

Proposed Action and Five Alternative Sites

Market and Financial Feasibilities of a Casino in Cascade Locks and Five Alternative Locations

Prepared for the Confederated Tribes
of the Warm Springs Indian
Reservation

ECONorthwest

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Executive Summary

The Confederated Tribes of the Warm Springs Indian Reservation (“Warm Springs”) would like to build and operate a new resort hotel casino in Oregon that would replace their existing casino at Kah-Nee-Ta.

The casino at Kah-Nee-Ta is well beyond a comfortable reach of urban feeder markets, is difficult for many casino players to drive to, and is far from any major highways. The volume of casino players at Kah-Nee-Ta is very low. Therefore, the casino’s returns are small and grossly inadequate for fulfilling the social, economic, and cultural needs of the Warm Springs.

Declines in other tribal funding sources, in particular forest products, have left the Warm Springs with massive unmet needs over the past years. The gap will grow well into the future unless additional funding sources are found.

In response to this, the Warm Springs would like to replace its Kah-Nee-Ta casino with one in a location strong enough to generate returns that would meet the Tribe’s needs to adequately support tribal self-sufficiency, tribal investment in its economic and social services infrastructure, and tribal provision of benefits and services to tribal members.

An environmental impact statement (“EIS”) is being prepared for such a resort. The proposed action calls for building a resort casino-hotel in Cascade Locks, Oregon. This report presents market and financial analyses of that proposed action and five other possible casinos.

The National Environmental Policy Act requires that a range of reasonable and feasible alternatives for meeting the purpose and need for the action be evaluated. Over the course of considering different locations for a new resort casino, the Warm Springs focused on several alternatives before deciding on Cascade Locks as the site of the proposed action. The proposed action and five alternatives are the subjects of this report.¹

ECONorthwest provided the Warm Springs with economic research on possible new casino locations as far back as 1998. The analysis in this report relied on substantially updated economic data, construction and operating cost estimates, market demographic forecasts, and traffic data. There have also been changes in the competitive landscape that affect casinos. Furthermore, the opening dates now assumed are several years later than those used in earlier studies. Therefore, the results in this report will differ from past research.

¹ In 2000, the tribal membership rejected a referendum (Resolution 9870) that would have authorized the further investigation into and building of a tribal casino in the Madras area. Accordingly, this report does not analyze a Madras site.

Outline

This report begins with an executive summary, which is followed by six sections—each discussing the analysis of the alternative casinos. The report is divided into the following seven sections:

1. **Executive Summary:** contains an overview of the methodologies and economic models used to analyze the four alternatives.
2. **Cascade Locks resort hotel and casino:** a market and financial analysis of the proposed action, which calls for a hotel-casino resort built along the Columbia River in Cascade Locks, Oregon.
3. **Hood River trust land:** analysis of an alternative site that is on trust land east of the City of Hood River, Oregon.
4. **Hood River trust & acquired land:** includes the current trust land east of the City of Hood River, Oregon, but also assumes that adjacent properties owned by the Tribe would be used for the casino.
5. **The Dalles:** a non-specific site on industrial land off interstate 84 in the City of The Dalles, Oregon.
6. **Hehe Junction:** a site on a rural, undeveloped area of the reservation that is about a 20 minute drive west of Warm Spring on US-26.
7. **Warm Springs:** an analysis of a resort on the reservation and immediately west of the community of Warm Springs.

Methodology

The proposed action and alternatives were analyzed using a common set of market and financial models. The analysis of each alternative follows a three-step methodology:

1. **Market Assessment:** A spatial economic model is used to forecast how many visitors and how much spending would occur at a given location based on relative driving times between communities and competing casinos, income and demographic characteristics on a Zip code level, and tourism traffic flows. The output of this casino market model establishes the demand for a casino at a given location.
2. **Casino Dimension Determination:** The second step determines the appropriate size and costs of building a casino given the market assessment. A casino capacity model was used to do this. It takes the output of the casino market model and uses it to forecast the need for video lottery terminals (“VLTs”), restaurant seats, table games, employees, parking, buildings, *etc.* Construction, site development, land, infrastructure, start-up, pre-opening, capitalized interest, and working capital requirement costs are then calculated by the model.

Some of the results of the casino dimension model were overridden when better data were available. Modifications were imposed for locations where there would be special site characteristics such as easy access to city infrastructure or constraints, like a need for a highway interchange.

For the proposed action, the casino at Cascade Locks, there had been a substantial amount of design and planning work done, so for this analysis investment and size forecasts from those efforts were used. For the Hood River trust & acquired land alternative, preliminary engineering and construction cost estimates were used.

3. **Financial Model:** The final step in the analysis of each alternative was to build a *proforma* using a financial model and a common set of assumptions. A *proforma* is a financial forecast linked to the market, economic, and initial capital cost assessments. It determines how much the Warm Springs would have to borrow to finance a new casino through to its opening day.

The financial model forecasts the cash flow and income statements, on a GAAP basis, for the first full ten calendar years of casino operations. The financial model also forecasts the number of employees for each occupation and function, the number of hours spent by visitors at various casino venues, operating costs by department, inventories, and, where applicable, hotel and meeting room sales.

The *proforma* reveals how much each alternative would be able to contribute to a community benefit fund (“CBF”) and, in all but two cases, to a State revenue sharing program (“SRS”). From the standpoint of assessing whether an alternative would be able to fulfill the unmet needs of the Warm Springs, the most important result of the financial model is its forecast of discretionary distributions. This would be the amount of money the Warm Springs would have available to support their government operations and needs of their members.

Market Assessment

The market assessment of a hypothetical new casino is determined by running a model of the casino industry, which was originally developed by ECONorthwest nine years ago. This model is continually being updated with new demographic data. It is also periodically recalibrated as information about casinos and casino players, from surveys conducted by ECONorthwest and others, become available. The version of the model used for this report is based on data available that was current as of December 2005.

The model is built around the present configuration of tribal casinos, including the existing cardroom casinos in La Center, Washington, but with the following two modifications:

1. The first is that the model assumes that the existing Indian Head Casino at Kah-Nee-Ta is closed by the Warm Springs as agreed to in their compact with the Governor of Oregon.
2. It is assumed that the Cowlitz Tribe would open a casino 35 minutes north of downtown Portland twelve months before the Warm Springs open their new casino. The impact of a Cowlitz Casino is captured in the revenue and visitor count forecasts of the casino model. However, since compacts negotiated with the Governor of Washington State have limited the number of gaming stations at tribal casinos, the model reflects such constraints on the capacity forecast for the Cowlitz Casino.

The least restrictive compacts afforded urban-area tribes limit each tribe to 2,000 VLTs and 75 for-profit table games in one casino, and 1,000 VLTs and 50 table games at a second in a different location. Therefore, the casino model limits the visitor count at the Cowlitz to approximately 18,000 visitors a day, which would be compatible to a place with two casinos containing 3,000 VLTs and 125 table games. At that volume, the casinos would be uncomfortably crowded.

If Washington State and the Cowlitz were to agree to a compact with no limits on gaming stations, the Tribe would be able to nearly double the size of their operation and cater to about 25,000 visitors a day. If this were to occur, visits to and revenues at the new Warm Springs casinos would be less than forecast. Similarly, if gaming law, gaming regulations, and compacts with tribes in Oregon or Washington were to substantially change, the market assessment forecasts presented in this report would need to be updated.

Approach

The model forecasts gaming activity for sixteen 16 casinos in a wide contiguous geographic area. One of the casinos would be a Warm Springs alternative. For the purposes of this analysis, it is assumed that the alternative casino would open in 2009.

