Economic & Fiscal Impact Analysis of the Proposed MGM Casino on the City of Northampton, MA

December 2013

camoin associates
ECONOMIC DEVELOPMENT

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About Camoin Associates

Camoin Associates has provided economic development consulting services to municipalities, economic development agencies, and private enterprises since 1999. We specialize in economic and fiscal impact studies, including large scale residential, commercial, industrial and mixed-use developments. Camoin Associates has presented on the subject of economic and fiscal impact analysis at various events and has authored a white paper titled, "The Importance of Fiscal Impact Analysis in Economic Development & Planning." Through the services offered, Camoin Associates has had the opportunity to serve EDOs and local and state governments from Maine to Texas; corporations and organizations that include Lowes Home Improvement, FedEx, Volvo (Nova Bus) and the New York Islanders; as well as private developers proposing projects in excess of $600 million. Our reputation for detailed, place-specific, and accurate analysis has led to projects in twenty states and garnered attention from national media outlets including *Marketplace (NPR)*, *Forbes* magazine, and *The Wall Street Journal*. Additionally, our marketing strategies have helped our clients gain both national and local media coverage for their projects in order to build public support and leverage additional funding. The firm currently has offices in Saratoga Springs, NY, Portland, ME, and Brattleboro, VT. To learn more about our experience and projects in all of our service lines, please visit our website at www.camoinassociates.com. You can also find us on Twitter @camoinassociate and on Facebook.

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Executive Summary

Concerned about the potential impact of the proposed MGM Springfield Casino (the "Casino"), the City of Northampton (the "City") hired Camoin Associates to conduct an economic and fiscal impact study. The impact analysis is designed to quantify how the proposed Casino will impact the City and its central business district through a dislocation of consumer spending to Springfield and away from Northampton, such impact expressed as a change in sales, jobs and earnings. The study also models how these economic impacts translate into fiscal impacts on the City's sources of revenues.

The following is a highlight of the major findings of this study, with more information and detail provided in the full report including project background, our methodology, characterization of existing conditions in the City of Northampton, and more details regarding the process of economic and fiscal impact modeling.

Loss of Sales

Camoin Associates conducted an extensive review of existing market analyses, data on consumer spending patterns, and similar casino impact analyses to estimate 1) the total number of Casino visitors from within a 60-minute drive time of Springfield, 2) the amount of "recreational spending" (casino gaming, meals, lodging, entertainment, etc.) to occur at the Casino by those visitors, and 3) the amount of "recreational spending" sales in effect transferred from the City of Northampton to the Casino. Based on our review of the information available, Camoin Associates estimates that the City of Northampton will experience a loss of sales ranging from $4.1 million to $8.3 million annually as a result of the Casino.

Economic Impacts

The impact of this loss of sales on the City of Northampton is shown in the tables below. The "low case" assumes a roughly 4% loss in "recreational spending" sales and the "high case" assumes a roughly 8% loss in sales. Taking into consideration the indirect effects of this loss (i.e. the secondary and tertiary follow-on impacts[1]), the total impact on the City will range from $4.4 million to $8.8 million in lost sales, 90 to 180 lost jobs, and $1.6 million to $3.2 million in lost earnings.

Economic Impact - Low Case			
	Direct	Indirect	Total
Sales	$ 4,124,528	$ 258,014	$ 4,382,542
Jobs	87	3	90
Earnings	$ 1,515,899	$ 106,113	$ 1,622,012

Source: EMSI, Camoin Associates

Economic Impact - High Case			
	Direct	Indirect	Total
Sales	$ 8,251,736	$ 516,145	$ 8,767,881
Jobs	175	5	180
Earnings	$ 3,032,767	$ 212,294	$ 3,245,061

Source: EMSI, Camoin Associates

[1] The term "Indirect effects" is explained in full in the "What is Economic Impact Analysis?" section of this report. Briefly, the loss of direct sales will cause business-to-business sales to fall and will lower the amount of available household income, thereby lowering consumer-to-business purchases.

Fiscal Impacts

As a result of this loss of sales, jobs and earnings, the City of Northampton would experience a loss in revenue because of the Casino. Similar to the economic impact, the low case is based on a ~4% loss and the high case is a ~8% loss. Considering the various revenue sources associated with the downtown business district and tourism spending, the City could lose between $137,000 and $274,000 annually. The table below shows the breakdown of major revenue sources affected and the dollar values associated with the loss.

Total Lost Revenue - Annual	Low Case	High Case
Lost Meals Tax Related Revenue	$ 26,650	$ 53,250
Lost Occupancy Tax Revenue	$ 21,027	$ 42,016
Lost Parking Related Revenue	$ 24,172	$ 48,301
Lost Property Tax Revenue	$ 65,087	$ 130,055
Total Lost City Revenue	**$ 136,936**	**$ 273,623**

Source: Camoin Associates

Lost Future Real Property Investment

Finally, Camoin Associates recognizes that the City of Northampton is currently considered a prime location for development with a low tax rate, a significant numbers of visitors each year, and a thriving retail environment. Despite that reputation, if the Casino were to open, it is likely that some portion of future investment will be directed to Springfield, in lieu of Northampton, to capitalize on the growth in visitation and increased demand for retail services around the Casino. This would therefore represent a loss in future tax ratables for the City of Northampton, with a commensurate loss in future property revenue. Camoin Associates examined projects under development in the City that are related to tourism and visitation. We find that there is currently a total of $21 million of development underway related to hotel properties (two hotel projects accounting for 208 rooms) under construction or under regulatory review. The table below shows that, if those projects were to have occurred in Springfield in lieu of Northampton, the result would be a revenue loss of $323,190 per year. The table also concludes that in addition to lost property tax revenue, the City would face a loss of occupancy tax revenue equal to $316,596. This is an example of the loss the City would suffer with respect to its future property tax base.

Lost Future Revenue	
Tourism Related Projects Under Development	$ 21,000,000
Tax Rate Per $1,000	$ 15.39
Lost Future Tax Revenue	**$ 323,190**
Hotel Rooms Under Development	208
Occupancy Rate	58.90%
Annual Hotel Room Revenue ($118.00 ADR)	$ 5,276,592
Hotel Tax	6%
Lost Future Occupancy Tax Revenue	**$ 316,596**
Total Lost Future Revenue	**$ 639,786**

Source: Camoin Associates, Department of Economic Development

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Introduction

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The City is a premier destination in the Pioneer Valley, attracting residents, students, visitors, and tourists for its varied offerings from unique retail stores, top notch restaurants, and high quality entertainment and music venues. The City is the "place to be" and its unique character and charm bring in a long train of dollars that make downtown Northampton an affluent oasis in the context of a beautiful but mid-income city and a generally economically depressed region.

The City is concerned that the Casino and associated dining, lodging and entertainment establishments could provide a critical mass that will alter these spending patterns and negatively impact the City both economically and fiscally.

The following report is intended to provide background information on the situation, outline our method of analysis, characterize existing conditions in the City of Northampton, and calculate the economic and fiscal implications of the Casino as it relates to the City.

