenario I (WITH competition from a casino in Park City)

In some contrast with our previous projections, which assumed a modest Class II casino at Park City which did not have a compact with the State, we now assume a full-scale Class III casino similar in size and character to that proposed for Phase I at Chisholm Creek (1,300 slot machines and 40 table games).

Chisholm Creek proposes, under Scenario I of its contract, to respond by expanding to 1,700 slot machines, 50 table games, and 150 rooms at its hotel (similar to Scenario III above except for the smaller number of slot machines; there are also slight differences in terms of restaurants and ancillary space that do not affect my projections).

With such competition and response, I project Chisholm Creek's gaming revenues at \$111 million in 2015. This figure is roughly 42% below that for the scenario above.⁴

³ Roughly half of the increase from Phase I (\$13 out of \$25 million) is "real" growth, due to the added slots, tables, and rooms. The rest simply reflects inflation between 2013 and 2015.

⁴ Chisholm Creek's situation would be worse if it just stands pat. My projections indicate that the additional slots and tables that Chisholm Creek proposes under this scenario "claw back" roughly \$13 million in gaming revenue that it would otherwise lose due to the new competition. On the other hand, because Chisholm Creek's own projections for its performance were so conservative, my projection of \$111 million in revenues for 2015 under this scenario is only 15% below Chisholm Creek's original projection of \$130 million for that year.

South Central Gaming Zone of Kansas

March 2010 Supplemental Report



Prepared For:
Kansas Lottery Gaming Facility Review Board
March 2010

Prepared By:
Wells Gaming Research
495 Apple Street, Suite 205 – Reno, NV 89502
775-826-3232 – <http://www.wellsgaming.com>

Introduction

Wells Gaming Research (WGR) was asked to prepare updated revenue estimates in connection with a revised submission by the applicant in the South Central Gaming Zone of Kansas for the Chisholm Creek Casino project. After reviewing the applicant's revisions, WGR determined that due to the variables included in the revised submission, there were potentially twenty-one separate scenarios that could occur with the Chisholm Creek proposal. The Kansas Racing and Gaming Commission staff and consultant leader asked WGR to prepare revised revenue projections for three potential scenarios. The three scenarios to be included in this Supplemental Report are as follows:

1. Chisholm Creek Casino Phase 1 with 1,300 slots and without Wyandotte Tribe Casino.
2. Chisholm Creek Casino Phase 2 (Best Case) with 2,000 slots and without Wyandotte Tribe Casino.
3. Chisholm Creek Casino Phase 2 (Worst Case) with 1,700 slots and a Las Vegas-style, Class 3 Wyandotte Tribe Casino with 1,300 slots.

Key Assumptions

Market and Economic Assumptions

The market and economic assumptions remained unchanged in this 2010 Supplemental Report from the original report titled, *South Central Gaming Zone of Kansas, Projections of Casino Visits and Gaming Revenues, Chisholm Creek Casino Resort, October 2009*. Key elements include flat, no-growth market through 2010, then growth and inflation at 3% beginning in 2011.

Timing

The Chisholm Creek Casino Phase 1 results are presented assuming a first full year of operations in 2012. Both the best and worst case Phase 2 scenarios are presented for the year 2015, however the applicant's proposal provides for the Phase 2 Full Build Out to occur later, as much as twelve years later. It is important to note that both of the applicant's Phase 2 scenarios extend twelve years out into the future.

Capacity

The capacity assumptions for both Chisholm Creek Casino and the Wyandotte Tribe Casino are shown in Figure 1. Capacity assumptions for both 2009 original projections (October 2009) and 2010 revised projections are included in Figure 1.

Capacity Assumptions Chisholm Creek and Wyandotte Tribe Casino

Chisholm Creek Casino

- The key changes for Phase 1 2009 vs. 2010 are the addition of ten poker tables, 100 hotel rooms, and the removal of two restaurants.
- Phase 2, Best Case, the only change is the addition of 5,000 square feet of convention space at Chisholm Creek Casino.
- Phase 2, Worst Case, includes a reduction in slots by 300 units (1,700 slots), less convention space (10,000 square feet total), one less restaurant, one less large entertainment venue, and a reduction in parking spaces from 3,000 to 1,925.