The model assumes that the Warm Springs casino would have a mix of live keno, VLTs, table games, and poker. We purposely did not include bingo because the game competes with charitable bingo halls, causes surges in traffic and parking space demand, crowds out players that are more valuable, requires large amounts of expensive space, and generates sup-par cash flows. It also has unfavorable demographics. Surveys by ECONorthwest have shown that the incomes of casino bingo players are nearly half that of other tribal casino players. Indeed, many tribal casinos lose money on bingo.

The casino economic model yields a forecast of annual revenues and visitor counts, which are used in the *proforma*. The forecast breaks down visitors by various types. These include locals and tourists, casino player and non-players, hotel guests, and daytrip meeting attendees. All values in the model are expressed in current dollars, which means that they do include the effects of inflation.

Factors Affecting the Casino Forecast

The model considers every Zip code in Oregon and Washington within approximately a 150-minute drive of each casino—the normal maximum drive for a local daytrip casino visitor in the region. Historical and forecast data for each Zip code is provided by Claritas, Inc. — a nationally recognized leader in demographic market research data.

The model takes into account some of the basic factors that predict how often people will gamble at a casino and how much they would spend. They include demographics, which are easy to measure statistics such as age and income distributions of the local population, and other factors like lifestyles and proximities to competing casinos. Using such data, the number of visits and amounts spent at each casino from each Zip code is calculated.

Driving Time

ECONorthwest relies on differences in driving times to estimate the frequency that individuals from one Zip code would travel to a casino. Generally, the closer a Zip code is to a casino, the more visits residents would make to it. Visits are split between competing casinos in proportions dependent on how long the drives are to them.

Income Distribution

Survey data from Oregon and Washington show that household income is the major determinant, after driving time, of how often locals will visit casinos. Income is the leading explanatory variable for predicting casino spending. Casino visitation behavior of households of different income levels is embedded into the model.

Statistically, low-income households are the least frequent casino visitors and, as expected, the lowest spenders. In the Northwest, upper middle-income households are the most frequent visitors to local Indian casinos. Affluent households, because of access to more alternative forms of leisure time and a higher propensity to gamble in Las Vegas, visit local Indian casinos somewhat less often than upper middle-income households do.

Age Distribution

Age plays a role. Survey data, used in the model, shows a distinct pattern where adults of child-rearing ages visit Indian casinos less than those younger and older. In Oregon and Washington, adults that are between the ages of 45 to 64 spend the most at Indian casinos.

Lifestyle Cluster

Lifestyle clusters provide further insights on how likely residents are to visit Indian casinos. A lifestyle cluster is of grouping households according to how they prefer spending their time and money. It transcends what demographics might tell us. For example, clusters containing urban office workers are much more likely to go to casinos than are rural blue-collar clusters, even though their age and income demographics may be similar. Claritas, Inc provided the cluster data for this analysis.

Tourists

Casino visitors that live more than 150-minutes away are considered tourists. This category includes not only leisure destination travelers, but also others such as people attending to personal business and those that are passing by a casino while going to another destination. For instance, professional truck drivers make up a large portion of the non-local visitors at some casinos located off interstate highway interchanges.

The model accounts for these non-local visitors by using traffic forecasts, based on Oregon and Washington state transportation data, and capture rates. ECONorthwest estimates the appropriate level of capture based on its long experience doing market research for casinos in West. This includes making direct observations and collecting data at numerous Oregon and Washington Indian casinos.

Seasonal Residents

Claritas uses U.S. Census definition of population, which is the number of permanent residents. Seasonal residents are not counted by in Census population statistics. To adjust for this, the model estimates the annualized seasonal household populations for Zip codes that have large stocks of vacation homes. The model includes seasonal residents when estimating the number of local casino visitors.

Hotel

The Cascade Locks alternative is based on a detailed plan for a large resort. Because of a paucity of lodging in Cascade Locks and the isolated casino site, a 250-room hotel was incorporated into the plan. It was later determined that because of the scenery, proximity to Portland, and the ability of the casino to cross-subsidize lodging, that an upscale hotel would be needed. As such, the plan calls for the following amenities to accompany the hotel: banquet room, a cabaret, a spa, meeting rooms, and pool.

ECONorthwest has built many hotel market models, including several for casinos. A hotel model was incorporated into the casino model for the Cascade Locks alternative. It forecasts lodging supply, demand, and pricing for upscale and high midscale properties in the region. It also forecasts room demand, revenues, visitor counts, and operating costs for the new hotel.

The Hood River and The Dalles alternatives do not include hotels because there is more than adequate stock of middle to upscale lodging within walking distance of the casino locations.

For the Warm Springs and Hehe Junction alternatives, which would both be on U.S. highway-26, the Tribe already has a 139-room resort hotel twelve and about 20 miles away, respectively. The Tribe would be ill advised to add lodging capacity at the casinos. Since it is such a thin market, the new hotels would severely cannibalize business going to the Tribe's existing Kah-Nee-Ta resort.

Casino Dimension Determination

Estimating the size of an alternative casino is necessary before one can build a financial *proforma* as size affects both capital and operating costs. Engineers, the Warm Springs, and others had done extensive work in designing casino projects for Cascade Locks and the Hood River trust & acquired land alternatives. Their cost and size estimates were used in this analysis. For the other alternatives, a casino capacity model was used.

The capacity model determines the appropriate size of a casino, which is measured in several ways. For this report, the most salient factors, such as the number of table games, VLTs, and restaurant seats, are described. The model then estimates the cost of building the casino based on comparable high quality properties and anticipated construction costs for 2006 to 2008.

The capacity model takes market assessment forecasts of visitors and the numbers of hours they would spend on the property engaging in various activities. Differences in the types of customers a casino would draw affect the needs for various types of features. Casinos in high tourism areas, for instance, need a higher proportion of restaurant seats than average because it would attract more non-players.

Methodology for Determining Size

The method used by the capacity model ties directly to forecasts of the number of hours visitors will spend at a proposed casino property and how they would divide-up their time. This technique is called time budgeting. Once having a time budget, estimates of the needed amounts of VLTs, table games, and restaurant seats can be determined.

The casino model provides visitor counts by type (locals, non-locals, hotel guests, casino players, non-gamblers, minors). From visitor activity surveys of tribal casinos, estimates can be made of the time budgets of visitors at the alternative casino. This yields the number of customer hours by activity over the year and, subsequently, per average hour. The target capacity of the casino should be based on having sufficient capacity to accommodate demand during normal peak hours in the year the casino's business reaches stabilization and have some space to grow into if the economy expands.

In this methodology, visitor hours are divided into three categories, which were devised by ECONorthwest after years of research studying visitor activity at Washington casinos:

- 1) **Gaming hours.** Time spent actively gambling—betting, waiting for an outcome, or collecting a payoff. Time spent sitting in front of VLTs, but not wagering or joining a friend at a table game, but not betting, is not counted as gaming time. In Oregon, players spend over a fourth of their time on casino floors doing things other than actively gambling. People that come to a casino to gamble will spend about 65 percent of their time doing so. The overall percentage is less because of the presence of non-players. Excluding bingo, about three-fourths of the gaming time spent in Oregon casinos is in front of VLTs.
- 2) **Food & beverage hours.** This covers time spent eating and drinking in the casino or in the restaurants and lounges. The purpose of this variable is to estimate the demand for seats in food & beverage venues at the casino. Therefore, it does not include time spent eating or drinking at meetings or in hotel rooms (that is counted as other time). About 17 percent of the time that visitors spend at an Oregon Indian casino is spent eating and drinking.
- 3) **Other.** Any hours spent on the casino property, including all the time in the hotel, arcades, and parking lots, or in the casino while not gambling or eating and drinking is counted as other time. Properties with hotels have higher rates of “other” hours because they garner more non-gaming guests that sleep overnight and more minors.

