
Summarized Comparison with February 2008 Analysis

This analysis supplements a previous analysis prepared for the Commission. The purpose of this analysis was to compare the incremental social benefits and costs to fulfill the Commission's statutory obligation under the Congressional Review Act. Since the analytic focus of this report is estimating social benefits and costs, it is reasonable that the two analyses may have different results.

While this report uses the same data and approaches as the February report, there are important differences. These differences have a substantial impact on the final estimates of economic impact on Class II facilities. While Table 4-9 below highlights some of the similarities and differences, the major differences are the following:

- The reports use different units to present costs. Both reports must present costs that occur in different years in a common measuring system. The February 2008 report presents discount costs occurring in the future and presents a present value estimate in current dollars. This report annualizes the flow of benefits and costs over a ten-year period using a seven percent real discount rate. Based on our interpretation of the February 2008 results for Scenario 2A in that report, the net gaming revenue loss is estimated to be \$1.2 billion in current dollars. Based on this interpretation, Scenario 2A in the February report estimates a much higher net revenue loss than this analysis.
- For one measure of net gaming revenue loss, the February report uses a similar approach as this report. However, the assumed compliant game is an older offering from Multimedia that had lower revenues than the Reel Time game used in this analysis. In this report, we assume that tribal gaming operators will chose the Class II game that gives the highest possible net revenues and that complies with the regulation. This difference led to the substantial difference in the reduction in Class II gaming revenue in the two analyses.
- The February report estimates that all machines and titles will undergo conversion, reprogramming, and replacement costs. For Scenario 2 in the February report, these costs equate to roughly \$20,000 per Class II player interface. In this report, we assume operators will not pay for (and thus suppliers will not provide) reprogramming that exceeds the cost of a new compliant system (estimated to be \$6,000). In addition, this analysis finds that the grandfathering provision will reduce compliance costs substantially.
- The February report assumes all current Class II machines are noncompliant. While it may be unlikely that current machines are in full compliance with every provision of the classification and technical standards, many machines that have opinion letters deeming them Class II may only require nominal upgrades. We use the Commission's estimate of compliance rate as the basis for this analysis.

Table 4-9: Comparison of Major Differences Between the Analyses

Data/Assumption	February 2008 Report	This Analysis
Data Year	2006	2006
Number of Affected Class II Machines	15,765 (Scenario 2A)	5,000 to 20,000
Growth Rate of Class II Market	10-yr compound annual growth rate of Indian gaming (14.6 percent)	State-specific growth rate. For Class II only states, annual average of machine growth in the past five years.
Estimated Change in Gaming Revenue	42 percent (range of 21-64)	5-17 percent
Compliant Game Used to Model Gaming Revenue Loss	MegaMania	Reel Time
Basis for Change in Class II gaming revenue	Both observed revenue loss from current Class II revenue per game to MegaMania and measured increase in game time	Market observation of the difference in Reel Time and MegaNanza's net revenue
Baseline Compliance Rate	0	20 - 80 percent
Effect of Grandfathering	No change; costs are just shifted in time	Substantial
Classification Costs	1.2 billion (current \$ for Scenario 2A)	27 - 87 million (annualized \$)
Estimated Replacement/Reprogramming Costs	\$350 million (current \$ for Scenario 2A)	\$1.5 to \$5.3 million (annualized \$)
Estimated Nongaming Revenue Loss	\$127 million (current \$ for Scenario 2A)	\$1.1 - \$3.7 million (annualized \$)
Estimated Potential Tribal Member Job Losses	3,336	71 - 231
Benefit Estimate	None or qualitative	Partially Quantified