Wyandotte Tribe Casino

The information available for Wyandotte Tribe Casino (WTC) is mostly from newspaper sources and is, therefore, tentative and limited. WGR developed reasonable assumptions for 2009 and 2010 WTC capacity based upon this available information. Key changes from 2009 to 2010 are as follows:

- Facility changes from a Class 2 to a Las Vegas-style Class 3 casino.
- Increase in size from 750 slots to 1,300 slots.
- Increase in tables from 22 to 40.
- Increase in parking spaces from 1,000 to 1,500 to accommodate the larger casino size.

The most recent articles quoted Tribal authorities regarding their desire to obtain a compact with the State of Kansas to operate a Class 3 casino with 1,300 slots and 40 table games. No mention has been made of hotel rooms or other amenities; therefore, WGR has not included these items in the assumptions.

See Figure 1, page 1-3, for capacity details.

Figure 1
Capacity Assumptions Chisholm Creek Casino and Wyandotte Tribe Casino

	2009 Project			2010 Revised Project			
Capacities	Chisholm Creek Casino Phase 1	Chisholm Creek Casino Full Build Out	Wyandotte Tribe Casino	Chisholm Creek Casino Phase 1	Chisholm Creek Casino Phase 2 Best Case	Chisholm Creek Casino Phase 2 Worst Case	Wyandotte Tribe Casino
Year	2012	2015	2015	2012	2015	2015	2015
Casino Sq. Ft.	57,475	95,000	N/A	72,000	Not Specified	Not Specified	N/A
Slots	1,300	2,000	750	1,300	2,000	1,700	1,300
Tables	30	50	12	30	40	40	40
Poker	0	0	10	10	10	10	0
Convention Sq. Ft.	0	12,000	0	0	17,000	10,000	0
Rooms	0	150	0	100	150	150	0
Restaurants	3	5	2	1	5	4	2
Small Entertain- ment	0	1	1	0	1	1	1
Large Entertain- ment	0	2	0	0	1	0	0
Parking	1,925	3,000	1,000	1,925	3,000	1,925	1,500

Revenue Projections

Figure 2 contains the applicant's and WGR's revenue projections for the 2009 Chisholm Creek Casino original proposal submission and the 2010 revised submission.

The applicant's 2009 Phase 1 gaming revenue projections for Chisholm Creek Casino were estimated at \$117 million for 2012, growing to \$130 million in 2015. WGR's projections for 2009 Phase 1 gaming revenues came in at \$140 million for 2012, growing to \$155 million in 2015. It is important to note that these projections are based upon the assumption that there is no Wyandotte Tribe Casino.

WGR's 2010 Phase 1 revised gaming revenue projections are \$142 million for 2012, increasing to \$157 million in 2015. Estimates are \$2 million higher in 2010 due to the addition of hotel rooms, however the increase is partially tempered by the decrease in restaurants offered in the proposed casino facility.

The applicant's 2009 Phase 2 Full Build Out – Best Case is projected to generate \$230 million in 2015 as compared with WGR's estimate of \$206 million for the same year. WGR's 2010 Phase 2 – Best Case gaming revenue estimate for 2015 came in at \$200 million. The difference between 2009 and 2010 is due the elimination of a multi-purpose entertainment center in the proposal.

The applicant did not submit revenue projections for Phase 2 Full Build Out – Worst Case in 2009. WGR estimated \$160 million in gaming revenue for the Chisholm Creek Casino in 2015 for this 2009 scenario. WGR's revised 2010 projection came in at \$111 million for 2015. The \$49 million reduction in WGR's gaming revenue estimates from 2009 to 2010 can be attributed to the combination of the larger Wyandotte Tribe Casino with Class 3 slot machines (instead of Class 2 machines) and a resulting smaller Chisholm Creek Casino facility, as proposed in the 2010 revised application.

See Figure 2, page 1-5, for revenue projection details.