VLT Count

In Oregon, VLTs are the bottleneck in busy Indian casinos. Surveys tell us that Oregon and Washington players like casinos that are popular, but not so busy that patrons feel crowded in and they have difficulty finding the machines they want to play. For most casinos machine occupancy rates in the range of five to seven hours per day is typical. Research by ECONorthwest has shown that when VLT usage rates exceed eight hours a day over an average week, player satisfaction declines greatly and gaming revenues are far less than they could be.

During a typical week, the normal ratio of peak to average hourly player attendance at Indian casinos in Oregon is slightly less than three-to-one. If the VLTs are used an average of eight hours a day, one would expect to see nearly every available machine used during the normal weekly peak (usually early Saturday night).

The eight-hour rule, however, works only under ideal conditions. In any casino, some VLTs are inoperative. There are seasonal variations, holidays, and atypical weeks where peaks can be unusually high. One also needs to consider people occupying seats in front of VLTs that are not actively gambling. In any Oregon casino, you will see people stopping play to smoke, drink, talk to others, and, most significantly, dealing with bill acceptors and ticket printing. In addition, allowances must be given for an acceptable vacancy so that players, even at peak times, have choices. Thus, at a comfortable, yet busy Oregon casino, the optimal usage rate is closer to seven hours per VLT per day.

Table Game Capacity

Similar dynamics affect table games, although table game players are younger and more likely to stay later into the night than the typical Oregon VLT player is. Thus, even with a higher desired vacancy rate of eight percent at tables, the optimal usage rate for them is higher than with VLTs.

Other Game Capacity

Poker, by its very nature, requires many players at the same time, so unlike other games some crowding is desirable. Ideally, a poker room would have seats occupied 12 hours a day with a vacancy rate of ten percent or so.

Keno capacity was not explicitly calculated, as it requires little space. It is expected that the Warm Springs would use runners and keno kiosks in lieu of a keno lounge with dedicated seating.

Restaurant and Lounge Capacity

Eating and drinking demand follows a stronger diurnal pattern than gaming does, thus, the peak to average ratio of food & beverage seat occupancy is higher than it is for gaming. Consideration was given in the analysis for people eating and drinking outside of the restaurants and lounges.

The capacity calculation factors in seating vacancy rates. In full service dining areas, at capacity, 20 percent of the seats are typically empty because of size of dining parties does not perfectly match the number of seats at every tables. In casino lounges, the normal vacancy rate is about 12 percent.

Space Determination

The floor area of the casino, which includes restaurants, circulation, vestibules, and other public areas, is based on averages with adjustments in proportion to the number of restaurant seats and gaming positions of each alternative. Back of the house and other spaces are proportioned accordingly. The number of parking spaces is based on the visitor vehicle and employee forecasts.

Cost Determination

Construction, soft costs, furniture, fixtures, and equipment (“FF&E”), initial working capital, pre-opening, and financing costs are also calibrated for each alternative according to the expected size of the facilities, number of hotel rooms, and volumes of gaming they would enjoy. Each alternative is assumed to have comparable levels of high quality features.

Financing costs for all alternatives and the proposed action assume that the Warm Springs would make the same equity contribution to each and would borrow the remainder under the same terms, although the amount borrowed differs according to the costs of building and opening each alternative casino.

Financial Model

The financial model forecasts employment, net income, ongoing capital expenditures, working capital requirements, cash flows, CBF and SRS accruals and payments, and discretionary distributions. These distributions are the maximum amount of cash flow that could be withdrawn by the Warm Springs for tribal needs while still allowing for continuing casino operations, repairs, maintenance, refurbishments, and capital replacements. However, the forecasts do not consider extraordinary circumstances or the need for possible future expansions at any of the alternatives. Thus, the distributions are described in the *proformas* as discretionary.

Key Proforma Assumptions

To build the *proforma*, assumptions were made about financing and on visitor spending, operating costs, and capital expenditure patterns. ECONorthwest relied on comparable industry averages and economic relationships. Among the key assumptions used in this analysis:

- The *proformas* assume that the Warm Springs would contribute their limited funds as an equity investment, but that the bulk of the financing would come from long-term debt.
- The Tribe would issue a seven-year bond on June 30, 2006. The interest rate would be nine percent and principal would begin being amortized in June 2009, which would allow the casino time to build-up reserves from operating cash flows to help pay principal. The amount of debt financing for each alternative was determined using the financial model, which calculated the minimum amount needed so that the casino would have adequate working capital upon the commencement of operations.
- Construction of the alternatives and the proposed action would start in 2006 and end at the end of the first quarter of 2008. The casino would open on April 1, 2009.

- Ongoing capital spending for replacements, repairs, and refurbishments grow as the property ages. This includes periodic VLT replacements and a major refurbishment of hotel rooms, in the Cascade Locks alternative, approximately eight years from opening.
- The compact for Cascade Locks negotiated with the State of Oregon includes a complex revenue sharing plan. It is assumed that the same SRS plan would apply for the two Hood River and The Dalles alternatives. It may or may not apply to the Warm Springs and Hehe junction alternatives, which are on the Reservation. Current trends in recent compacts around the country have included SRS requirements. Therefore, the financial projections for these were done two ways—with and without an SRS plan.²
- The CBF contribution system described in the Cascade Locks compact was assumed to apply to all of the alternatives analyzed for this report.
- The financial model does not use simple cost-to-revenue ratios. Operating expenses are instead based on the normal relationships between capacity, visitor counts, and the hours spent by visitors at various venues.
- All dollar values include the effects of inflation.
- Pivotal to any casino forecast are the economic assumptions for inflation, household, and income growth. The economic assumptions used in this analysis call for slightly higher inflation, but also slower household and income growth than recent historical data indicate.

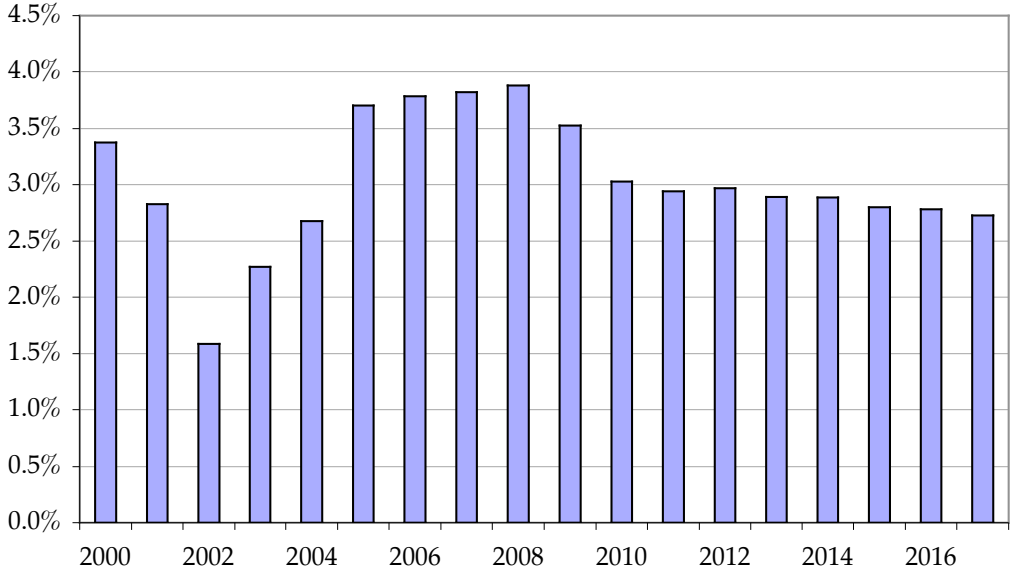
Inflation

The analysis uses the U.S. city average consumer price index (“CPI”) for all urban consumers (1982/84 = 100), which is published monthly by the U.S. Bureau of Labor Statistics. Economists commonly cite annualized percent changes in the CPI as a measure of inflation in the country.