Project Background

Massachusetts Expanded Gaming Act

"An Act to Establish Expanded Gaming in the Commonwealth" (a.k.a. Expanded Gaming Act) legislation was signed into law by Governor Deval Patrick on November 22, 2011 and allows for the development of up to three resort casinos spread out across the state in addition to one slots facility. The law was established as an economic development initiative with the expectation that the casinos would create new jobs, generate revenue, and contribute to the overall growth of the local economy.

The Expanded Gaming Act outlines a number of key principles, one of which is that contracts not only be negotiated with the host community but also with surrounding communities that may border or be close to the host community. The contracts allow the surrounding communities to request mitigation for social and fiscal impacts in the form of mitigation fees, traffic or sewer improvements, school funds, or other means. It is expected that this, and the competitive bidding process for gaming licenses, will protect communities from negative social and economic impacts associated with the casino industry. [2]

In summer 2013, MGM won the competitive bidding process to build a resort casino in downtown Springfield. In order to receive the sole license for the Western Massachusetts region, MGM Springfield must now respond to a Request for Proposals issued by the Massachusetts Gaming Commission ("MGC" or "Commission") by the December 31, 2013 deadline. The Casino's proposal must meet the criteria set forth by the Massachusetts Gaming Commission. The final licensee selection is expected to be made in April 2014.

The applicants for the license award must include the host community agreement and executed surrounding community agreements. For communities not automatically considered a surrounding community, a petition may be submitted to the Commission within 10 days of the December 31 deadline.[3] The City of Northampton intends to submit a petition requesting surrounding community status.

Growth in Resort Casinos in the Northeast

Massachusetts is one of eleven states in the United States without any form of gambling. Other New England states without gambling include Vermont and New Hampshire. The American Gaming Association reports that gambling has seen three straight years of increasing gross gaming revenue and that 2012 saw the second-highest level of revenue in history (behind 2007 when the industry saw the highest revenue). Regionally, the Northeast has seen an increase in the number of resort style casinos being built including new legislation in New York State allowing up to four new resort style casinos to be built in addition to existing racetrack casinos and tribal casinos. Other regional states have gambling facilities as well, including Pennsylvania, Connecticut, Maine, and Rhode Island.[4]

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[2] Expanded Gaming Act: What You Need to Know. *Massachusetts Gaming Commission*. Accessed December 13,2013 http://massgaming.com/about/expanded-gaming-act/

[3] Summary of the Provisions of the Commission's Phase 2 Regulations and Modifications of Phase 1 Regulations That May be Important to Host and Potential Surrounding Communities. *Massachusetts Gaming Commissions.* Access December 13, 2013 http://massgaming.com/wp-content/uploads/Summary-of-Provisions-of-the-Commission-722013.pdf

[4] 2013 State of the States – The AGA Survey of Casino Entertainment. *American Gaming Association.* Accessed December 13, 2013 http://www.americangaming.org/sites/default/files/uploads/docs/aga_sos2013_fnl.pdf

As more destination-style resort casinos are built, the average distance customers travel is reduced and the market area effectively shrinks. Some analysts see the trend for states to approve gambling legislation as a way to keep gambling revenues in-state, eventually leading to an oversaturated market.[5] For example, Foxwoods and Mohegan Sun (the two largest gaming facilities in the United States by size) currently draw customers from all surrounding states, including New York and Massachusetts, but as New York and Massachusetts develop their own resort casinos, those customers will no longer need to travel to Connecticut, thereby shrinking each casino's customer base. In fact, this is already starting to happen as Foxwoods saw a decrease in visitation from Rhode Island and Massachusetts patrons when the Twin River casino in Rhode Island expanded in 2007 and similarly the opening of the Empire City Raceway and Resorts World New York reduced visitation to Foxwoods from New York State.[6] Furthermore, the business model of a resort style casino is for all of the customer's needs to be taken care of within the facility, thereby reducing any likely cross visitation between regional casinos or regional tourism destinations. Oversaturation of the market is a real potential as the total number of customers interested in gambling is unlikely to change drastically enough to accommodate the influx in resort casinos in the Northeast.

What is Economic Impact Analysis?

The purpose of conducting an economic impact study is to ascertain the total cumulative changes in employment, earnings and output in a given economy due to some initial "change in final demand". To understand the meaning of "change in final demand", consider the installation of a new widget manufacturer in Anytown, USA. The widget manufacturer sells $1 million worth of its widgets per year exclusively to consumers in Canada. Therefore, the annual change in final demand in the United States is $1 million because dollars are flowing in from outside the United States and are therefore "new" dollars in the economy.

This change in final demand translates into the first round of buying and selling that occurs in an economy. For example, the widget manufacturer must buy its inputs of production (electricity, steel, etc.), must lease or purchase property and pay its workers. This first round is commonly referred to as the "Direct Effects" of the change in final demand and is the basis of additional rounds of buying and selling described below.

To continue this example, the widget manufacturer's vendors (the supplier of electricity and the supplier of steel) will enjoy additional output (i.e. sales) that will sustain their businesses and cause them to make additional purchases in the economy. The steel producer will need more pig iron and the electric company will purchase additional power from generation entities. In this second round, some of those additional purchases will be made in the US economy and some will "leak out". What remains will cause a third round (with leakage) and a fourth (and so on) in ever-diminishing rounds of spending. These sets of industry-to-industry purchases are referred to as the "Indirect Effects" of the change in final demand.

Finally, the widget manufacturer has employees who will naturally spend their wages. As with the Indirect Effects, the wages spent will either be for local goods and services or will "leak" out of the

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[5] Witkowski, D. New Casinos Divide Smaller Revenues in Saturated Market. *The Press of Atlantic City*. Accessed December 13, 2013 http://www.pressofatlanticcity.com/news/breaking/new-casinos-divide-smaller-revenues-in-saturated-market/article_32bce4ce-f6be-11e2-8640-001a4bcf887a.html?mode=jqm
[6] New England Casino Gaming Update, 2013. *Center for Policy Analysis*. http://www.umassd.edu/media/umassdartmouth/seppce/centerforpolicyanalysis/negu_2013.pdf

economy. The purchases of local goods and services will then stimulate other local economic activity; such effects are referred to as the "Induced Effects" of the change in final demand.

Therefore, the total economic impact resulting from the new widget manufacturer is the initial $1 million of new money (i.e. Direct Effects) flowing in the US economy, plus the Indirect Effects and the Induced Effects. The ratio between Direct Effects and Total Effects (the sum of Indirect and Induced Effects) is called the "multiplier effect" and is often reported as a dollar-of-impact per dollar-of-change. Therefore, a multiplier of 2.4 means that for every dollar ($1) of change in final demand, an additional $1.40 of indirect and induced economic activity occurs for a total of $2.40.

Analytic Framework

In the case of the Casino's impact on Northampton, we must first specify the geography of interest and the source of the "change in final demand" (see definition of this term, above).

