

## *Financial Analysis*

# Project Approach

## Task 1 activities & outputs





# Gaming Industry

## *Snapshot*

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- ▶ The lodging and gaming industries are undergoing a period of significant transition. The proliferation and legalization of gaming in its various forms throughout the US and other regions around the world has lowered barriers to entry into the industry, dynamically altering the industry's competitive landscape. During the past 25 years, legalized gaming has expanded beyond Nevada and New Jersey to the point where nearly every state has some form of gaming (including state-sponsored lotteries). As recently as 1988, legal casinos operated in only two US states (Nevada and New Jersey). Today, more than 20 states allow gambling, thus leaving mature markets that rely on overnight guests, such as Las Vegas, to compete with Native American, riverboat and urban racino and slot operations, which offer gaming in more geographically convenient locations. Standard & Poor's estimates that gaming revenue at Native American facilities accounts for approximately 45% of the US industry total.
- ▶ Gaming industry performance will likely be heavily influenced by the continuing development of new regional casinos targeting local markets, coinciding with the absorption of recently opened regional casinos. In the US, 17 regional casinos opened over the past two years, 13 of which opened in 2012. There are an estimated two additional regional casinos anticipated to open in 2013 and another four anticipated in 2014. Regional casinos have recently opened in states such as Michigan, New York, Illinois, Kansas, Pennsylvania, New Jersey, Ohio, Mississippi, Maryland, Maine and Louisiana, with casino operators including Millennium Gaming, Midwest Gaming, Peninsula Gaming, Rock Gaming, Penn National, Caesars, Cordish Gaming and Pinnacle Entertainment. Given these recent openings and planned additions in states such as Louisiana, Maryland, Pennsylvania, Ohio, and Texas, regional cannibalization of casino market share is likely to occur. For 2013, analysts project volatility in regional casino markets as recently opened casinos attempt to stabilize and obtain additional market share, and several states implement legislation to increase their gaming footprint.
- ▶ Legalized gaming is also becoming increasingly popular on the internet. According to Standard & Poor's, internet gaming is both a threat and an opportunity for traditional casino companies. Online gaming offers the advantage of a convenient and low-cost way for companies to conduct business. However, the isolation and lack of atmosphere associated with internet gaming, plus concerns of security are anticipated to dissuade many traditional casino visitors from online gaming. New Jersey recently passed a law legalizing online gambling, and Connecticut is set to launch online betting for horse racing in April 2013. In Massachusetts, treasurer Steven Grossman stated in late 2012 that "internet gaming (lottery based games) is going to be a fact of life and is going to have an impact on lotteries all over the country in the relatively near future." As internet lottery based games gain legal traction in Massachusetts, other forms of gambling over the internet may follow suit.



# New England Regional Gaming Market

## *Key observations*

### ***New England Regional Casino Revenue Trends***

Casino	2006 Gaming Revenue	2011 Gaming Revenue	CAGR (2006 – 2011)
Mohegan Sun	\$1.57 billion	\$1.22 billion	-4.9%
Foxwoods	\$1.50 billion	\$1.17 billion	-4.0%
Twin River	\$329.4 million	\$462.8 million	7.0%
Newport Grand	\$77.1 million	\$50.0 million	-8.3%
Hollywood Casino Bangor	\$37.5 million	\$59.4 million	9.6%

The chart above displays a comparison of gaming revenue for casinos within the New England (“NE”) casino market from 2006 to 2011. Revenues have declined for Mohegan Sun, Foxwoods, and Newport Grand as a result of macro economic conditions and increased competition from expanded facilities within the region (Twin River and Hollywood Casino) and newly built casinos in nearby states such as New York and Pennsylvania. In attempts to reverse this trend and attract new and repeat guests, Foxwoods and Mohegan Sun have planned new attractions and implemented changes in their marketing strategies. In 2012, Foxwoods released plans to break ground on a 75 outlet retail facility adjacent to the resort and improve the existing retail already on premises. Foxwoods also launched a new marketing campaign, “Anything but Ordinary”, in combination with their 20th anniversary in 2012 to invigorate their image. Mohegan Sun recently created nightclub space and implemented a focused television advertising campaign in order to attract a younger demographic, completed a major renovation and expansion of its buffet (critical to attracting bus tours) and implemented a food court targeting the Chinese market. Both Foxwoods and Mohegan Sun are bidding for casino licenses in Massachusetts.

Twin River and Hollywood Casino Bangor both experienced increased revenues with CAGRs of 7.0% and 9.6%, respectively, from 2006 through 2011. Both casinos have benefitted from significant expansion in recent years which has resulted in revenue increases. Twin River completed a \$220 million expansion in 2007, increasing their gaming space to 300,000 square feet. Hollywood Casino Bangor completed an expansion in 2008, adding a 152-room hotel, four-story parking garage and numerous retail and restaurant outlets.

Additionally, the Oxford Casino, located in Oxford, Maine, opened in June 2012 with approximately 800 slot machines and 21 table games but was not included in the above analysis due to the lack of historical information.

For a more detailed description of each property, please refer to Appendix B.