The inflation rate through the first nine months of 2005 was 3.3 percent. The forecast shown in Figure 1, calls for the inflation rate rising to about 3.8 percent over the next three years. It then gradually declines to a long-run average rate of 2.7 percent in 2017.

² State revenue sharing programs are becoming more common in compacts and it is part of the Cascade Locks compact. However, it cannot be determined with certainty whether, or to what extent, an SRS would be part of the compact for the other alternative sites. For purposes of this analysis, it is assumed that an SRS would be part of the compacts for Cascade Locks, the two Hood River sites, and The Dalles site. It is assumed for the Warm Springs and Hehe alternatives that an SRS is less likely to be part of the compacts. Accordingly, the analysis for these two sites presents financial projections both with and without an SRS.

Figure 1: Inflation Rate as Measured by the U.S. Consumer Price Index, 2000 to 2017



Source: Historical data from the U.S. Bureau of Labor Statistics appended with forecasts produced by ECONorthwest October 2005.

Cascade Locks Casino

The proposed action calls for the establishment of a casino facility in Cascade Locks, Oregon. It would be named the Bridge of the Gods Resort and Casino (“Resort”). The name derives from American Indian legends about a land bridge that geologists confirm had once blocked the Columbia River near modern day Cascade Locks.

The Resort would be built on vacant land along the Columbia River and just east of the city. The property is very close to Interstate 84 and has very scenic views of the Columbia River Gorge. The City of Cascade Locks has a population of 1,150 (estimate for 2004).

The advantages of this location are many. The land it would be built on had long been targeted by the Port of Cascade Locks for resort development because of the scenery and high tourism traffic through the Columbia Gorge. Attempts to attract businesses to Cascade Locks had yielded little. Consequently, Cascade Locks has economically stagnated. Therefore, local interest in seeing a resort built is keen. The principal advantage of the location is its proximity to the Portland metropolitan area. The Resort would be about 45 minutes from downtown Portland.

There are disadvantages to the location. To avoid burdening Cascade Locks with traffic and to improve access to the site, the Tribe will build a highway interchange connecting the Resort to Interstate 84. The climate at Cascade Locks is less favorable than many other cities in Oregon. The area is prone to high winds, heavy rain, and snow. On a few occasions in the past 20 years, the Interstate has closed because of dangerous weather conditions resulting from ice.

Market Potential

The casino model reveals that the Resort would be able to attract over three million visitors in its second year with revenues exceeding \$242 million. Substantial growth would continue until 2012 when the casino and hotel reach stabilized levels of activity. From that point on, growth rates would slow to levels commensurate with general economic activity.

Table 1: Market Forecast, Cascade Locks Resort, 2008 to 2018

Data (in millions)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Visitors											
Gaming	2.03	2.87	3.03	3.21	3.28	3.35	3.42	3.49	3.57	3.64	3.72
Non-gaming	0.26	0.35	0.37	0.37	0.38	0.39	0.40	0.40	0.41	0.42	0.42
Total Visitors	2.28	3.22	3.40	3.59	3.66	3.74	3.82	3.89	3.98	4.06	4.14
Revenues											
Gaming - net	\$131.98	\$202.69	\$223.86	\$245.91	\$257.70	\$269.80	\$282.64	\$296.02	\$310.11	\$324.69	\$339.96
Hotel	4.88	8.38	10.45	11.94	12.59	13.04	13.59	14.11	14.69	15.22	15.73
Food & beverage	18.33	26.67	29.16	31.68	33.28	34.87	36.57	38.31	40.15	42.03	43.95
Retail & other	3.05	4.34	4.69	5.03	5.29	5.55	5.82	6.10	6.39	6.69	7.00
Total Net Revenues	\$158.24	\$242.07	\$268.15	\$294.56	\$308.87	\$323.26	\$338.61	\$354.54	\$371.34	\$388.63	\$406.64

ECONorthwest, December 30, 2005.

Resort Dimensions

The resort would have a large casino attached to an upscale, 250-room hotel with restaurants, lounges, spa, children's center, and pool. The description of the Resort is summarized below:

- The resort will be a high-caliber entertainment complex consisting of a low-rise structure that offers to the public gaming and non-gaming entertainment within a unique Northwest location that offers a world-class experience. The sizing of the 610,000 square foot ("SF") facility has been based on industry standards and current trends from gaming and non-gaming facilities, including back-of-house support areas required to provide high quality services.
- The 100,000 SF gaming floor will support 1,800 video lottery terminals ("VLTs"), which are a type of modern slot machine, and 60 table games upon opening. The compact allows for an expansion after one year to 70 table games and 2,000 VLTs. The gaming area is designed to easily accommodate this expansion.
- There will be a 12-table poker room. Keno would be made available through runners and kiosks. Overall, the floor layout allows a more gracious experience for guests, as seen in higher service oriented facilities.
- The casino would have 28,000 SF dedicated for guest services including a VIP lounges, a bus lounge, valet, coat checkrooms, and restrooms.
- There would be a childcare center—a commercial short-term secure facility for children 12 and under, and an arcade.
- Back-of-house gaming functions would be contained in a 114,000 SF area for support staff, which would provide a high level of service from the cash cage to security.
- Amenities within the casino area include a 300- to 325-seat buffet that features a local and global assortment of cuisine with five live-action exhibition stations.
- A 90-seat fine dining restaurant would be located off the hotel lobby with a 50-seat lobby/lounge adjacent to the restaurant.
- There would be a café and quick service eating venues.
- The casino will have a classic 200-seat microbrewery, which would also offer casual dining.
- Within the gaming floor are three bars that will provide libations for gaming patrons wishing to take a short break.

- A unique entertainment bar/lounge with 250-seats will provide patrons with Jazz & Blues performances.
- There would be a 250 room upscale hotel with fitness center, 7,000 SF spa, and an indoor swimming pool to provide overnight guests with premiere accommodations adjacent to the Columbia River.
- There would be 15,000 SF of event space (about 12,000 SF leaseable) for groups, and sufficient storage space for associated furniture, equipment, and supplies.
- The Resort will have 5,000 SF of cultural and retail space. This includes the resort's gift shop and a gallery highlighting rotating exhibits from the Warm Springs museum.
- Class-A office space totaling 27,000 SF will be provided for the administrative, accounting, marketing and executive staff. This office environment is designed to be a facility that attracts and retains high caliber talent required to support a facility of this size and the service it will provide.
- Gaming facilities allow smoking. To accommodate patrons that do not smoke this building has incorporated a special displacement air system to reduce the exposure of smoke to guests. The size of mechanical areas has been increased to support the displacement system. Electrical areas provide for a flexible system that supports continued gaming layout modifications.
- Construction costs include the building of an interstate highway interchange and rail crossing to the resort.
- Protected pedestrian access ways to the facility from parking areas will address climatic conditions unique to the Columbia Gorge.

The Resort capacity and capital requirements shown in Table 2 are based on what it would look like in its second year when the compact allows 2,000 VLTs and 70 table games. It is forecast to cost the Warm Springs \$467.5 million to open the facility of which \$435.4 million would have to be borrowed.

Table 2: Capacity and Capital Requirements, Cascade Locks Resort

Capacity & Capital Requirements to Open	Units or MN \$
<u>Capacity (units):</u>	
VLTs	2,000
Table games	70
Poker tables	12
Keno games	1
Hotel rooms	250
SF of rentable of meeting space	12,000
Restaurant seats	870
<u>Uses of capital to open (MN \$):</u>	
Construction & land	\$300.4
FF&E	56.9
Capitalized interest expense	58.8
Pre-opening & start-up costs	35.9
Working capital, reserves & other	15.5
Total expenditures to open	\$467.5
<u>Sources of capital to open:</u>	
Long-term debt principal	\$435.4
Equity contributions	19.5
Pre-open interest earnings	12.6
Total sources of capital to open	\$467.5

ECONorthwest, September 2005.