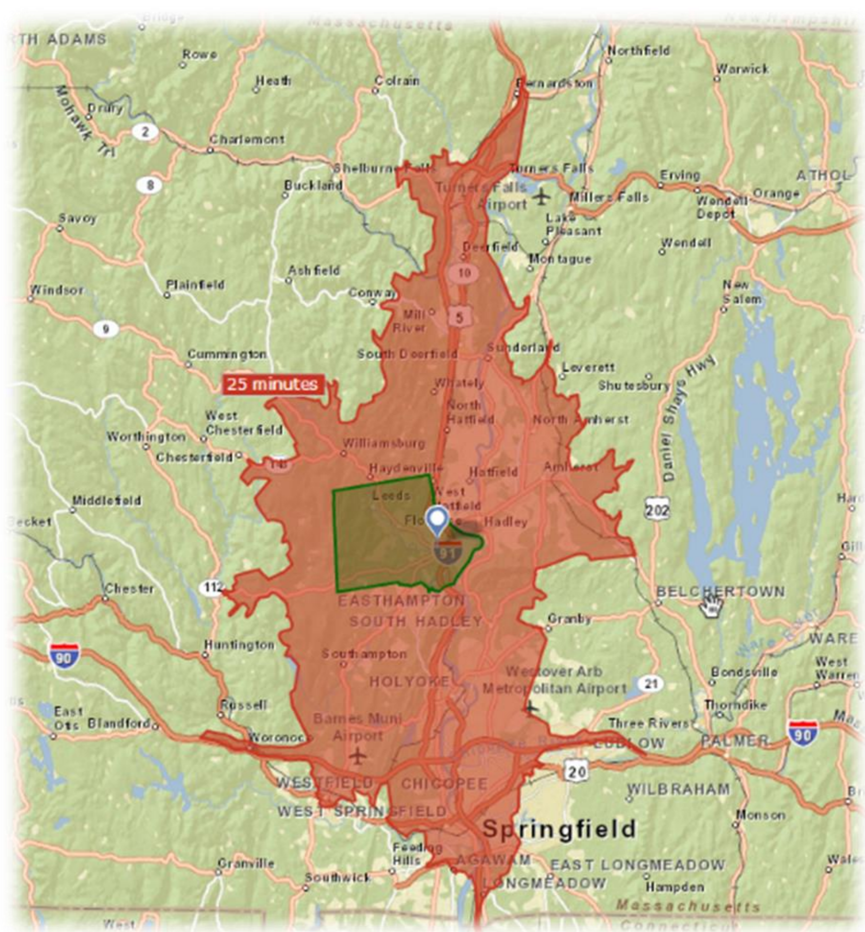
Geography of Interest

The intent of this study is to understand the impacts of the Casino on the City, so we are using the City's political boundaries as the geography of interest. The City and its economy are profiled in later sections of this report. Therefore, our report will show how a change in final demand will affect jobs, wages and sales within the City.

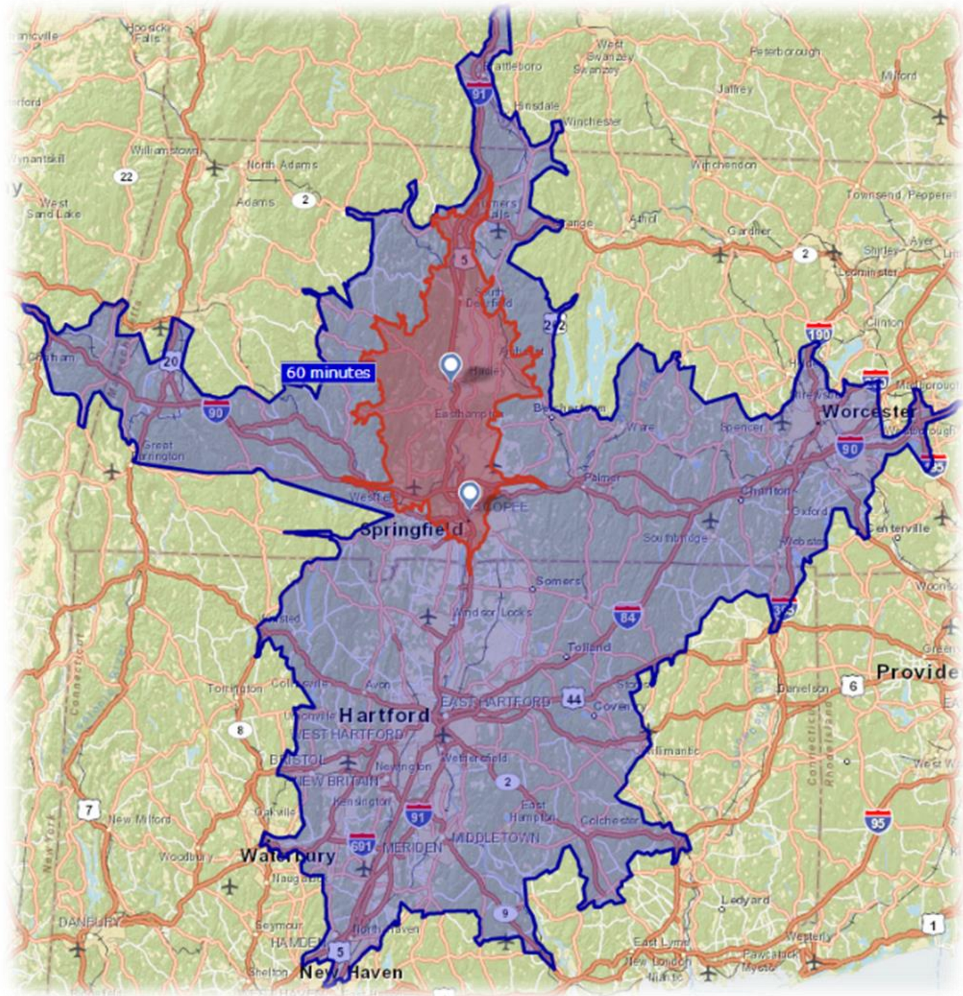
Other Geographies Defined

As profiled below in "Existing Conditions", the City serves as a visitation destination for a much larger region, which we refer to as the **Northampton Trade Area**. This is where a majority of the City's customer base resides and is therefore the pool of "demand" that the City's businesses rely on for sales. In our analysis, we have used a 25 minute drive time polygon around the City as the defined trade area. In the map to the right, the red polygon is the Northampton Trade Area and the green polygon is the City of Northampton, for reference.

Northampton Trade Area



Casino Trade Area



Another geography to define is the **Casino Trade Area**. As with the above, this is the geography from which the Casino draws the majority of its customer base, taking spending from the Casino Trade Area and directing it to the City of Springfield. The Casino Trade Area is based on an understanding of where casino customers originate from, regional casino development, and data provided in other casino related studies. The map to the right shows the Casino Trade Area in blue and the Northampton Trade Area in red.

It is important to note that the City of Northampton is very close to the City of Springfield in terms of distance, but also when considering market. A majority of the customers to Northampton come from the South due to the ease of access (I-91 corridor), population centers, and overall market proximity. The proximity of the City of Northampton to Springfield will play a large role in how the Casino impacts spending. Furthermore, based on our research we assume that a vast majority of the visitors will be from the Casino Trade Area, including from the Northampton Trade Area and thus the Casino is not expected to bring a meaningful set of "new" consumers to the City.