# New England Regional Gaming Market

## *Regional submarkets*

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### **Connecticut**

The Connecticut submarket is comprised of two large Native American gaming resorts, Foxwoods and Mohegan Sun. The primary feeder markets for these properties—considered regional drive-to destinations—are Connecticut, Massachusetts, Rhode Island and New York. The Connecticut casinos have steadily seen an erosion of their demand base over the last several years due to the economic downturn coupled with new competitive casinos opening in Rhode Island and New York. The primary drivers of gaming demand for the two Connecticut properties are bus tours during the week, the large inventory of hotel rooms (which is often near full capacity during the weekends), each property's loyalty program with significant associated membership, groups and conventions, and large entertainment events (i.e., the Mohegan Sun has a 10,000-seat arena).

In order to address the threat of competitive casinos in Massachusetts, quantified by market participants as a potential decrease in GGR of 20% to 40%, it is anticipated that both facilities will enhance their amenity offerings (e.g. destination retail) and increase marketing spend, an option made viable by an advantageously low tax rate (a 25% tax rate on slot revenues resulting in an overall effective rate of approximately 18%) relative to the rate planned for the Massachusetts resorts. Additionally, both Mohegan Sun and Foxwoods are entering applications for Massachusetts licenses, a potential benefit of which, if successful, will be to retain a portion of their existing demand base.

Please refer to Appendix B for a detailed description of each property.

### **Rhode Island**

Rhode Island included seven questions in the November 2012 voting ballot as a way for constituents to determine if table games should be added to the state's two casinos, Twin River and Newport Grand. In order for table games to be successfully added, majorities in favor of table games in both the state and the local municipalities, Lincoln and Newport, would be required.

The statewide results of the casino vote were in favor of adding table games within the local municipality of Lincoln, the location of the Twin River casino. However, residents of Newport voted against the addition of table games to the local Newport Grand casino by an approximate 8% margin. Table games are anticipated to be added to Twin River by mid-2013.

Please refer to Appendix B for a detailed description of each property.

# New England Regional Gaming Market

## *Regional submarkets*

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### ***New Hampshire***

The New Hampshire Senate Ways and Means Committee began reviewing a new casino bill to introduce gaming via casino licenses to New Hampshire, which is expected to pass, and then move onward to the full Senate in early March. Rockingham Park, a racetrack located approximately 32 miles northwest of Boston, is the likely location of a potential New Hampshire casino. Currently, Millennium Gaming has the option to purchase the racetrack. In early 2013 Millennium laid out plans for a new \$450 million casino project with a 425,000 square foot facility that would mirror their Meadows Racetrack & Casino location in Pennsylvania. That Pennsylvania casino contains 3,300 slot units, 75 table games, restaurants, and horse racing. According to William Wortman, co-owner of Millennium Gaming, if the casino bill passes during the current legislative session ending July 1, 2013, construction on Rockingham Park could be completed in 18 to 20 months and the facility would be operational by 2016.

The New Hampshire casino license, if approved under the current proposal, is anticipated to tax slot revenue at 30.0% and table games at 14.0%, with a 10-year license costing \$80.0 million for a destination resort casino in Southern New Hampshire. An alternative had been proposed which would establish two significantly smaller casinos, one in the southern tier of New Hampshire and one in the White Mountains. In that scenario, bidders would invest a minimum of \$10.0 million in each facility and \$10.0 million for the casino license with an annual renewal fee of \$1.0 million. As the bill makes its way through the New Hampshire legislature in the coming month(s), specific details surrounding the taxes and licensing fees will become more transparent.



# Massachusetts Gaming Market

## *Expanded Gaming Act*

### **Massachusetts Casino Regulation**

On November 22, 2011, Massachusetts Governor Deval Patrick signed a bill that legalized casinos, under certain parameters, in Massachusetts. The signed bill allows for up to three destination resort casinos located in three geographically diverse regions: the Eastern Region (Region A), the Western Region (Region B), and the Southeastern Region (Region C). Additionally, the law allows for one slots facility to be competitively awarded for one location statewide.

Per the Commonwealth law, the licensing fee for each of the resort casinos will be a minimum of \$85 million and requires a capital investment, to include a hotel facility, of at least \$500 million. The Commonwealth will receive 25% of gross gaming revenues. The slots facility will hold up to 1,250 slot machines and the licensing fee will be \$25 million. The minimum capital investment for the slots facility will be \$125 million. The gross gaming revenue at the slots facility will be taxed at 40% by the Commonwealth.

Developers will be required to win approval from local constituents through a ballot referendum.





# Summary of Proposed Casino Development

## *Location overview*



### **Location**

Suffolk Downs is located within three miles of Logan International Airport, five miles of Boston's CBD, and seven miles of Cambridge's CBD. The location within Boston, MA is complemented by easy and direct access via major roadways and public transportation, including the Suffolk Downs and Beachmont T stops, as well as via air transport due to proximity to Logan Airport. As such, the site is expected to capture demand from local and regional feeder markets, as well as Boston's tourists, business travelers and conventioners. The proponent's vision is to develop a destination gaming resort within an urban town center environment, providing a variety of both amenities and employment opportunities for local area residents, as well as a first class