Financial Projection

The *proforma* shows that resort would have an average of 1,713 full time equivalent (“FTE”) employees in its first nine months. Employment levels rise to nearly 2,000 in the fifth year. Operating expenses for the Resort are substantial because of the high levels of service and costs of maintaining such a large facility in the Columbia Gorge where the climate is challenging. State revenue share payments rise over time, but jump in 2016 when the sliding scale is replaced with a straight 17 percent take, and then again in 2018, for just that year, when earlier deferrals expire.

Table 3: Financial Forecast, Cascade Locks Resort, 2008 to 2018

Financials (MN \$ except employees)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Employees (average FTEs)	1,713	1,785	1,873	1,955	1,987	2,015	2,045	2,075	2,106	2,138	2,169
Total net operating revenues	\$158.2	\$242.1	\$268.1	\$294.6	\$308.9	\$323.3	\$338.6	\$354.5	\$371.3	\$388.6	\$406.6
Operating expenses	100.4	141.2	151.0	160.5	167.7	169.4	175.6	179.4	184.1	192.1	200.5
Debt service & short term interest exp.	(39.2)	(108.2)	(104.8)	(101.2)	(97.5)	(91.8)	0.0	0.0	0.0	0.0	0.0
Community benefit fund contributions	-	0.7	2.8	3.9	5.0	5.7	7.0	7.7	7.4	8.0	8.4
State revenue share payments	-	8.2	5.8	16.2	21.0	24.2	27.3	29.3	47.0	49.3	73.2
Discretionary distributions	-	3.0	16.0	29.1	33.0	64.9	139.5	149.4	133.1	148.9	131.7

ECONorthwest, September 2005.

In its first full-year, the most recent *proforma* estimate shows that the Resort would be able to generate discretionary distributions for the Tribe. They would exceed \$29 million in 2011 and approach \$140 million in 2014—the year after all of the long-term debt incurred would be paid off. Over the 2008 to 2018 period, discretionary distributions would total an average of \$77.1 million a year.

Hood River Trust Land

The Hood River trust land is in the Columbia Gorge about 20 miles east of Cascade Locks and 61 miles from Portland. The trust land is steeply sloped and heavily forested. It is accessible by a short two-lane road that connects to Interstate 84, US-35, and Hood River. The property is adjacent to the head of the Mark O. Hatfield trail, which is maintained by the Oregon Parks & Recreation Department. It is also less than a mile from downtown Hood River, which is a city with a population of 6,230. A popular tourist destination, Hood River has many hotels and caters to outdoor recreation enthusiasts.

The advantages of this alternative include its proximity to a known tourism destination and short distance to an exit on Interstate 84. It is about an hour drive from downtown Portland. The City of Hood River has an established base of good quality lodging which the casino's patrons would be able to use. Most of the lodging is within two miles of the trust land.

The primary disadvantage is the high cost of building a casino on a small, steep land parcel. In addition, like Cascade Locks, Hood River has periods of inclement winter weather and is more vulnerable to road closures due to ice storms.

Market Potential

The casino model shows that a casino on the trust lands would be able to attract over two million visitors by its fourth year. A casino in Hood River is capable of attracting that many visitors because it is only an hour from downtown Portland and, perhaps most importantly, it is accessible from Portland via a 65 mile per hour Interstate highway.

Table 4: Market Forecast, Hood River Trust Land Casino, 2008 to 2018

Data (in millions)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<u>Visitors</u>											
Gaming	1.16	1.64	1.74	1.84	1.87	1.91	1.94	1.98	2.02	2.05	2.09
Non-gaming	0.14	0.18	0.18	0.19	0.19	0.19	0.20	0.20	0.20	0.21	0.21
Total Visitors	1.30	1.82	1.93	2.03	2.07	2.10	2.14	2.18	2.22	2.26	2.30
<u>Revenues</u>											
Gaming - net	\$75.14	\$114.72	\$126.47	\$138.46	\$144.82	\$151.38	\$158.31	\$165.86	\$173.80	\$181.90	\$190.31
Hotel	-	-	-	-	-	-	-	-	-	-	-
Food & beverage	9.58	13.82	15.00	16.21	16.99	17.79	18.64	19.50	20.42	21.34	22.31
Retail & other	1.64	2.32	2.48	2.65	2.78	2.91	3.06	3.20	3.35	3.51	3.67
Total Net Revenues	\$86.36	\$130.86	\$143.95	\$157.32	\$164.60	\$172.08	\$180.00	\$188.56	\$197.57	\$206.75	\$216.29

ECONorthwest, December 30, 2005.

Resort Dimensions

The casino on the Hood River trust land would, because of the site dimensions, have to be built up and have multi-level structured parking. As such, the casino would be limited in size to 1,000 VLTs, which the analysis shows would make the casino crowded, but not untenable. Given the number of visitors forecast and the time they would spend on the property, the casino would need about 452 restaurant seats. The total cost to open the casino, given the high costs of construction, is \$357.3 million.

Table 5: Capacity and Capital Requirements, Hood River Trust Land Casino

Capacity & Capital Requirements to Open	Units or MN \$
<u>Capacity (units):</u>	
VLTs	1,000
Table games	55
Poker tables	8
Keno games	1
Hotel rooms	-
SF of rentable of meeting space	-
Restaurant seats	452
<u>Uses of capital to open (MN \$):</u>	
Construction & land	\$254.6
FF&E	21.7
Capitalized interest expense	44.4
Pre-opening & start-up costs	27.9
Working capital, reserves & other	8.8
Total expenditures to open	\$357.3
<u>Sources of capital to open:</u>	
Long-term debt principal	\$328.8
Equity contributions	19.5
Pre-open interest earnings	9.0
Total sources of capital to open	\$357.3

ECONorthwest, December 30, 2005.

Financial Projection

A casino built on the trust land would be profitable. However, because of the high cost of construction and substantially lower visitor counts when compared to Cascade Locks, it would take seven years before the casino could generate enough cash flow to make any discretionary distributions to the Tribe. Furthermore, as is indicated by the small interest expense in 2014 shown on Table 6, the casino would have to periodically use short-term borrowing to maintain operations. After 2014, the casino would be free of any reliance on debt and would produce significant returns for the Tribe, albeit \$58 to \$81 million per year less than under the Cascade Locks alternative.

Table 6: Financial Forecast, Hood River Trust Land Casino, 2008 to 2018

Financials (MN \$ except employees)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Employees (average FTEs)	863	889	924	959	972	984	997	1,010	1,023	1,036	1,050
Total net operating revenues	\$86.4	\$130.9	\$144.0	\$157.3	\$164.6	\$172.1	\$180.0	\$188.6	\$197.6	\$206.8	\$216.3
Operating expenses	58.1	81.4	86.1	90.7	94.4	93.8	96.5	99.1	101.9	105.8	110.1
Debt service & short term interest exp.	(29.6)	(88.6)	(87.7)	(86.0)	(83.3)	(79.9)	(0.6)	0.0	0.0	0.0	0.0
Community benefit fund contributions	-	-	0.8	1.4	2.1	2.6	3.4	4.1	3.7	3.9	4.2
State revenue share payments	-	4.6	-	-	0.9	3.6	6.0	10.5	26.3	27.6	61.3
Discretionary distributions	-	-	-	-	-	-	39.7	86.6	75.4	80.8	50.6

ECONorthwest, December 30, 2005.