Figure 2
Chisholm Creek Casino Revenue Projections

Chisholm Creek Casino Revenue Projections				
Revenues (Inflated)	2012	2013	2014	2015
Applicant's Projections - 2009 Project				
Phase I (1,300 slots)	\$117,037,434	\$121,139,087	\$125,388,874	\$129,794,817
FBO (2,000 slots)				\$230,000,000
WGR Projections - 2009 Project				
Phase I (1,300 slots)	\$139,843,679	\$144,643,292	\$149,611,667	\$154,757,092
FBO (2,000 slots)				\$206,064,825
FBO with Wyandotte Tribe Casino (WTC)				\$159,738,769
WGR Projections - 2010 Revised Project				
Phase I (1,300 slots)	\$142,291,747	\$147,174,480	\$152,227,651	\$157,460,681
Phase II Best Case (2,000 slots)				\$200,363,332
Phase II Worst Case (1,700 slots and WTC)				\$110,955,526

Raving Consulting Company Supplementary Analysis of Chisholm Creek Casino Resort's Revised Non- Gaming Ancillary Amenity Development Proposal

**Prepared for the Kansas Gaming
Facility Review Board
3-26-10**



Raving Consulting Company
475 Hill Street, Suite G
Reno, NV 89501
Phone 775-329-7864
Fax 775-329-4947
thebest@ravingconsulting.com
www.ravingconsulting.com

INTRODUCTION

Raving has been asked by the Gaming Facility Review Board to evaluate the most recent non-gaming ancillary amenity development proposal from Chisholm Creek Casino Resort in the various phases and scenarios in which it was proposed, specifically:

- With or Without Tribal Competition
- Without Tribal Competition in first 60 months
- With Tribal Competition in first 60 months
- With Tribal Competition in months 60-120
- Without Tribal Competition in first 120 months

Raving was asked to do the following:

1. Apply the Raving Amenity Scorecard to the various Chisholm Creek Casino Resort phases and scenarios.
2. Comment on operational issues and challenges that might arise in any of the various amenity phases or scenarios.
3. Analyze how Chisholm Creek Casino Resort might respond beyond their current contractual obligations in each of the various Phase II scenarios.
4. Comment on, to the extent possible, Lakes Gaming management's competence and experience in their other gaming operations to react reasonably and logically in the Chisholm Creek situation, in terms of any potential need to make additional investment in gaming and non-gaming assets to meet demand, maximize profitability and/or respond to a competing tribal casino.

1. Raving Amenity Scorecard Applied to Chisholm Creek's Current 2010 Phases and Scenarios.

Assumptions:

1. 1,900 space parking lot, same as 2009 Chisholm Creek proposal
2. No retail/gift shop amenities in any phases or scenarios (no mention in Chisholm Creek amended facility management contract)

2009 Amenity Scorecard Review

Raving Minimum Amenity Score

Amenity	"Score" -3 to +3
Hotel = 100 Rooms	0
Food/Restaurants (4)	0
Casino Bars (2)	0
Convention/Mtg. Space (7,000 sq. ft.)	0
Other Amenities - Parking	0
Other Amenities – Retail (600 sq. ft.)	0
Total	0

Original 2009 Chisholm Creek Amenity Score

Amenity	"Score" -3 to +3
Hotel = 100 Rooms	- 3
Food/Restaurants	- 1
Casino Bars	- 2
Convention/Mtg. Space	- 3
Other Amenities - Parking	+ 1
Other Amenities - Retail	+ 1
Total	- 7

**Revised 2009 Chisholm Creek Amenity Score
(Proposal Later Withdrawn)**

Amenity	"Score" -3 to +3
Hotel = 100 Rooms	0
Food/Restaurants	0
Casino Bars	+ 1
Convention/Mtg. Space	0
Other Amenities - Parking	+ 1
Other Amenities - Retail	+ 1
Total	+ 3

Potential Amenity Score For Chisholm Creek Project

Amenity	"Score" -3 to +3
Hotel = 100 Rooms	+ 0
Hotel > 200 Rooms	+ 3
Food/Restaurants	+ 3
Casino Bars	+ 3
Convention/Mtg. Space	+ 2
Other Amenities - Parking	+ 3
Other Amenities - Retail	+ 2
Entertainment Venue	+ 2
RV Park	+ 2
Truck Parking	+ 2
Spa - Fitness	+ 2
Pool	+ 1
Total	+25

2010 Amenity Scorecard Review

A. With or Without Competition (Phase I)

Amenity	"Score" -3 to +3	Comments
Hotel = 100 Rooms	0	Raving Minimum
Food/Restaurants (1)	- 3	Well below Raving Minimum; Seating capacity a concern
Casino Bars (1)	- 2	Below Raving Minimum
Convention/Mtg. Space (5,000 sq. ft.)	- 1	Below Raving Minimum; Might impact ability to use space for gaming revenue
Other Amenities - Parking	+ 1	Assumed same as 2009 Chisholm Creek Proposal
Other Amenities - Retail	- 2	No mention in 2010 Revised Contract
Total	- 7	