# Subject Property and Market

## *SWOT analysis*

### Strengths/Opportunities

- ▶ Boston, MA, where the Subject Property is located, is the 21st largest city in the United States with over 600,000 residents living within city limits and 8.6 million residents within a three hour driving radius.
- ▶ Over 22 million tourists visited Boston in 2012; the Subject Property - within 3 miles of Logan Airport and proximate to downtown Boston - has the potential to attract a portion of these visitors.
- ▶ The rising cost of fuel and airfare, as well as the challenges and time commitment associated with air travel, should result in an increase in demand for drive-to vacations, especially those within proximity to dense population centers.
- ▶ The Subject Property will potentially be less vulnerable to increasing gas prices than its primary competitors due to its comparatively short driving distance from major population centers.
- ▶ The Subject Property can partner with local market participants (e.g., hotels, convention center), thus supporting the local community, driving accretive economic benefits (such as hotel occupancy taxes), while enhancing the city's image through high quality products/services.
- ▶ The Subject Property is anticipated to open in 2016 and will be one of the newest mixed-use casino developments in the competitive supply. As a result, the quality of the Subject Property is anticipated to be superior to many of its competitors.
- ▶ The Caesars brand is well recognized as a casino industry leader in terms of quality, offerings, and service, as well in executing successful, efficient regional casino operations due to its strong loyalty program, centralized corporate/shared services, and track record operating such facilities.
- ▶ Only one casino gaming license (including full table games and slots) is available in the Eastern region of Massachusetts, resulting in limited competition for the local market.
- ▶ The Subject Property's wide range of service and amenity offerings in a resort/town center environment, including gaming, retail, restaurants and spa, can potentially mitigate traditional seasonal fluctuations in overnight demand while offering a unique entertainment option to area residents.

### Weaknesses/Threats

- ▶ Existing competitive supply, specifically Mohegan Sun and Foxwoods, have an established presence in the market with their own loyalty programs; each are also planning or have recently implemented focused marketing initiatives and amenity enhancements (such as destination retail outlets at Foxwoods and nightclubs targeting a younger clientele at Mohegan Sun) to increase their market share.
- ▶ Tribal casinos in Connecticut (Mohegan Sun and Foxwoods) have a lower tax rate on GGR than that proposed for the MA casinos, enabling them to increase marketing spend to regain market share from new competitors.
- ▶ Additions to the regional competitive supply, such as table games recently approved for Twin River and a proposed new casino in New Hampshire, as well as the legalization of Internet gaming in Massachusetts and neighboring states, may result in a decrease in market Share for the Subject Property.
- ▶ As the Subject Property will have less convention/meeting space and hotel guestrooms than its two primary regional competitors - Foxwoods and Mohegan Sun - it will achieve a smaller share of convention and overnight business; however, this is expected to be mitigated by the Subject's demand base, 95% of which is located within an hour's drive (i.e. - within Boston) and therefore will be comprised largely of day visitors.
- ▶ The Subject Property's location is geographically distinct from Boston's central business and historic districts, although a relatively short and direct drive; access to the site may be restricted during peak demand periods due to traffic congestion; this may be mitigated through transportation infrastructure improvements and encouraged use of the T, which has two stations on-site.
- ▶ The Subject Property is directly adjacent to a residential neighborhood known as Orient Heights; activity at the Subject Property, particularly during peak periods of demand, may be disruptive to this residential environment.
- ▶ Additional crime and negative publicity could hinder long term reputation.

# Revenue

## *Demand model – overview*

### **Methodology**

In order to determine potential demand at the proposed casino, potential revenue from various demand drivers were analyzed. EY separated the potential demand into two categories, local/regional and visitation/tourism (i.e. – to the city of Boston). The local/regional demand is anticipated to be generated by residents of Boston and the surrounding region. The other revenue component of GGR is projected to be casino spend by tourists to the Boston area.

To determine the local/regional spend, EY performed a local population analysis, with data sourced from Claritas, based on driving time radius from Suffolk Downs; driving time parameters were 0 – 1 hours, 1 – 2 hours, and 2 – 3 hours. After determining the 21 and over population within the various drive-time radii, EY performed secondary research and market analysis to determine the potential percentage of the population that gambles as well as estimate how often the local/regional gambling population would visit a casino (predicated upon distance). Using those metrics, EY was able to calculate the estimated number of annual visits to the casino by the local/regional visitors. To determine the GGR per visit, EY reviewed revenue per visit data for comparable local/regional markets and applied an adjustment based on median household income. The result was an average of \$114 in GGR per visit, equating to total local/regional GGR of \$870.7 million (in 2013 dollars).

Given the approximate 22.5 million tourists (tourists are defined as out of town visitors) that Boston accommodated in 2012, EY analyzed the potential casino capture rate based on tourists' primary reasons for visiting. To do this, EY segmented the visitors by reason for visit (i.e., visit friends, personal, entertainment) and then used similar breakouts as the local/regional estimate (i.e., % of visitors that are 21 and over, % of visitors that gamble). After estimating the total amount of potential gambling visitors to Boston, EY applied judgmental percentages based on analysis of market factors, to the likelihood that these tourists will visit the casino to obtain the total casino visitation from tourists. EY then applied the average GGR per visit per capita of \$114 to each casino visiting tourist to arrive at a visitation GGR of \$46.9 million.