Section IV Hood River Trust & Acquired Land

The Hood River trust & acquired land alternative places the casino on the same property as the trust land alternative, but then moves parking, infrastructure, and other functions over to adjoining lands that were acquired by the Warm Springs several years ago. By expanding the casino facilities over a wider tract of land, building costs are reduced and visibility improves. The appearance of large surface parking would act as an attractor. Thus, unlike the trust only option, this one would give the Warm Springs a casino that would be able to cater to more people and with less capital expenditure per visitor

Other than lower construction costs and better visibility, the advantages of this alternative are the same as the previous one. It is in a city that is known tourist destination. It is a short distance to an exit on Interstate 84. It too is about an hour drive from downtown Portland and would not need a hotel because of a sufficient established base of good quality lodging in Hood River.

The primary disadvantage is the high cost of building a casino on a small, steep land parcel. While the use of the acquired lands would lessen construction costs, the cost of buying those lands are counted in the total investment, which makes the final cost to open still relatively high. Periodic inclement winter weather that would lead to road closures is also a disadvantage.

Market Potential

The casino model forecast for this alternative shows the effects of more parking and better visibility. Visitor counts run about eight percent higher than in the trust land only alternative in most years. Gaming revenues are higher too, but to a lesser degree since switching to this alternative attracts a higher proportion of non-players and casual casino players.

Table 7:Market Forecast, Hood River Trust & Acquired Land Casino, 2008 to 2018

Data (in millions)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<u>Visitors</u>											
Gaming	1.23	1.74	1.85	1.96	2.00	2.03	2.07	2.10	2.14	2.18	2.22
Non-gaming	0.16	0.21	0.21	0.22	0.22	0.22	0.23	0.23	0.24	0.24	0.24
Total Visitors	1.38	1.95	2.07	2.17	2.21	2.25	2.29	2.34	2.38	2.42	2.47
<u>Revenues</u>											
Gaming - net	\$78.91	\$120.39	\$132.88	\$145.44	\$152.12	\$158.98	\$166.25	\$174.15	\$182.47	\$190.94	\$199.73
Hotel	-	-	-	-	-	-	-	-	-	-	-
Food & beverage	10.28	14.84	16.14	17.45	18.29	19.14	20.05	20.97	21.95	22.94	23.97
Retail & other	1.79	2.52	2.71	2.90	3.04	3.19	3.34	3.50	3.66	3.83	4.01
Total Net Revenues	\$90.97	\$137.76	\$151.73	\$165.79	\$173.46	\$181.31	\$189.63	\$198.62	\$208.09	\$217.71	\$227.71

ECONorthwest, December 30, 2005.

Resort Dimensions

As shown in Table 8, the physical capacity of the casino in this alternative is identical to that of the trust land only alternative because the building footprint in both cases is the same for gaming area. The addition of other lands allows for more and lower cost parking, which makes the facility more accessible and visible to customers. By attracting more people, there would be a need for more restaurant capacity. The casino capacity model shows that it would need 505 seats to accommodate the projected customer dining hours. The total cost to open, including the cost of acquired lands, is \$334.8 million.

Table 8: Capacity and Capital Requirements, Hood River Trust & Acquired Land Casino

Capacity & Capital Requirements to Open	Units or MN \$
<u>Capacity (units):</u>	
VLTs	1,000
Table games	55
Poker tables	8
Keno games	1
Hotel rooms	-
SF of rentable of meeting space	-
Restaurant seats	505
<u>Uses of capital to open (MN \$):</u>	
Construction & land	\$234.2
FF&E	21.9
Capitalized interest expense	41.4
Pre-opening & start-up costs	28.2
Working capital, reserves & other	9.1
Total expenditures to open	\$334.8
<u>Sources of capital to open:</u>	
Long-term debt principal	\$306.9
Equity contributions	19.5
Pre-open interest earnings	8.4
Total sources of capital to open	\$334.8

ECONorthwest, December 30, 2005.

Financial Projection

The inclusion of acquired land allows the Hood River alternative to generate higher revenues at a lower up-front investment. Still, as shown on Table 9, the trust & acquired land casino would produce only \$12.9 million for the Tribe in 2013. For the entire 2008 to 2018 period, it would yield \$423.8 million for the Warm Springs, which is less than half what they would receive from Cascade Locks. Also important, while Cascade Locks starts returning profits to the Tribe in 2010 it would take this alternative three years longer before it could produce any returns to reward the Tribe for the risks it would have to take in building and operating such an enterprise.

Table 9: Financial Forecast, Hood River Trust & Acquired Land Casino, 2008 to 2018

Financials (MN \$ except employees)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Employees (average FTEs)	913	941	980	1,017	1,031	1,044	1,057	1,071	1,085	1,099	1,113
Total net operating revenues	\$91.0	\$137.8	\$151.7	\$165.8	\$173.5	\$181.3	\$189.6	\$198.6	\$208.1	\$217.7	\$227.7
Operating expenses	60.1	84.2	89.3	94.2	98.0	97.6	100.5	103.2	106.2	110.2	114.7
Debt service & short term interest exp.	(27.6)	(81.9)	(79.6)	(76.7)	(73.5)	(70.0)	0.0	0.0	0.0	0.0	0.0
Community benefit fund contributions	-	-	1.2	1.9	2.7	3.2	4.0	4.5	3.9	4.2	4.5
State revenue share payments	-	4.9	-	2.0	6.9	7.9	10.6	11.5	27.7	29.0	48.5
Discretionary distributions	-	-	-	-	-	12.9	85.1	91.2	79.6	85.3	69.7

ECONorthwest, December 30, 2005.

The Dalles

The Dalles is 84 miles east of Portland on Interstate-84. It had been considered an alternative because the city of 12,410 has historically been aggressively pursuing opportunities to expand and diversify its economy. A little more than 20 miles further east from Hood River, The Dalles is more of an industrial town than a tourist destination. Nonetheless, the city does have a large supply of available lodging. It also has tracts of industrial land near the Interstate that could be used for resort development.

The main advantage of The Dalles over the previous three alternatives is the lower cost of building as there is ready infrastructure and flat buildable land available. Visibility to Interstate-84 is excellent and a casino would be able to capture large numbers of drive-through travelers.

The primary disadvantage is that The Dalles is too far from the Portland metropolitan area to attract high numbers of frequent casino visits from that market. To the east of The Dalles there are two competing casinos and they are closer in to major cities. Thus, on its eastern flank the casino would be the primary destination of a relatively small base of casino players.

Market Potential

Being so far from Portland, a casino in The Dalles would be on the very outer margins of much the local market area for Portland area players and, as such, would attract fewer visitors than a casino in Cascade Locks or Hood River would. This is demonstrated in the results of the casino model in Table 10. Although showing such a casino would get more than a million visitors a year, nonetheless such a volume is merely a third of what a casino in Cascade Locks would garner. Also significant, the income levels of visitors to a casino in the Dalles would be markedly lower than those attending casinos in Cascade Locks or Hood River. Thus, total gaming revenues are even less than a third of what Cascade Locks would achieve.

Table 10: Market Forecast, The Dalles Casino, 2008 to 2018

Data (in millions)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<u>Visitors</u>											
Gaming	0.70	0.99	1.06	1.11	1.13	1.15	1.17	1.19	1.21	1.23	1.25
Non-gaming	0.09	0.12	0.13	0.13	0.13	0.14	0.14	0.14	0.14	0.14	0.15
Total Visitors	0.79	1.11	1.18	1.25	1.27	1.29	1.31	1.33	1.35	1.37	1.40
<u>Revenues</u>											
Gaming - net	\$39.27	\$59.67	\$66.01	\$72.09	\$75.30	\$78.55	\$82.00	\$85.75	\$89.72	\$93.70	\$97.84
Hotel	-	-	-	-	-	-	-	-	-	-	-
Food & beverage	5.92	8.56	9.35	10.09	10.57	11.04	11.54	12.06	12.61	13.15	13.72
Retail & other	1.02	1.45	1.56	1.67	1.75	1.83	1.91	2.00	2.09	2.18	2.27
Total Net Revenues	\$46.21	\$69.68	\$76.92	\$83.85	\$87.61	\$91.42	\$95.46	\$99.81	\$104.41	\$109.02	\$113.83

ECONorthwest, December 30, 2005.