Change in Final Demand

Our central analytic framework in this analysis is that the Casino will alter visitation spending patterns within the Northampton Trade Area and will therefore change the spending occurring within the geography of interest, namely the City of Northampton. As shown in other sections of this report, the Northampton Trade Area is wholly contained within the Casino Trade Area. The Casino, in drawing spending to the City of Springfield, will draw a portion of that spending from the Northampton Trade Area. By redirecting spending in the Northampton Trade Area to the Casino, it will reduce the amount of spending that Northampton Trade Area residents would otherwise spend in the City. Therefore, the change in final demand used for our model is the **dollar value of goods and services that are spent in Springfield because of the Casino that otherwise would have been spent in the City**. This is both existing dollars being spent in the City (i.e. the current spending pattern) as well as the normal growth in visitation spending the City would otherwise have enjoyed (i.e. the future spending pattern in the City should the Casino not be built). For ease of reference, we will also use the term "net sales lost" in referring to this change in final demand concept.

Indirect and Induced Impacts

The change in final demand described above is the direct impact of the Casino on the City. This direct impact leads to the sorts of indirect and induced economic impacts that are outlined in the "What is Economic Impact Analysis?" section above. The **Indirect Impacts** result from lower business-to-business purchases by the businesses negatively impacted by the direct impact of the Casino (example: restaurants purchasing fewer food inputs at the local wholesaler). The **Induced Impacts** result from lower wages paid in the City, decreasing consumer-to-business purchases (example: lower earnings would reduce the spending on local entertainment.)

Total Economic Impact

The total impact to jobs, wages and sales in the City are the sum of the direct, indirect and induced impacts.

Summary of the Analytic Framework

The City of Northampton currently pulls in significant consumer spending from the general region for goods and services related to entertainment and recreation. If the Casino is built, some of that entertainment and recreation spending basket will instead be spent at the Casino. As those dollars of consumer demand leave, this will directly impact the employment and economic activity of the City's businesses, thereby having secondary and tertiary impacts. This will in turn affect City tax collections and future property development within the City.

Data Sources Used in Analysis

Camoin Associates reviewed data and information from a variety of sources including the following:

- ESRI Business Analyst Online – Retail sales, recreational spending, and demographic data.
- MGM Springfield, "Proposed Destination Casino Resort Development for the City of Springfield, Massachusetts." 3 January 2013. http://www3.springfield-ma.gov/planning/casino-proposals.0.html
- The Innovation Group, "Massachusetts Statewide Gaming Report." June 2013. http://www.maine.gov/dafs/gamingcom/docs/2010%20MA%20Gaming%20Report,%20PC.pdf
- Strategic Market Advisors, "Casino Resort Market Assessment." December 2012. Exhibit 2-B of Penn National casino proposal. http://www3.springfield-ma.gov/planning/fileadmin/Planning_files/casino/proposals/penn/Exhibit_2-b_Strategic_Market_Advisor_Report.pdf
- Center for Policy Analysis (UMass-Dartmouth), "Bring It On Home: An Overview of Gaming Behavior in New England." March 2013.

http://www.umassd.edu/media/umassdartmouth/seppce/centerforpolicyanalysis/Bring_it_home.pdf

- Center for Policy Analysis (UMass-Dartmouth), "New England Casino Gaming Update, 2013." http://www.umassd.edu/media/umassdartmouth/seppce/centerforpolicyanalysis/negu_2013.pdf
- MGM Host Community Agreement. 14 May 2013. http://www3.springfield-ma.gov/planning/casino.html
- City of Northampton – Economic Indicators, Tax Revenue, Property Values and Assessments
- Thornes Market Data Summary. March 2009.
- The Brattle Group, "Beyond the Casino Floor: Economic Impacts of the Commercial Casino Industry." For the American Gaming Association. 2012. http://www.maine.gov/dafs/GamingCom/docs/AGA%20Beyond%20the%20Casino%20Floor.pdf
- American Gaming Association, "2013 State of the States, The AGA Survey of Casino Entertainment". http://www.americangaming.org/sites/default/files/uploads/docs/aga_sos2013_fnl.pdf
- Additional articles, press releases, and other information on the topic of casinos and gambling in the United States.

Analytic Process

Camoin Associates employed the following methodology to determine the economic and fiscal impact of the Casino:

1. Camoin Associates used information collected during the site visit, interviews, and research to estimate the geography of the Northampton Trade Area and the Casino Trade Area (such trade areas defined and mapped above). These are the areas from within which a majority of the customers will originate.
2. Using this information, our own research and available market studies, and discussions with those familiar with the Casino, Camoin Associates estimated the total number of visitors to the Casino and their total gaming and ancillary spending.
3. Camoin Associates collected information on average "recreation" type spending by residents of the City of Northampton, the Northampton Trade Area, and the Casino Trade Area.
4. Camoin then calculated a ratio of recreation spending to occur at the Casino as a percent of total recreation spending in the Casino Trade Area. This is our estimate of the Casino's "capture" of Casino Trade Area dollars spent on recreation activities.
5. We calculated a second ratio, namely the proportion of recreation spending in the Northampton Trade Area as compared to the amount of recreation spending in the Casino Trade Area. This is our "low" estimate[7] of how much of the Casino's total sales will come from within the Northampton Trade Area.
6. We calculated a third ratio, which is the percentage of the Northampton Trade Area's recreational spending that occurs within the City's borders. This is the City's current "capture" of recreational sales from within its trade area.

[7] It is our "low" estimate, as explained elsewhere in this document, because it assumes that the capture from the Northampton Trade Area is the same as from within the entire Casino Trade Area. In fact, given the proximity of the Northampton Trade Area to the Casino, relative to other portions of the Casino Trade Area, a strong argument could be made that the capture rate would be higher from within the Northampton Trade Area.

7. Finally, Camoin Associates calculated the total value of transferred sales from Northampton to Springfield by using the above three ratios. We calculated the Casino's capture of its trade area, what portion of that capture was specific to the Northampton Trade area, and then what that meant in terms of the loss of sales within the City itself. This is the estimate of spending lost as people who otherwise would visit Northampton are instead spending their money at the Casino ("net lost sales").
8. Using the EMSI impact modeling software package, we then calculated direct jobs/economic activity lost from the "net lost sales" figure (Step 7) and modeled indirect impacts on jobs/economic activity using multipliers.
9. Arrived at total economic impacts as the sum of all direct and indirect impacts in an average year of operation.
10. Camoin Associates also ran an economic impact analysis considering a "high case" scenario assuming the total transfer of sales to be double that of the "low case".

Modeling Software

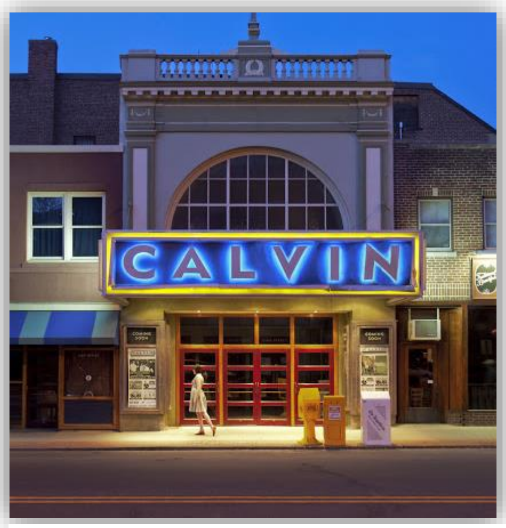
Economic Modeling Specialists, Intl. (EMSI) designed the input-output model used in this analysis. The EMSI model allows the analyst to input the amount of lost direct economic activity (spending or jobs) occurring within the study area and uses the direct inputs to estimate the spillover effects that the net lost spending or jobs have as these dollars stop circulating through the study area's economy. This is captured in the indirect impacts and is commonly referred to as the "multiplier effect."