The two analyses above resulted in total estimated GGR from local/regional and visitation/tourism capture of \$917.6 million.

EY also estimated the mix of GGR from slots versus table games. Based on this estimated mix, and the proposed number of slots and table games at the Subject Property, the estimated Win Per Unit Per Day (WPUPD) was calculated for slots and tables games. Please see page 18 for additional details on the WPUPD metrics. All stabilized year revenue assumptions were made in 2013 dollars.

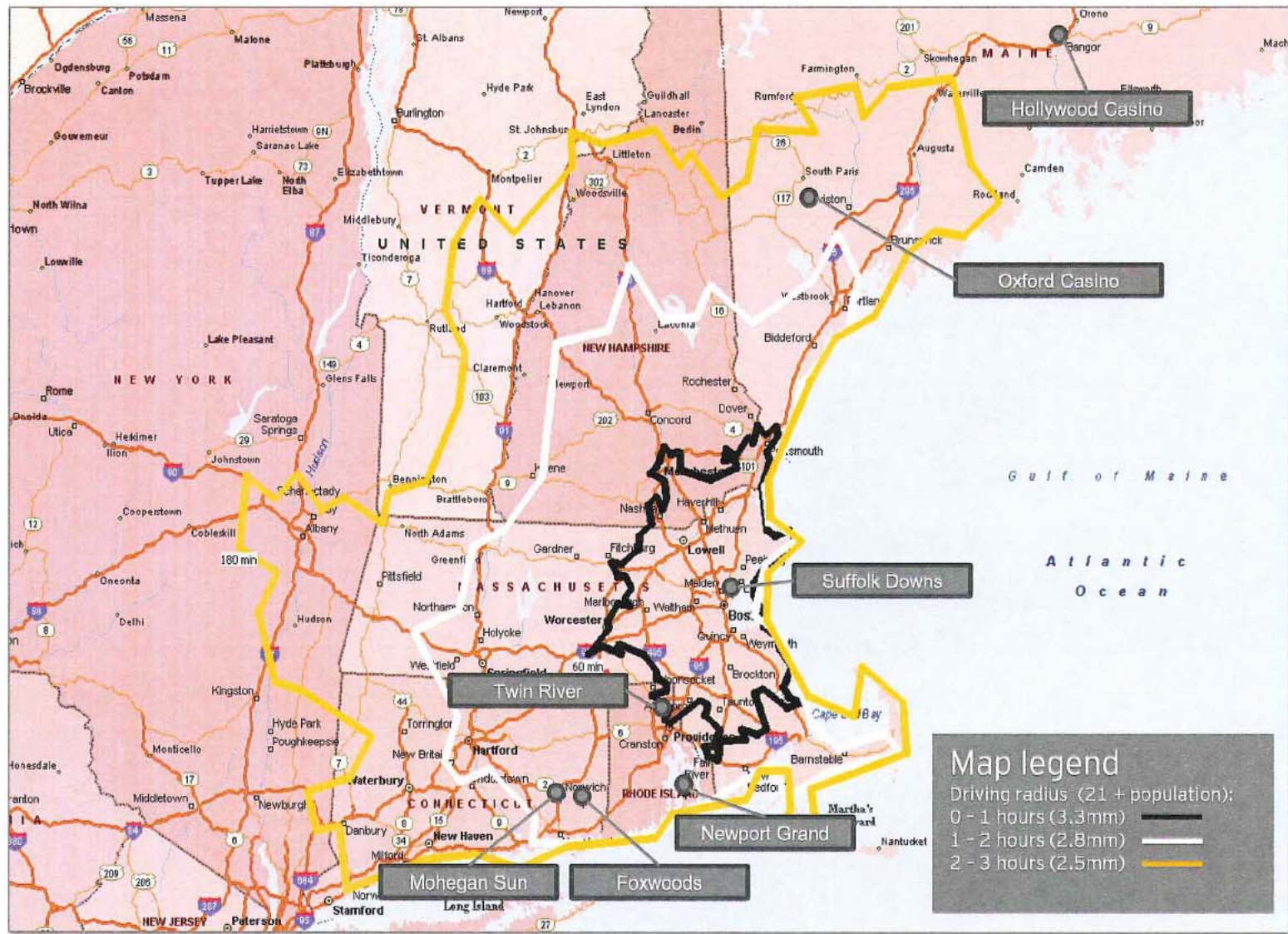
Resources that were used to support our assumptions included published information, third party studies, interviews with regional market participants, interviews with gaming industry participants, and internal data sources.

Please refer to Appendix A for a detailed illustration of the Cash Flow Model Build-Up Methodology.