Resort Dimensions

To cater to the number of guests forecast, a casino in The Dalles would have to have 800 VLTs, 26 table games, and 296 restaurant seats. Such a casino would cost \$152 million to open, which includes working capital, capitalized interest, and land purchase.

Table 11: Capacity and Capital Requirements, The Dalles Casino

Capacity & Capital Requirements to Open	Units or MN \$
<u>Capacity (units):</u>	
VLTs	800
Table games	26
Poker tables	5
Keno games	1
Hotel rooms	-
SF of rentable of meeting space	-
Restaurant seats	296
<u>Uses of capital to open (MN \$):</u>	
Construction & land	\$88.2
FF&E	17.5
Capitalized interest expense	17.4
Pre-opening & start-up costs	23.5
Working capital, reserves & other	5.4
Total expenditures to open	\$152.0
<u>Sources of capital to open:</u>	
Long-term debt principal	\$128.6
Equity contributions	19.5
Pre-open interest earnings	3.8
Total sources of capital to open	\$152.0

ECONorthwest, December 30, 2005.

Financial Projection

Table 12 shows key financial projections for a casino in The Dalles. The casino would struggle in its early years. It would not be until 2013 that it would have enough positive cash flow to permit the Warm Springs from earning any return from their investment. After that point it would be able to produce discretionary distributions between \$31.8 and \$38.5 million, but then in 2018 this would decline, as the casino must pay into the SRS program dollars deferred in earlier years because the casino's cash flows were below minimum standards

Table 12: Financial Forecast, The Dalles Casino, 2008 to 2018

Financials (MN \$ except employees)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Employees (average FTEs)	574	590	614	635	643	650	657	664	672	679	686
Total net operating revenues	\$46.2	\$69.7	\$76.9	\$83.9	\$87.6	\$91.4	\$95.5	\$99.8	\$104.4	\$109.0	\$113.8
Operating expenses	34.6	48.4	51.4	54.2	56.5	55.2	56.5	57.8	59.2	61.5	64.1
Debt service & short term interest exp.	(11.6)	(34.3)	(33.3)	(32.1)	(30.7)	(29.3)	0.0	0.0	0.0	0.0	0.0
Community benefit fund contributions	-	-	0.4	0.7	1.1	1.3	1.7	1.9	1.7	1.8	1.9
State revenue share payments	-	2.4	-	1.9	3.6	4.2	5.0	5.2	13.6	14.3	22.5
Discretionary distributions	-	-	-	-	-	6.3	35.4	38.5	31.8	34.5	27.5

ECONorthwest, December 30, 2005.

Hehe Junction

Hehe Junction is about 20 minutes west of Warm Springs. Hehe Junction is next to the road connecting travelers going east from Portland on US-26 to the Kah-Nee-Ta Resort. There is no infrastructure at this location and no town. However, the land is on the reservation and, as such, impediments to opening a casino are few.

The advantages of Hehe Junction include its visibility on US-26 and that the land is already under tribal control. Its proximity to Kah-Nee-Ta would make adding a hotel unnecessary. It is also possible that a compact for a casino at Hehe junction will have a smaller SRS provision or none at all. Therefore, the financial projections presented here include a scenario with an SRS, as negotiated for Cascade Locks, and a scenario with no SRS.

The primary disadvantages of Hehe Junction are its distance from the Portland market (two hours), the lack of any infrastructure, and the absence of any adjoining amenities.

Market Potential

A casino at Hehe Junction should be able to attract about 650,000 visitors a year. The site is on a main road traveled by tourists and families going to their second homes in Central Oregon. The volume of traffic, however, is a modest 4,650 vehicles a day. Casino players in the Portland market are unlikely to make many destination trips (daytrips specifically planned to the casino) because of the driving time and the barrier presented by Mt. Hood. Most local players, therefore, are going to come from Central Oregon.

Table 13: Market Forecast, Hehe Junction Casino, 2008 to 2018

Data (in millions)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<u>Visitors</u>											
Gaming	0.36	0.52	0.56	0.59	0.61	0.63	0.65	0.67	0.69	0.71	0.73
Non-gaming	0.03	0.04	0.04	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.06
Total Visitors	0.40	0.56	0.60	0.64	0.66	0.68	0.70	0.72	0.74	0.76	0.78
<u>Revenues</u>											
Gaming - net	\$21.03	\$32.30	\$35.92	\$39.60	\$41.90	\$44.30	\$46.87	\$49.67	\$52.66	\$55.75	\$59.00
Hotel	-	-	-	-	-	-	-	-	-	-	-
Food & beverage	2.95	4.27	4.67	5.08	5.39	5.70	6.04	6.39	6.77	7.15	7.56
Retail & other	0.46	0.66	0.71	0.76	0.81	0.86	0.91	0.96	1.02	1.08	1.14
Total Net Revenues	\$24.44	\$37.23	\$41.30	\$45.45	\$48.10	\$50.86	\$53.82	\$57.03	\$60.44	\$63.98	\$67.70

ECONorthwest, December 30, 2005.

Resort Dimensions

Given the casino model's forecast, the capacity model estimates that an appropriate size for Hehe Junction would be a 450 VLT, 15 table games, and a 148-seat restaurant. The inadequacy of water, sewer, and electric utilities and the lack of paved roads from the highway would mean a significant expenditure on infrastructure. Thus, the total cost to open such a casino in 2008 would be about \$95.3 million.

Table 14: Capacity and Capital Requirements, Hehe Junction Casino

Capacity & Capital Requirements to Open	Units or MN \$
<u>Capacity (units):</u>	
VLTs	450
Table games	15
Poker tables	3
Keno games	1
Hotel rooms	-
SF of rentable of meeting space	-
Restaurant seats	148
<u>Uses of capital to open (MN \$):</u>	
Construction & land	\$57.3
FF&E	9.9
Capitalized interest expense	9.9
Pre-opening & start-up costs	14.5
Working capital, reserves & other	3.7
Total expenditures to open	\$95.3
<u>Sources of capital to open:</u>	
Long-term debt principal	\$73.5
Equity contributions	19.5
Pre-open interest earnings	2.3
Total sources of capital to open	\$95.3

ECONorthwest, December 30, 2005.

Financial Projection

Even if the analysis assumes no SRS burden, the low volume of visitors and high opening costs would cause a long delay in earning discretionary distributions. As the analysis in Table 15 reveals, the first possible return could be received in 2014, which is nine years after the Tribe must borrow \$73.5 million to build the facility.

Table 15: Financial Forecast, Hehe Junction Casino Without an SRS Provision, 2008 to 2018

Financials (MN \$ except employees)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Employees (average FTEs)	319	328	341	354	360	367	374	381	388	396	403
Total net operating revenues	\$24.4	\$37.2	\$41.3	\$45.5	\$48.1	\$50.9	\$53.8	\$57.0	\$60.4	\$64.0	\$67.7
Operating expenses	19.8	27.6	29.3	30.9	32.4	31.7	32.7	33.6	34.7	36.3	38.0
Debt service & short term interest exp.	(6.6)	(19.7)	(19.3)	(18.7)	(17.8)	(16.9)	0.0	0.0	0.0	0.0	0.0
Community benefit fund contributions	-	-	0.2	0.4	0.6	0.7	1.0	1.2	1.3	1.5	1.6
State revenue share payments	-	-	-	-	-	-	-	-	-	-	-
Discretionary distributions	-	-	-	-	-	-	21.8	24.7	26.0	28.6	29.9

ECONorthwest, December 30, 2005.