Existing Conditions

The City of Northampton is unparalleled as a destination city in Western Massachusetts. It is a thriving, economically vibrant urban setting which is a major center of activity for residents, students, visitors and tourists. Residents look to it as a cultural hub, college students seek its night life and retail offerings, visitors come to it for its arts and music festivals and it is a well-known tourism hot spot with significant offerings of lodging, entertainment and dining. The five major colleges in its immediate vicinity are a particular source of pride, but are also an economic driver, with direct student spending supplemented by visiting parents and spillover economic activity from the colleges themselves. The downtown retail shops, restaurants, hotels, and entertainment venues drive a significant amount of local activity that also supports the City's revenues and its ability to provide high-quality services.

Thornes Marketplace

The downtown area of Northampton that hosts the majority of commercial activity is a historic center that consists of a mix of uses. Many buildings have street-level retail with commercial or residential uses on the upper floors. Thornes Marketplace is a major attraction, with 55,000 square feet of eclectic retail shops and restaurants. There are 139 mixed use properties in the City, with a total value of approximately $105 million. These properties collectively generate $1.6 million in tax revenue for the City. The downtown retail mix consists of 34 restaurants, 2 hotels (with more under construction), 8 banks, 5 arts/craft establishments, 5 pubs/bars, 5 jewelry stores, 3 booksellers, 2 food stores, a liquor store and a furniture store, totaling 67 retail establishments.



Calvin Theatre

There are several entertainment establishments in downtown Northampton that attract top performers to the area. Iron Horse Entertainment Group operates the Iron Horse Music Hall, Calvin Theatre, and Pearl Street Nightclub, well-known venues featuring live music. The Academy of Music is an 800-seat theater that features stage productions and is home to four companies including the Pioneer Valley Ballet and Pioneer Valley Symphony. In addition, the City is home to festivals such as the Paradise City Arts Festival held at the 3 County Fair, and a well-attended First Night Celebration. These live performance venues and festivals contribute to making Northampton the destination that it is, attracting some 500,000 visitors annually according to City estimates.

In order to quantify how the City of Northampton attracts outside retail spending, we analyzed retail sales at the 3-digit and 4-digit NAICS levels. A retail sales "surplus" indicates that businesses within a given area are selling more than the local population demands, and that consumers from outside the area are attracted into the area to shop at those establishments. In the case of Northampton, the data show strong surpluses in Food & Beverage Stores; Health & Personal Care Stores; Clothing and Clothing Accessories Stores; Book, Periodical & Music Stores; Department Stores; Office Supplies, Stationery & Gift Stores; Used Merchandise Stores; Non-store Retailers; and Full-Service Restaurants. This mix of businesses that draws in outside spending to Northampton tells the story of a city that is a cultural and entertainment hub that is attractive because of the unique experience it provides to visitors. Many of these retail types are complementary: for example, consumers may decide to visit for the shopping but are enticed by the array of dining options, which are in turn supported by the entertainment venues.

City of Northampton Retail Sales Sectors Experiencing Surplus

NAICS	Industry Group	Demand (Retail Potential)	Supply (Retail Sales)	Retail Gap	Number of Businesses
441	Motor Vehicle & Parts Dealers	$64,041,745	$90,172,942	-$26,131,197	24
445	Food & Beverage Stores	$68,040,586	$113,870,754	-$45,830,168	29
446,4461	Health & Personal Care Stores	$36,661,335	$81,196,043	-$44,534,708	15
448	Clothing & Clothing Accessories Stores	$25,898,204	$32,545,839	-$6,647,635	40
4512	Book, Periodical & Music Stores	$2,008,023	$4,106,542	-$2,098,519	15
4521	Department Stores Excluding Leased Depts.	$22,287,145	$33,873,651	-$11,586,506	3
453	Miscellaneous Store Retailers	$9,101,744	$9,457,686	-$355,942	57
4532	Office Supplies, Stationery & Gift Stores	$3,282,714	$4,283,610	-$1,000,896	17
4533	Used Merchandise Stores	$1,537,825	$2,854,747	-$1,316,922	21
454	Nonstore Retailers	$22,476,815	$26,879,728	-$4,402,913	9
722	Food Services & Drinking Places	$39,622,246	$50,519,464	-$10,897,218	63
7221	Full-Service Restaurants	$20,922,622	$35,878,188	-$14,955,566	40

Source: ESRI

All of these businesses and venues combine to make Northampton the destination that it is, and they collectively bring in tens of millions of dollars in outside spending. Many of Northampton's retail shops and restaurants are small businesses that are operating on thin margins, such that even a small decline in patronage could force them to shut down. If a handful of establishments were forced to close due to competition from the proposed Casino, the destination appeal of Northampton could begin to unravel, turning a small decline in business into a downward spiral for the whole downtown.

In order to better understand the origins of visitors who patronize Northampton businesses, we chose a 25-mile-drive-time trade area for this analysis. This trade area definition is based on interviews with local business owners and government officials, as well as market research provided by Thornes Marketplace, which notes that aside from the local Northampton market itself, most visitors who spend money in downtown Northampton are from Hampshire, Franklin, and Hampden counties, which roughly corresponds to a 25-mile radius. We use a similar drive-time trade area to calculate the City's role in regional spending patterns.

Proposed Project

If granted a license by the Massachusetts Gaming Commission, the MGM Springfield development (the “Casino”) would mean an $850 million investment in the City of Springfield. According to the Host Community Agreement, this investment would include:

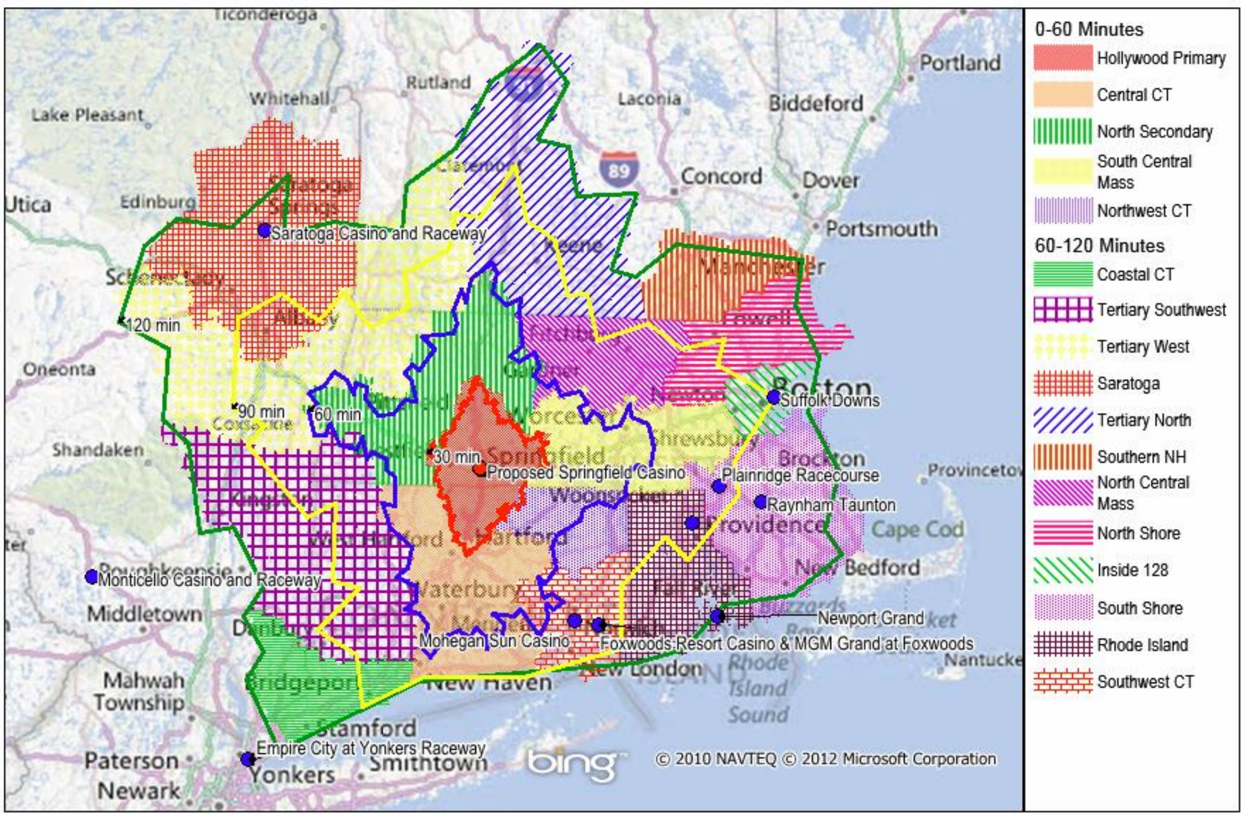
- 125,000 square feet of gaming area (3,000 slot and video stations and 75 tables)
- 250-room four-star hotel
- 7,000-square-foot spa with rooftop outdoor swimming pool and 8,000-square-foot rooftop garden
- 45,000-square-foot conference facility
- 54 apartment units
- 125,000 square feet of office
- An entertainment hub including 8-screen cinema, 18-lane bowling, a minimum of 7 restaurants, and approximately 27,000 square feet of retail space
- A physical connection to the MassMutual Center, which will partner with MGM on entertainment
- Parking for buses and 3,600 personal vehicles

The scale of the plans demonstrate that the Casino project would be far more than a casino. Rather, MGM Springfield would be a “resort casino” complete with **all the amenities and leisure activities that complement gaming, including entertainment, dining, and shopping, which together would create an attractive “destination” environment that would directly compete with other centers of activity in the Pioneer Valley, including Northampton.** Studies have shown that as the casino gambling market has become more and more competitive, casino resorts are relying more on non-gaming attractions to attract and keep customers. An essential piece of the casino’s business model will be to meet all of their customers’ needs so that they do not need to leave the facility. **For this reason, the proposed non-gaming investments in the City of Springfield are not merely negotiated bonuses for Springfield—the Casino has a vested interest in the creation of a successful destination area—which suggests a high likelihood of competition for Northampton**.

In addition to any entertainment contained within the Casino and associated facilities, the Casino has entered into agreements to market, co-sponsor and underwrite 12 major events per year at the MassMutual Center, Symphony Hall, and City Stage venues. The added clout of the Casino in attracting attendees into these events creates additional competition for the City of Northampton as a destination and will increase the cost to Northampton venues in attracting performers.

Casino Visitation and Spending

In order to calculate the impacts of Casino-related spending on the City of Northampton, we start by estimating visitation to the Casino and associated categories of spending. MGM's own estimates of visitation and spending are not publicly available. However, the market assessment for Penn National's Hollywood Casino, a similarly sized project also proposed for downtown Springfield, is available.[8] This report, prepared by Strategic Market Advisors and referred to herein as the "SMA Report", analyzed the likely visitation to the Hollywood Casino in the context of the regional gaming market, taking into account other existing and anticipated gaming destinations as well as a host of other factors including studies of gaming behavior, trade area demographics and economic indicators, etc.



The SMA Report estimates 3.74 million annual visitors to the Hollywood Casino, of which 2.86 million (77%) are expected to come from within a one-hour drive time trade area. The trade area is shown within the blue line in the map above. This is the primary trade area from which the Casino is expected to draw spending away from Northampton as is referred to as the Casino Trade Area.

[8] Strategic Market Advisors, "Casino Resort Market Assessment." December 2012.

Spending Estimation for One-Hour Drive Time Trade Area		
Market	Visits	Total Revenue
Hollywood Primary	1,680,774	$145,154,128
Central CT	917,047	$95,418,712
North Secondary	103,286	$8,597,535
South Central Mass	123,567	$12,857,183
Northeast CT	41,572	$3,806,479
1-Hour Trade Area	**2,866,246**	**$265,834,037**
Total SMA Estimate	3,740,702	$343,577,591
Trade Area % of Total	77%	77%

Source: SMA Advisors

To calculate how much spending the Casino might draw away from Northampton, we first need to calculate the total estimated recreational spending associated with the Casino from within the trade area defined by the one-hour drive time from downtown Springfield (Casino Trade Area). As shown in the table above, the SMA Report estimates that Casino Trade Area visitors will generate $266 million in Gross Gaming Revenues (GGR) during the first year of stable operations. In addition to people who are attracted by the Casino, the SMA Report estimates some incidental revenue from hotel guests, tourists, and motorists who are in the area for other reasons. Based on the proportion of hotel guests who are estimated to come from within the trade area, we estimate the total trade area gaming revenue to be approximately $273 million in 2019, the first projected year of "stabilized operations".

Based on spending data from the UMass-Dartmouth Center for Policy Analysis for the two resort casinos in Connecticut, we assume that the non-gaming revenues represent 25.2% of gaming revenues, or approximately $69 million in the case of Springfield. This brings the total trade area recreational spending associated with the Casino to approximately $342 million.

Casino Recreational Spending Summary	
Revenue Source	Amount
Trade Area Gross Revenue	$273,239,112
Gaming Visitors	$265,834,037
Casino Hotel Guests	$2,539,295
Tourists	$1,160,599
Motorists	$3,705,181
Non-Gaming Revenue	$68,861,021
Total Casino Trade Area Spending Due to Casino	**$342,100,133**

Source: SMA Advisors; Center for Policy Analysis; Camoin Associates

Impact of Casino

The Casino, as described above, will draw a large majority of its customers from within a 60-minute drive time ("Casino Trade Area"), a customer base that is currently spending a certain amount on entertainment and recreation related goods. As stated in the Analytic Framework section above, residents only have so much money to spend on recreation and entertainment related goods and therefore the Casino will not create "new dollars" to be spent but will merely transfer this spending from other goods and services to the Casino.

In order to understand the current spending habits of the customers within the Casino Trade Area, Camoin Associates pulled data on the current recreation spending of area residents. The following table showcases the typical spending habits of these residents on recreation related goods including ticket purchases, retail shopping, and eating and drinking places. The following spending basket includes goods that are considered related to recreation. In total, residents of the Casino Trade Area are spending $8.5 billion on recreation related goods.