# Revenue

## *Drivetime map with population and existing competition*



# Revenue

## Demand model – key statistics

### Casino Demand

Category	Assumption
21 and over population <sup>1</sup>	71.6%
Propensity to gamble <sup>2</sup>	27.0%
Local / Regional casino trips per annum <sup>3</sup>	3.9
Choose other casino <sup>4</sup>	16.4%
Revenues per person per casino visit <sup>5</sup>	\$114

<sup>1</sup>US Census Bureau 2010

<sup>2</sup>State of the States, American Gaming Association

<sup>3</sup>Customer Focus Study, Vertis Communications

<sup>4</sup>EY judgmental figure based on analysis of market factors

<sup>5</sup>Based on income-adjusted analysis of other regional casinos as previously described



Source: <http://www.lincollege.edu/about-lin/10863.aspx/>

### Visitation Capture

Visitation purpose	Percentage of visitation
Visit friends <sup>6</sup>	46.0%
Personal <sup>6</sup>	15.0%
Entertainment / sightseeing <sup>6</sup>	13.0%
Business <sup>6</sup>	9.0%
Combined business / leisure <sup>6</sup>	9.0%
Outdoor recreation <sup>6</sup>	5.0%
Convention seminar <sup>6</sup>	4.0%

Note: Total Annual Visitors to Boston (2012): 22,500,000

<sup>6</sup> Greater Boston Convention and Visitors Bureau, 2010 and 2012



Source: <http://nesn.com/fenway-park-stadium-guide/>



# Revenue

## Win Per Unit Per Day (WPUPD) comparison

### Local / Regional WPUPD and GGR

After estimating total GGR, EY allocated the total gaming revenue between slots and tables based on data from the competitive regional facilities, adjusted to reflect the Subject Property's specific market attributes, such as its urban location; as such, the allocation is estimated to be 75% slot revenue versus 25% table game revenue.

The WPUPD for slots and tables is expected to be at the higher end of the range of the comparable/competitive set due to the strength of the location within Boston and the significant population of the local/regional area, in combination with the Subject Property's smaller inventory of gaming units. Total GGR is projected to be near the top of the comparable/competitive set, but will likely fall below the Connecticut tribal casinos due to the smaller scale of the Subject Property.

The table below presents published data from the competitive regional casinos. It should be noted that a number of additional comparable casinos were included in this analysis but not presented in the table below due to confidentiality of data.

Property:	Property Location:	WPUPD Slots	WPUPD Tables	Total GGR (\$MMs)
Suffolk Downs	East Boston, MA	\$443	\$2,514	\$917.6
Foxwoods <sup>1</sup>	Mashantucket, CT	\$271	\$2,069	\$1,169.2
Mohegan Sun <sup>1</sup>	Montville, CT	\$309	\$2,583	\$1,017.2
Twin River <sup>1</sup>	Lincoln, RI	\$270	NAP	\$462.7
Newport Grand <sup>1</sup>	Newport, RI	\$225	NAP	\$50.0
Hollywood Casino <sup>1</sup>	Bangor, ME	\$163	NAP	\$59.4

<sup>1</sup>New England Gaming Update and individual properties (represents data from 2011)

# Operating Statement

## *Expenses - overview*

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### **Methodology**

Assumptions for Subject Property operating expenses were based on expense ratios at comparable regional gaming companies (i.e., focused on "local" markets), confidential data from comparable casino properties, confidential expense percentages provided by the proponent for other Caesars regional casinos, as well as on EY internal data sources. We also incorporated our prior experience working with casino operators as well as discussions with industry participants. Assumptions also reflect the Subject Property's specific attributes such as location, management, brand and facilities profile.

Expense ratios at comparable regional casino companies were analyzed to determine a baseline for casino expenses in a regional market. After establishing this baseline, EY evaluated Caesars' business and operating model to understand the specific components of expenses associated with the Caesars brand and management. According to discussions with Caesars management and high level industry participants, as well as a review of expenses at several Caesars properties, Caesars has historically been highly effective in leveraging centralized corporate functions/programs to provide shared services across its portfolio, resulting in expense efficiencies at the property level; this factor was considered in our analysis of Subject Property expenses. Examples of Caesars' centralized functions/programs include: Total Rewards, marketing, reinvestment options, advertising, and select purchasing.

Please refer to Appendix A for a detailed illustration of the Cash Flow Model Build-Up Methodology.



# Revenue, Mitigation & Benefits (cont'd)

## MGM Grand - Detroit, MI



### 1. Taxes / Fees

Category:	Sources:	Uses:
State Gaming Tax	▶ 24% of gross gaming revenue annually	▶ 55% to the host city for public safety
State Gaming Control Board Assessment	▶ \$8,330,000 annually	▶ 45% to the state's school aid fund
City / Municipal Fee	▶ Greater of 1.25% of gross gaming revenue or \$4,000,000 annually	▶ \$667,667 of the assessment is dedicated to the state's compulsive gaming prevention fund
		▶ City operating budget

### 2. Mitigation Payments

Category:	Sources:	Uses:
Development Process Costs	▶ Developer pays \$17,000,000 to the host city for development process costs after the approval of the development agreement	▶ Administrative and legal costs incurred by the city related to the development project
Small & Local Businesses	▶ Developer to set up a \$50,000,000 capital fund	▶ Capital fund to be used to lend money to small and local businesses to fund expansion projects

### 3. Qualitative Community Benefits

Category:	Qualitative Community Benefits:
Local Goods & Services	▶ Good faith agreement to source at least 30% of casino complex's goods and services from local Detroit businesses
Local Employment	▶ Equal Opportunity Employment Plan exists to staff 51% of casino complex employees with City of Detroit residents
	▶ "School-to-work" programs targeted to train college and high school students for casino complex positions
Neighborhood Beautification	▶ Developer committed to providing pedestrian enhancements including streetscapes, enhanced street lighting and public art to help revitalize downtown Detroit