B. Without Tribal Competition Within First 60 Months (By 84 Month Stage)

Amenity	"Score" -3 to +3	Comments
Hotel = 100 Rooms	0	Raving Minimum
Food/Restaurants (3)	- 1	Below Raving Minimum; Seating capacity improved
Casino Bars (2)	0	Raving Minimum; Lounge entertainment a plus
Convention/Mtg. Space (5,000 sq. ft.)	- 1	Below Raving Minimum; Might impact ability to use space for gaming revenue
Other Amenities - Parking	+ 1	Assumed same as 2009 Chisholm Creek Proposal
Other Amenities - Retail	- 2	No mention in 2010 Revised Contract
Total	- 3	

C. With Tribal Competition Within First 60 Months (By 144 Month Stage)

Amenity	"Score" -3 to +3	Comments
Hotel = 100 Rooms	+ 2	Raving Minimum
Food/Restaurants (5)	+ 1	Above Raving Minimum; Total seating capacity believed to be adequate
Casino Bars (1)	- 2	Below Raving Minimum
Convention/Mtg. Space (10,000 sq. ft.)	+ 1	Above Raving Minimum; Will allow for additional casino revenue generating activities
Other Amenities - Parking	+ 1	Assumed same as 2009 Chisholm Creek Proposal
Other Amenities - Retail	- 2	No mention in 2010 Revised Contract
Total	+ 1	

D. With Tribal Competition in Months 60-120 (By 144 Month Stage)

Amenity	"Score" -3 to +3	Comments
Hotel = 150 Rooms	+ 2	Exceeds Raving Minimum
Food/Restaurants (6)	+ 3	Above Raving Minimum; Total seating capacity believed to be adequate
Casino Bars (2)	0	Raving Minimum; Lounge entertainment a plus
Convention/Mtg. Space (10,000 sq. ft.)	+ 1	Above Raving Minimum; Will allow for additional casino revenue generating activities
Other Amenities - Parking	+ 1	Assumed same as 2009 Chisholm Creek Proposal
Other Amenities - Retail	- 2	No mention in 2010 Revised Contract
Total	+ 5	

E. Without Tribal Competition in First 120 Months (By 144 Month Stage)

Amenity	"Score" -3 to +3	Comments
Hotel = 150 Rooms	+ 2	Exceeds Raving Minimum
Food/Restaurants (5)	+ 2	Above Raving Minimum; Total seating capacity believed to be adequate
Casino Bars (2)	0	Raving Minimum; Lounge entertainment a plus
Convention/Mtg. Space (17,000 sq. ft.)	+ 2	Well above Raving Minimum; Will allow larger groups and significant casino revenue generating activities
Other Amenities - Parking	+ 1	Assumed same as 2009 Chisholm Creek Proposal
Other Amenities – Entertainment (30,000 sq. ft.)	+ 2	Significant amenity plus
Other Amenities - Retail	- 2	No mention in 2010 Revised Contract
Total	+ 7	

2. Operational Issues or Challenges Possible In Various Amenity Scenarios of Chisholm Creek Casino and Resort

Based on the amenity proposal of Chisholm Creek Casino and Resort as understood by Raving, the following are potential operational challenges that might be experienced, based on the operational and marketing background of the Raving consultants. These issues/challenges are seen as mainly occurring in Phase I, the opening phase (With or Without Competition).