Table 16 shows the impact of having state revenue sharing, under the same terms as under the Cascade Locks compact, at Hehe junction. The casino would have to borrow more short-term money to maintain liquidity and, thus, its debt service costs would be higher in years 2009 through 2013.

Table 16: Financial Forecast, Hehe Junction Casino With an SRS Provision, 2008 to 2018

Financials (MN \$ except employees)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Employees (average FTEs)	319	328	341	354	360	367	374	381	388	396	403
Total net operating revenues	\$24.4	\$37.2	\$41.3	\$45.5	\$48.1	\$50.9	\$53.8	\$57.0	\$60.4	\$64.0	\$67.7
Operating expenses	19.8	27.6	29.3	30.9	32.4	31.7	32.7	33.6	34.7	36.3	38.0
Debt service & short term interest exp.	(6.6)	(19.8)	(19.5)	(18.9)	(18.2)	(17.3)	0.0	0.0	0.0	0.0	0.0
Community benefit fund contributions	-	-	0.1	0.2	0.4	0.6	0.9	1.0	0.9	1.0	1.1
State revenue share payments	-	1.3	-	0.1	1.6	1.9	2.8	3.0	7.9	8.4	14.3
Discretionary distributions	-	-	-	-	-	-	13.2	21.8	18.5	20.5	15.9

ECONorthwest, January 23, 2006.

Warm Springs

Warm Springs is the main town on the reservation. According to the 2000 US Census, its population was 2,431. The site that had been considered for a casino is just west of the town on US-26. It would be about two hours and twenty minutes from downtown Portland and about 75 minutes from the Central Oregon city of Bend.

Warm Springs shares some advantages with Hehe Junction: visibility from US-26, land already under tribal control, and no need for a hotel because of its proximity to Kah-Nee-Ta. Likewise, it may have less or no SRS burden.

The primary disadvantage of Warm Springs is its distance from the Portland market.

Market Potential

A casino at Warm Springs would get almost as many visitors as one in Hehe Junction. The added 20 minutes of driving after having gone two hours would not significantly reduce destination visits from Portland. Indeed, being 20 minutes closer to Bend, Prineville, and Redmond, largest Central Oregon cities, would benefit the Warm Springs location. Thus, total gaming visitor counts would only be slightly lower here than at Hehe Junction. Non-gaming visits, however, would be higher because of the casino's proximity to a town. Overall revenues would be slightly less in Warm Springs than at Hehe Junction because of the lower average incomes as one moves east from Portland.

Table 17: Market Forecast, Warm Springs Casino, 2008 to 2018

Data (in millions)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<u>Visitors</u>											
Gaming	0.35	0.50	0.53	0.57	0.58	0.60	0.61	0.63	0.65	0.67	0.68
Non-gaming	0.04	0.06	0.06	0.06	0.06	0.07	0.07	0.07	0.07	0.07	0.08
Total Visitors	0.39	0.56	0.59	0.63	0.65	0.66	0.68	0.70	0.72	0.74	0.76
<u>Revenues</u>											
Gaming - net	\$20.81	\$31.94	\$35.48	\$39.09	\$41.22	\$43.44	\$45.81	\$48.41	\$51.16	\$53.99	\$56.97
Hotel	-	-	-	-	-	-	-	-	-	-	-
Food & beverage	2.96	4.29	4.69	5.10	5.39	5.69	6.01	6.34	6.69	7.05	7.43
Retail & other	0.51	0.73	0.79	0.85	0.90	0.95	1.00	1.06	1.12	1.18	1.24
Total Net Revenues	\$24.28	\$36.97	\$40.95	\$45.03	\$47.51	\$50.08	\$52.82	\$55.80	\$58.97	\$62.23	\$65.65

ECONorthwest, December 30, 2005.

Resort Dimensions

A casino at Warm Springs would need 430 VLTs, 14 table games, and 148 restaurant seats. This reflects the higher proportion of non-players in the visitor mix as compared to Hehe Junction. This is a common phenomenon observed when contrasting isolated rural casinos with those in towns. The total cost of building a Warm Springs casino is estimated to be \$83.7 million. The high cost is due to the need to extend infrastructure over to the site, which is outside of the town, and to make changes to allow traffic to turn on and off US-26.

Table 18: Capacity and Capital Requirements, Warm Springs Casino

Capacity & Capital Requirements to Open	Units or MN \$
<u>Capacity (units):</u>	
VLTs	430
Table games	14
Poker tables	3
Keno games	1
Hotel rooms	-
SF of rentable of meeting space	-
Restaurant seats	148
<u>Uses of capital to open (MN \$):</u>	
Construction & land	\$48.3
FF&E	9.4
Capitalized interest expense	8.4
Pre-opening & start-up costs	13.9
Working capital, reserves & other	3.7
Total expenditures to open	\$83.7
<u>Sources of capital to open:</u>	
Long-term debt principal	\$62.2
Equity contributions	19.5
Pre-open interest earnings	1.9
Total sources of capital to open	\$83.7

ECONorthwest, December 30, 2005.

Financial Projection

Because of the lower cost to open, the Warm Springs casino would be able to generate discretionary distributions as early as 2011. The amounts, however, are small even in this scenario with no state revenue sharing, which is shown in Table 19.

Table 19: Financial Forecast, Warm Springs Casino Without an SRS Provision, 2008 to 2018

Financials (MN \$ except employees)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Employees (average FTEs)	310	319	331	343	349	355	360	367	373	379	386
Total net operating revenues	\$24.3	\$37.0	\$41.0	\$45.0	\$47.5	\$50.1	\$52.8	\$55.8	\$59.0	\$62.2	\$65.6
Operating expenses	18.8	26.3	27.9	29.5	30.9	30.2	31.1	32.0	33.0	34.5	36.1
Debt service & short term interest exp.	(5.6)	(16.5)	(16.0)	(15.4)	(14.8)	(14.2)	0.0	0.0	0.0	0.0	0.0
Community benefit fund contributions	-	-	0.3	0.5	0.7	0.9	1.1	1.3	1.4	1.5	1.6
State revenue share payments	-	-	-	-	-	-	-	-	-	-	-
Discretionary distributions	-	-	-	1.3	5.0	10.5	22.2	24.4	25.6	28.0	29.2

ECONorthwest, December 30, 2005.

Table 20 shows the financial projections from 2008 through 2018 for a casino at Warm Springs with the additional assumption that an SRS plan is included in the compact.

Table 20: Financial Forecast, Warm Springs Casino With an SRS Provision, 2008 to 2018

Financials (MN \$ except employees)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Employees (average FTEs)	310	319	331	343	349	355	360	367	373	379	386
Total net operating revenues	\$24.3	\$37.0	\$41.0	\$45.0	\$47.5	\$50.1	\$52.8	\$55.8	\$59.0	\$62.2	\$65.6
Operating expenses	18.8	26.3	27.9	29.5	30.9	30.2	31.1	32.0	33.0	34.5	36.1
Debt service & short term interest exp.	(5.6)	(16.5)	(16.0)	(15.4)	(14.8)	(14.2)	0.0	0.0	0.0	0.0	0.0
Community benefit fund contributions	-	-	0.2	0.4	0.6	0.7	0.9	1.1	0.9	1.0	1.1
State revenue share payments	-	1.3	-	1.9	2.5	2.6	2.8	2.9	7.7	8.1	10.5
Discretionary distributions	-	-	-	-	0.8	8.0	19.6	21.7	18.2	20.2	19.0

ECONorthwest, January 23, 2006.