Sources:  
Community benefit agreements, development agreements, and/or other public documents

*Note: the information presented on this slide is to the best of our knowledge, from publicly available sources*

# Revenue, Mitigation & Benefits (cont'd)

## SugarHouse - Philadelphia, PA



### 1. Taxes / Fees

Category:	Sources:	Uses:
State License Fee	<ul style="list-style-type: none"> <li>▶ \$50 million Slot Machine License Fee</li> <li>▶ \$16.5 million Table Game License Fee</li> </ul>	<ul style="list-style-type: none"> <li>▶ State Gaming Fund</li> </ul>
State Gaming Tax	<ul style="list-style-type: none"> <li>▶ 34% of gross slot gaming revenue</li> <li>▶ 14% of gross table gaming revenue</li> </ul>	<ul style="list-style-type: none"> <li>▶ State Gaming Fund</li> </ul>
Local Share Assessment	<ul style="list-style-type: none"> <li>▶ 4% of gross slot gaming revenue</li> <li>▶ 2% of gross table gaming revenue</li> </ul>	<ul style="list-style-type: none"> <li>▶ Distributed to host and effected communities based on predefined classes</li> </ul>
Property Tax Agreement	<ul style="list-style-type: none"> <li>▶ \$67,000,000 over 11 years</li> </ul>	<ul style="list-style-type: none"> <li>▶ City property tax fund</li> </ul>

### 2. Mitigation Payments

Category:	Sources:	Uses:
Special Services District Fees ("SSD")	<ul style="list-style-type: none"> <li>▶ \$175,000 pre-opening contribution</li> <li>▶ \$500,000 prior to completion of Phase I</li> <li>▶ \$1,000,000 annum. during operations (with potential to be adjusted upwards based on revenue)</li> </ul>	<ul style="list-style-type: none"> <li>▶ SSD was developed to mitigate the impact of casino functions and address quality of life factors within local communities including public outreach, job / vendor opportunities within the casino complex, internships and training opportunities</li> </ul>
Economic Development & Tourism	<ul style="list-style-type: none"> <li>▶ 5% of gross slot gaming revenue</li> </ul>	<ul style="list-style-type: none"> <li>▶ Pennsylvania Gaming Economic Development and Tourism Fund</li> </ul>
Horse Racing	<ul style="list-style-type: none"> <li>▶ 11% of gross slot gaming revenue</li> </ul>	<ul style="list-style-type: none"> <li>▶ Pennsylvania Race Horse Development Fund</li> </ul>
Public Safety	<ul style="list-style-type: none"> <li>▶ Up to \$40,000 (over term of agreement)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Dedicated to costs associated with routing of "911" calls to the Sugarhouse complex</li> </ul>
Legal Costs	<ul style="list-style-type: none"> <li>▶ Up to \$25,000</li> </ul>	<ul style="list-style-type: none"> <li>▶ Reimbursement of legal expenses incurred within the Special Services District</li> </ul>
Transportation	<ul style="list-style-type: none"> <li>▶ Information not available</li> </ul>	<ul style="list-style-type: none"> <li>▶ Donation to city's public transportation system</li> </ul>

Sources:  
Community benefit agreements, development agreements, and/or other public documents

Note: the information presented on this slide is to the best of our knowledge, from publicly available



# Revenue, Mitigation & Benefits (cont'd)

## *SugarHouse - Philadelphia, PA*



### 3. Qualitative Community Benefits

Category:	Qualitative Community Benefits:
Employment	<ul style="list-style-type: none"><li>▶ Good faith agreement to locally source hiring for casino complex jobs (~65% Philadelphia residents)</li><li>▶ Agreement to conduct workshops within local communities to explain hiring requirements for the casino complex</li><li>▶ Neutrality agreement for union practices including union jobs for the first phase of construction</li><li>▶ Funding for job counseling services</li></ul>
Resident Services	<ul style="list-style-type: none"><li>▶ Hotline for residents to call and address construction complaints</li><li>▶ Developer to provide regular updates to residents regarding projects, modification of facilities, etc.</li></ul>
Environmental	<ul style="list-style-type: none"><li>▶ Developer to install green roof system covering no less than 60,000 SF (minimum spend of \$1,000,000)</li></ul>
Public Areas	<ul style="list-style-type: none"><li>▶ Creation of a waterfront promenade open to the public</li></ul>

*Note: Based on the research conducted by EY, State Gaming Fund is distributed to various city and county authorities through a need-based grant process.*

#### Sources:

Community benefit agreements, development agreements, and/or other public documents

*Note: the information presented on this slide is to the best of our knowledge, from publicly available sources*

# Revenue, Mitigation & Benefits (cont'd)

## Harrah's - New Orleans, LA



### 1. Taxes / Fees

Category:	Sources:	Uses:
State Gaming Tax	▶ Greater of 21.5% of gross gaming revenues or \$60,000,000 (land-based casinos only)	▶ All state revenues go to the education fund for teacher salaries/pay raises (land-based casinos only)
City / Municipal Fee	▶ Information not available	▶ Information not available