A. Phase I (Opening Phase) Challenges:

1. The existence of only one restaurant (Casa Grande) with only 200 seats is problematic. It will likely be extremely difficult to adequately serve dining guests, especially at peak times. The lack of restaurant variety will make it very difficult to use food as a draw for the casino. While there is possibly some potential to use the hotel's 5,000 sq. ft. meeting space to create additional restaurant capacity (e.g. a small, makeshift buffet), the logistics of such a set-up are unknown and would negatively impact the ability to use that space for group meetings and small casino player events.
2. The proposed 1,200 sq. ft. Sports Bar is also seen as being too small to adequately serve patrons during peak times or for major sporting events. It would be difficult, no matter how innovative the Sports Bar's experience is, to leverage it as any sort of significant draw for the casino.
3. The proposed 100 room hotel's 5,000 sq. ft. convention space, while perhaps "right sized" for the hotel, will be limited in the size of casino groups it can accommodate for special events, VIP parties, etc.
4. No retail space was mentioned in the revised Chisholm Creek proposal, in either the Opening Phase or any subsequent phases or scenarios. Perhaps this is an oversight, or some basic retail/gift shop amenities are projected to be incorporated in the proposed ancillary facility elements. In any event, not having basic retail amenities would negatively impact the adequate serving of guest needs, limit the use of retail items as a player incentive, and miss any opportunity to use retail as a draw for the resort casino.
5. Parking is assumed to be identical to that detailed in the original Chisholm Creek proposal. If the number of parking spaces was significantly reduced or the ability to handle a modest number of trucks and RV's was eliminated, certain logistical challenges would need to be overcome.

6. It is understood by the Raving Consultants that Chisholm Creek's proposed 100 room hotel for Phase I will not be connected to the casino. This will create some guest service challenges, especially during inclement weather and may create a need to provide limited shuttle service between the casino and hotel, depending on the actual proximity of the hotel to the casino.

B. Subsequent Phase Challenges:

1. The main operational challenges beyond the Opening Phase (Phase I) are seen to be in Phase II, Scenario II (Without Tribal Competition Within First 60 Months). The addition of a 250 seat buffet restaurant and 30 seat café within 84 months brings total restaurant seating capacity to 480, much improved, but there are still concerns with the restaurants' ability to handle peak times, the need for further restaurant variety, and the continued (although lessened) inability of food to potentially act as a true draw for the casino. The other amenity concerns from Phase I (discussed above) remain, somewhat ameliorated by the proposed 125 seat entertainment venue.
2. In Phase II, Scenario I (With Tribal Competition Within 60 Months), depending on the timing of the additional amenities – 50 additional hotel rooms, three additional restaurants, 10,000 sq. ft. on site convention space – and the quality and management of the tribal competitor's facility, there is some concern that there is enough of an amenity response from Chisholm Creek to optimally blunt the competitive threat.
3. In Phase II, Scenario I and II (With Tribal Competition in Months 60-120), the same concerns exist about having enough of an amenity response to optimally blunt the competitive threats, somewhat tempered by the earlier (Within 84 months) addition of three restaurants and a 125 seat entertainment venue.

3. Analysis of How Chisholm Creek Casino Resort Might Respond Beyond Their Current Contractual Obligations in Each of the Various Phase II Scenarios

Many factors will likely determine if and how Chisholm Creek might respond beyond their contractual obligations in any of the Phase II Scenarios. These would include:

- Cost of capital
- Potential alternate uses of capital
- Whether Chisholm Creek initial gaming revenue results exceed projections
- Size and scope of tribal competitor's operations, including robustness of its non-gaming amenities
- How well Class II gaming machines are received by the gaming public
- What kind of a "buzz" is created by the opening of Chisholm Creek and how that buzz is maintained or enhanced after a few years of operations (and this is at least partially driven by the perception of the overall casino resort experience, including the amenities)
- How well Chisholm Creek Casino Resort and the tribal casino competitor's properties are marketed to the gamer segment as well as the "amenity seeker" segment.
- Ability of Chisholm Creek to overcome location disadvantage with Wichita-area gamers, relative to tribal competitor
- State of the local and national economy
- Whether or not casino gaming comes to Wichita Greyhound Park

SOME POSSIBLE SCENARIOS FOR CHISHOLM CREEK PHASE II RESPONSES BEYOND CONTRACTUAL OBLIGATIONS

Phase II, Scenario II (Without Tribal Competition Within 60 Months)

Scenario

Chisholm Creek Casino Resort opens as a smash hit with local gamers, even with the paucity of non-gaming amenities. The near term possibility of a Wichita-area tribal casino lessens (or is completely scuttled). The national and local economy improves and credit

eases. Chisholm Creek gaming and hotel customers begin clamoring for additional casino resort non-gaming amenities. Market research by Chisholm Creek supports a reasonable return on investment (especially in incremental gaming revenue) for investing in non-gaming amenities beyond contractual obligations.