Casino Trade Area Recreation Spending	
Category	Total
Entertainment/Recreation Fees and Admissions	$738,237,847
Toys and Games	$155,761,860
Recreation Vehicles and Fees	$252,505,973
Sports, Recreation and Exercise Equipment	$170,759,787
Photographic Equipment and Supplies	$87,699,453
Reading	$175,486,888
Lodging on Trips	$485,845,639
Food and Drink on Trips	$496,592,109
Food Away from Home	$3,571,606,130
Alcoholic Beverages	$607,511,400
Apparel and Services	$1,718,098,900
Total	**$8,460,105,986**

Source: ESRI Recreation Expenditures

As calculated below, if the Casino is generating $342 million in revenue from residents of the Casino Trade Area, that is 4.04% of the total recreation spending by residents of the Casino Trade Area. In other words, 4.04% of the spending that is currently occurring throughout the Casino Trade Area will be occurring solely at the Casino and its adjoining venues.

Percent of Casino Trade Area Sales Occurring at Casino - Low Case	
Total Casino Sales	$ 342,100,133
Total Casino Trade Area Recreation Spending	$ 8,460,105,986
Percent of Trade Area Recreation Spending to Occur at Casino	**4.04%**

Source: Camoin Associates

The Northampton Trade Area is a particular subset of the Casino Trade Area, so the 4.04% transfer of spending from the Casino Trade Area to the Casino will also impact the Northampton Trade Area. The following table shows the current recreation spending occurring in the Northampton Trade Area and the dollar value impact that a 4.04% transfer of spending out of the Northampton Trade Area into the Casino will have. In total, $40 million in sales will be transferred from the Northampton Trade Area to the Casino.

Northampton Trade Area Recreation Spending - Low Case	
Category	Total
Entertainment/Recreation Fees and Admissions	$83,290,324
Toys and Games	$18,702,624
Recreation Vehicles and Fees	$27,162,779
Sports, Recreation and Exercise Equipment	$20,016,198
Photographic Equipment and Supplies	$10,319,452
Reading	$20,338,540
Lodging on Trips	$54,433,702
Food and Drink on Trips	$56,603,901
Food Away from Home	$428,226,705
Alcoholic Beverages	$72,916,869
Apparel and Services	$205,967,977
Total	**$997,979,071**
Percent Transfer to Casino	4.04%
Amount of Northampton Trade Area Sales Transferred to Casino - Low Case	**$40,355,141**

Source: ESRI Recreation Expenditures

Finally, to understand how the City of Northampton will be impacted, Camoin Associates had to estimate the role that the City plays in the Northampton Trade Area. The following table shows that 10.22% of total recreation related sales in the Northampton Trade Area occur in the City.

City of Northampton as a Percent of Northampton Trade Area	
Current Recreation Spending the City of Northampton	$ 101,999,213
Current Recreation Spending the Northampton Trade Area	$ 997,979,071
Percent of Northampton Trade Area Spending Occurring in City	**10.22%**

Source: ESRI, Camoin Associates

Therefore, of the $40 million in sales being transferred from the Northampton Trade Area to the Casino, 10.22% is coming from the City of Northampton. In other words, the Casino would result in a loss of sales of $4.1 million within the City itself under the low case scenario.

Impact of the Casino on City Sales - Low Case	
Decrease in Sales in Northampton Trade Area (4.04%)	$ 40,355,141
Percent of Northampton Trade Area Spending Occurring in City	10.22%
Decrease in Sales in the City of Northampton - Low Case	**$ 4,124,528**

Source: Camoin Associates

The above described loss of sales is considered the “low case”, however, following discussions with local business owners, economic development officials, and researching the commutation and visitation patterns in and around the City it became clear to Camoin Associates that the actual impact of the Casino on the City of Northampton, would likely be much higher. The low case scenario assumes that the transfer of sales from the Casino Trade Area to the Casino would occur equally throughout the 60 minute drive time, when realistically the draw to the Casino will be much stronger from nearby communities and therefore the impact will be much higher on the areas in closer proximity to the Casino. The City of Northampton is located along the I-91 corridor and much of its customer base is from the south, coming up from Springfield and the neighboring communities. Therefore the actual loss in sales could be as much as double the 4.04%. The following table calculates the “high case” scenario and loss of sales estimate assuming an 8.08% loss in sales to the Northampton Trade Area based on an understanding of where customers to both venues will come from and the overlap in market area.

The table below shows that assuming the high case of an 8% decrease in sales for the Northampton Trade Area, that will result in an $8.3 million loss in sales for the City of Northampton.

Impact of the Casino on City Sales - High Case		
Decrease in Sales in Northampton Trade Area (8.08%)	$	80,736,507
Percent of Northampton Trade Area Spending Occurring in City		10.22%
Decrease in Sales in the City of Northampton - High Case	**$**	**8,251,736**

Source: Camoin Associates

Economic Impact

As described above in the "What is Economic Impact Analysis?" section, the economic impact calculates how the direct impact multiplies throughout the local economy and results in indirect and induced impacts. The following section calculates the impact of a "low case" scenario based on the above calculated loss and in sales, and a "high case" based on a possible larger loss of sales from the City of Northampton.

Economic Impact – Low Case

Based on the projections calculated above, $4.1 million in direct net lost spending was used as the low case input for the EMSI economic impact model. The EMSI model allows the analyst to break down the total spending by NAICS code to get an accurate read for how one dollar lost from a specific sector multiplies throughout the local economy. To analyze the impact of the Casino on the City, the total lost spending is broken down into a variety of NAICS codes to capture where from the economy the sales are being lost.

The table below outlines the direct and indirect economic impact of the Casino on the City of Northampton. Taking into account the direct and indirect economic impacts, the Casino is estimated to result in the loss of $4.3 million in sales, 90 jobs, and $1.6 million in earnings.

Economic Impact - Low Case			
	Direct	Indirect	Total
Sales	$ 4,124,528	$ 258,014	$ 4,382,542
Jobs	87	3	90
Earnings	$ 1,515,899	$ 106,113	$ 1,622,012

Source: EMSI, Camoin Associates

Economic Impact – High Case

The calculations in the above section estimate that the "high case" scenario would result in $8.3 million in lost sales for the City of Northampton. The following table below calculates the impact of $8.3 million in lost sales.