### 2. Mitigation Payments

Category:	Sources:	Uses:
Education	▶ Developer pays \$2,000,000 / year	▶ Orleans Parish School District
Police	▶ Developer pays \$875,000 / year for first two years of operation	▶ Public safety
Tourism & Marketing	▶ Developer pays \$1,000,000 / year	▶ New Orleans Tourism & Marketing Board
Small Businesses	▶ Developer pays \$1,250,000 over 5 years	▶ Paid to Newcorp to administer the New Orleans Small Business Assistance Fund
Minority Businesses	▶ Developer pays \$100,000 / year	▶ Paid to organizations that foster disadvantaged, minority-owned businesses
Community Support	▶ Developer pays \$225,000 / year	▶ Paid to New Orleans / Harrah's Community Support Program (foster orgs. and projects that contribute to the betterment of New Orleans)

### 3. Qualitative Community Benefits

Category:	Qualitative Community Benefits:
Local Entertainment	▶ Developer is required to purchase 650,000 tickets to the Audobon Zoo & IMAX annually for charitable use

Sources:  
Community benefit agreements, development agreements, and/or other public documents

*Note: the information presented on this slide is to the best of our knowledge, from publicly available sources*



# Revenue, Mitigation & Benefits (cont'd)

## Seminole Hard Rock - Hollywood, FL



### 1. Taxes / Fees

Category:	Sources:	Uses:
State Revenue Sharing – Fixed Fees	<ul style="list-style-type: none"> <li>▶ Tribe pays \$375M/year for first three years of agreement, then \$100M/year for duration of 25 year agreement (for multiple, in-state casinos)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Note: Tribe was guaranteed exclusivity over Category III gaming; payments are reduced if loss of exclusivity occurs</li> </ul>
State Revenue Sharing – “Upside”	<ul style="list-style-type: none"> <li>▶ Banded approach:                             <ul style="list-style-type: none"> <li>▶ Starts at 10% of all net wins up to \$2B</li> <li>▶ Ends at 25% of net wins over \$4.5B</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▶ State operating budget</li> </ul>
Local Share Assessment	<ul style="list-style-type: none"> <li>▶ 3% of state revenue from the tribe (including the tribe’s other Florida casinos)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Contributed to the general funds of local, impacted communities</li> </ul>

### 2. Mitigation Payments

Category:	Sources:	Uses:
Compulsive Gaming Payment	<ul style="list-style-type: none"> <li>▶ Tribe pays \$250,000 / year</li> </ul>	<ul style="list-style-type: none"> <li>▶ Payment to State of Florida’s compulsive gaming fund</li> </ul>
State Compliance Agency	<ul style="list-style-type: none"> <li>▶ Tribe pays \$250,000 / year</li> </ul>	<ul style="list-style-type: none"> <li>▶ Payment to State of Florida for ongoing monitoring of the contract</li> </ul>
TBD	<ul style="list-style-type: none"> <li>▶ Text</li> </ul>	<ul style="list-style-type: none"> <li>▶ Text</li> </ul>

### 3. Qualitative Community Benefits

Category:	Qualitative Community Benefits:
Public Safety	<ul style="list-style-type: none"> <li>▶ Tribe to establish a “safe ride home” program to give free taxi rides to patrons in need</li> </ul>

Sources:  
Community benefit agreements, development agreements, and/or other public documents

*Note: the information presented on this slide is to the best of our knowledge, from publicly available sources*



# Revenue, Mitigation & Benefits (cont'd)

## Parx Casino - Bensalem, PA



### 1. Taxes / Fees

Category:	Sources:	Uses:
State License Fee	<ul style="list-style-type: none"> <li>▶ \$50 million Slot Machine License Fee</li> <li>▶ \$16.5 million Table Game License Fee</li> </ul>	<ul style="list-style-type: none"> <li>▶ State Gaming Fund</li> </ul>
State Gaming Tax	<ul style="list-style-type: none"> <li>▶ 34% of gross slot gaming revenue</li> <li>▶ 14% of gross table gaming revenue</li> </ul>	<ul style="list-style-type: none"> <li>▶ State Gaming Fund**</li> </ul>
Local Share Assessment	<ul style="list-style-type: none"> <li>▶ 4% of gross slot gaming revenue</li> <li>▶ 2% of gross table gaming revenue</li> </ul>	<ul style="list-style-type: none"> <li>▶ Distributed to host and effected communities based on predefined classes</li> </ul>

\*\*Based on the research conducted by EY, State Gaming Fund is distributed to various city and county authorities through a need-based grant process. For example, in Nov 2012, the Bucks County Redevelopment Authority awarded more than \$3.8 million in casino impact grants funded through taxes on the slots from Parx casino. The table below provides a breakdown of allocation.