Phase II, Scenario I (With Tribal Competition Within First 60 Months)

Scenario

Chisholm Creek Casino Resort opens as a smash hit with local gamers, even with the paucity of non-gaming amenities. The tribal casino in Wichita opens as little more than a slot parlor with essentially no amenities, and the Class II gaming experience (either because of more restrictive NIGC Class II regulations, the lack of casino table games, or because of Chisholm Creek's Class III games having more selection and player appeal) is seen as somewhat inferior by players. The national and local economy improves and credit eases. Chisholm Creek gaming and hotel customers begin clamoring for additional casino resort non-gaming amenities. Market research by Chisholm Creek supports a reasonable return on investment (especially in incremental gaming revenue) for investing in non-gaming amenities beyond contractual obligations.

Phase II, Scenario I (With Tribal Competition Within 60 Months) and Phase II, Scenario I and II (With Tribal Competition Within Months 60-120)

Scenario

Chisholm Creek Casino Resort opens successfully and is popular with local gamers, but many comment that "there is not enough to do there" and "it's mostly just a casino." The tribal casino opens as a smash hit, with a substantial investment and robust amenities, and has an experienced, marketing-savvy management team. The gaming revenue at Chisholm Creek is significantly impacted and market research highlights the need for an immediate response to "improve the product," especially the non-gaming amenities, to stay competitive and recover lost market share. Credit has eased enough and the strategic case is significantly clear that Chisholm Creek takes aggressive, immediate steps to invest in non-gaming amenities beyond contractual obligations.

4. Commentary on Lakes Management's Competence and Experience To React Reasonably and Logically in the Chisholm Creek Situation

The Raving Consultants have made no secret of their belief that Lakes Entertainment is a top notch gaming operator. Lakes' prior success as Grand Casinos is inarguable, even exemplary. Lakes development and management of Four Winds Casino in Michigan is one of the biggest success stories in tribal gaming in the last few years. Even Lakes' development and management of Red Hawk Casino, which has had operating results below expectations since opening 16 months ago, is testament to quality project development in a brutally tough California economy and tenacity in achieving revenue improvements.

To summarize why Raving shares this high opinion of Lakes Entertainment:

1. Its track record of success, both as Grand Casinos and Lakes Entertainment
2. Its proven ability to bring gaming to new markets
3. Its culture of developing its employees and treating them well
4. Its marketing and management philosophy
5. Its customer focus and use of customer research to guide business decisions
6. Its reputation for quality food at its casino resorts
7. Its willingness and ability to invest in its properties quickly when it makes business sense

All of this Lakes' praise aside, it is clear to the Raving Consultants that the Chisholm Creek proposed project is unique and will have challenges. Yes, it is entirely possible that this is the best casino development deal for the South Central Zone that is currently achievable in the current economy for the State of Kansas. But Raving is not the consultant on financial or investment matters for the Gaming Review Board. Raving has been asked to comment on non-gaming ancillary amenities and casino operations implications of those amenities, or lack thereof.

With all this in mind, Raving would like to leave the Gaming Review Board with the following summary of our overriding major impressions at this time:

1. We have concerns that the amenity package proposed by Chisholm Creek in the Opening Phase is less than adequate and will lead to some disappointment from initial casino visitors, make it somewhat difficult to attract repeat visitation from tourists and possibly locals, and leave

Chisholm Creek more vulnerable to competition from a potential tribal competitor.

2. We believe that Chisholm Creek and Lakes Entertainment have three strategic options with their proposed development, should tribal competition ensue or should initial or ongoing operating results be disappointing:
 - a. Operate as lean as possible for as long as possible, to bring as much gaming revenue as possible to the bottom line as quickly as possible.
 - b. Aggressively try to grow the gaming business by attempting to “buy” the business through liberal free play, lucrative casino promotions and/or development of a robust casino host function.
 - c. Add significant non-gaming amenities to create a more full casino resort experience and give both tourists and locals more reasons to spend more money at more cash registers on more visits.

We are not sure which of these strategic responses is best for Chisholm Creek Casino Resort, LLC/Lakes Entertainment and which is best for the State of Kansas. But we fear that these interests may not be aligned.

3. We have had a hard time understanding why the State of Kansas would execute a management contract that would allow non-gaming amenity development to potentially proceed more slowly and less fully in the face of tribal competition instead of faster and more robustly.

We thank the Gaming Review Board for the opportunity to offer these further analyses and opinions and hope it finds them to be of value.