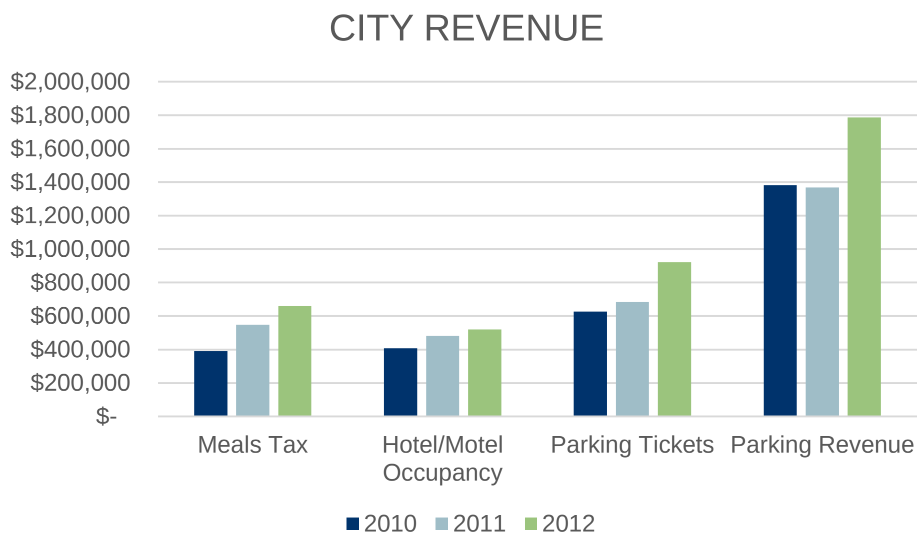
Economic Impact - High Case			
	Direct	Indirect	Total
Sales	$ 8,251,736	$ 516,145	$ 8,767,881
Jobs	175	5	180
Earnings	$ 3,032,767	$ 212,294	$ 3,245,061

Source: EMSI, Camoin Associates

The impact of the City losing $8.3 million in direct sales would equal $8.7 million in total lost sales, 180 jobs, and $3.2 million in lost earnings.

Fiscal Impact

In addition to the economic impact of the Casino on the local economy outlined above, there would also be a fiscal impact in terms of the loss of tax revenue including meals tax, occupancy tax, parking revenue, and property tax. The following sections describe how such revenues would be impacted by the Casino under the low and high cases.



Meals Tax

The City collects a 0.75% meals tax on meal purchases in the City of Northampton. The following table calculates the low and high impact of the Casino on meals tax revenue.

Meals Tax Revenue		
	Low Case	High Case
Meals Tax Revenue (2012)	$ 659,040	$ 659,040
Percent Reduction in Sales	4.04%	8.08%
Lost Meals Tax Related Revenue	**$ 26,650**	**$ 53,250**

Source: Camoin Associates, City of Northampton Finance Department

Occupancy Tax

The City collects a 6% occupancy tax for hotel stays. The following table calculates the impact of the Casino on occupancy tax revenue.

Occupancy Tax Revenue		
	Low Case	High Case
Occupancy Tax Revenue (2012)	$ 520,001	$ 520,001
Percent Reduction in Sales	4.04%	8.08%
Lost Occupancy Tax Revenue	**$ 21,027**	**$ 42,016**

Source: Camoin Associates, City of Northampton Finance Department

Parking Revenue

The City issues tickets and collects fees that are associated with driving and parking in the City. A portion of those revenues are attributable to the recreation spending the City. In order to determine what percent of the parking revenue is related to visitation (and not related to general use in and around the City) Camoin Associates calculated the percent of total sales in the City that are recreation related. Of all sales in the City, 22% are recreation related as previously defined. The following table calculates the impact of the Casino on parking related revenues.

Parking Ticket and Related Revenue		
	Low Case	High Case
Parking Related Revenue	$ 2,709,504	$ 2,709,504
Recreation Sales as a Percent of Total Sales	22%	22%
Parking Related Revenue Attributed to Recreation	$ 597,783	$ 597,783
Percent Reduction in Sales	4.04%	8.08%
Lost Parking Related Revenue	**$ 24,172**	**$ 48,301**

Source: Camoin Associates, City of Northampton Finance Department

Property Taxes

The City collects property taxes equal to $15.39 per $1,000 of assessed value for all properties in the City. The City Assessor reports that the assessed value is based on an income generation model. In other words, if the sales of a business decrease as a result of the Casino, the rent that the landlord can charge will also decrease, thereby reducing the value of the property. The following focuses primarily on the parcels in the City that are considered "mixed use", as those are the types of units that are found in the downtown and most likely the hardest hit by decreased sales resulting from the Casino. The 139 mixed use parcels have a total value of over $104.5 million, generating $1.6 million in annual property tax revenue.

Assuming that the decline in sales will result in a proportional decline in property values for the mixed use properties in the business district, the City will lose between $65,087 and $130,055 annually in property tax revenue.

Property Tax Revenue		
	Low Case	High Case
Total Mixed Use Parcels	139	139
Total Value of Mixed Use Parcels	$ 104,587,120	$ 104,587,120
Taxes per $1,000	$ 15.39	$ 15.39
Total Taxes Paid on Mixed Use Parcels	$ 1,609,596	$ 1,609,596
Percent Reduction in Sales	4.04%	8.08%
Lost Property Tax Revenue	**$ 65,087**	**$ 130,055**

Source: Camoin Associates, City of Northampton Assessor

Total

The table below sums the City's lost revenue from the above sources. In total, the City will lose between $136,936 and $232,623 annually.

Total Lost Revenue - Annual		
	Low Case	High Case
Lost Meals Tax Related Revenue	$ 26,650	$ 53,250
Lost Occupancy Tax Revenue	$ 21,027	$ 42,016
Lost Parking Related Revenue	$ 24,172	$ 48,301
Lost Property Tax Revenue	$ 65,087	$ 130,055
Total Lost City Revenue	**$ 136,936**	**$ 273,623**

Source: Camoin Associates

Over a 20-year period and assuming a 3% annual inflation rate, the Casino will result in between $3.7 million and $7.4 million in lost revenue.

Impact of Casino on City Revenue - 20 Year Total		
	Low Case	High Case
Total Lost City Revenue	$ 136,936	$ 273,623
Annual Inflation	3%	3%
Total Lost City Revenue Over 20 Years	**$ 3,679,527**	**$ 7,352,346**

Source: Camoin Associates

Future Investment

In addition to the above listed economic and fiscal impacts of the Casino on the City of Northampton, it is also likely that the development of the Casino will negatively impact future property development in the City. Following the completion of the Casino, additional amenities will likely spring up around the Casino to support the generated visitation. As Springfield develops Casino support services such as retail stores, hotels, restaurants, and other hospitality services, investment that might have located in Northampton due to its recognition as a regional tourist hub could instead locate in Springfield. This will impact the tax base, property tax rates, property tax revenues, and the overall vitality of the Northampton economy.

In order to quantify the potential impact of the Casino on future investment in the City, Camoin Associates reviewed a list of current projects provided by the City's Director of Economic Development. The list of projects ranged from those under construction to potential developments and totaled $85 million in market value. Projects included office and retail buildings, residential developments, conversion of a rail station to a restaurant, and hotel/restaurant projects. Not all of these projects, or projects like them in the future, would be impacted as a result of the Casino, but it is reasonable to assume that the retail and tourism related developments could be impacted as Springfield develops as a more popular tourist destination and the demand for those types of services in Northampton declines. For example, if we assume that there was no longer a demand for the hotel projects totaling $21 million in market value, that would result in a loss of $323,190 in property tax revenue annually plus associated occupancy tax revenue equaling $316,596 annually.

Lost Future Revenue		
Tourism Related Projects Under Development	$	21,000,000
Tax Rate Per $1,000	$	15.39
Lost Future Tax Revenue	**$**	**323,190**
Hotel Rooms Under Development		208
Occupancy Rate		58.90%
Annual Hotel Room Revenue ($118.00 ADR)	$	5,276,592
Hotel Tax		6%
Lost Future Occupancy Tax Revenue	**$**	**316,596**
Total Lost Future Revenue	**$**	**639,786**

Source: Camoin Associates, Department of Economic Development

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