Category:	Qualitative Community Benefits from State Gaming Fund:
Social	<ul style="list-style-type: none"> <li>▶ Middletown received \$618,742 for fire, police and public works vehicles, emergency radios and other equipment</li> </ul>
Community	<ul style="list-style-type: none"> <li>▶ Bucks County Health Improvement Partnership Clinic received \$125,000 for operations at its Knights Road medical center in Bensalem</li> <li>▶ Bensalem received a combined total of \$427,922 for local projects such as the health center. Other grants went for purchase of new radios for first responders and graffiti cleanup.</li> <li>▶ Bristol township received grants for purchase of low-energy street lights and emergency radios</li> <li>▶ Lower Southampton received a total of \$705,152 in grants. Gambling proceeds were used to repave Old Bustleton Pike, purchase two dump trucks and install new street lights.</li> <li>▶ Bristol received \$196,644 for a wastewater jet truck.</li> <li>▶ Hulmeville received \$197,142 for repairs to local roads and bridges.</li> </ul>
Public Safety	<ul style="list-style-type: none"> <li>▶ Langhorne received \$38,326 for a new police car.</li> <li>▶ Bristol Township received more than \$1.6 million in casino grants approved for local programs, including \$800,000 for continued operations at the Lower Bucks County Public Safety Training Center used by first responders from several towns.</li> <li>▶ Falls received \$55,129 for a township-based SWAT team, which could be called out to assist with incidents throughout the region.</li> </ul>

Note: In addition to proceeds from \$3.8 Million, Bensalem received \$11 million in direct tax proceeds from the slots and table games as host municipality for Parx Casino.

#### Sources:

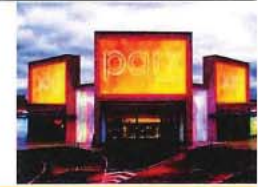
Community benefit agreements, development agreements, and/or other public documents

Note: the information presented on this slide is to the best of our knowledge, from publicly available sources



# Revenue, Mitigation & Benefits (cont'd)

## Parx Casino - Bensalem, PA



### 2. Mitigation Payments

Category:	Sources:	Uses:
Community	▶ ~\$8,000,000 (over the course of 6 years)	▶ Since 2006, made donations and established sponsorships to international, national, and local groups that support many varied causes
Social	▶ Up to \$250,000 annually	▶ Through Pennsylvania's Educational Improvement Tax Credit (EITC) Program, contribute for benefit of local schools
Local Business	▶ 30% of Total Expenditures for New Casino Project	▶ Allocated to maintain Active Membership with Minority Supplier Development Council of PA-DE-NJ

### 3. Qualitative Community Benefits

Category:	Qualitative Community Benefits from Host Community Agreements:
Social	<ul style="list-style-type: none"> <li>▶ Award scholarships annually to graduates of: <ul style="list-style-type: none"> <li>▶ Bucks County Technical High School</li> <li>▶ Bensalem High School</li> <li>▶ Conwell-Egan Catholic High School</li> </ul> </li> <li>▶ Contribute yearly and work with representatives of the Council on Compulsive Gambling of Pennsylvania (CCGPa) to establish Comprehensive Compulsive Gambling training.</li> <li>▶ Incorporate Compulsive Gambling Training into employee orientation to ensure All Team Members are trained and aware.</li> </ul>

Sources:  
Community benefit agreements, development agreements, and/or other public documents

*Note: the information presented on this slide is to the best of our knowledge, from publicly available sources*

# Revenue, Mitigation & Benefits (cont'd)

## Sands - Bethlehem, PA



### 1. Taxes / Fees

Category:	Sources:	Uses:
State License Fee	<ul style="list-style-type: none"> <li>▶ \$50 million Slot Machine License Fee</li> <li>▶ \$16.5 million Table Game License Fee</li> </ul>	<ul style="list-style-type: none"> <li>▶ State Gaming Fund</li> </ul>
State Gaming Tax	<ul style="list-style-type: none"> <li>▶ 34% of gross slot gaming revenue</li> <li>▶ 14% of gross table gaming revenue</li> </ul>	<ul style="list-style-type: none"> <li>▶ 4% of total state taxes go to Bethlehem, PA host communities (totaled \$1.6M in 2009 and \$7.5M in 2010) -</li> <li>▶ 25% of tax on table revenues goes to Easton, PA host community</li> </ul>
Local Share Assessment	<ul style="list-style-type: none"> <li>▶ 4% of gross slot gaming revenue</li> <li>▶ 2% of gross table gaming revenue</li> </ul>	<ul style="list-style-type: none"> <li>▶ Distributed to host and effected communities based on predefined classes</li> </ul>

### 2. Mitigation Payments

Category:	Sources:	Uses:
Local Police Departments	<ul style="list-style-type: none"> <li>▶ Developer to pay sum of \$148,000 (one-time) to three local police departments</li> </ul>	<ul style="list-style-type: none"> <li>▶ Funding for two new part-time officers, officer overtime, a new utility vehicle and traffic control</li> </ul>

### 3. Qualitative Community Benefits

Category:	Qualitative Community Benefits:
Community Development	<ul style="list-style-type: none"> <li>▶ Districts were re-zoned prior to the start of development, prohibiting the presence of pawn shops and other types of undesirable businesses in the casino area (specifically within 5,000 feet of the casino)</li> <li>▶ Developer is working with ArtsQuest, PBS and the National Museum of History on programs to rejuvenate the community</li> </ul>

Note: Based on the research conducted by EY, State Gaming Fund is distributed to various city and county authorities through a need-based grant process.

#### Sources:

Community benefit agreements, development agreements, and/or other public documents

Note: the information presented on this slide is to the best of our knowledge, from publicly available sources



# Appendix A – Key Analysis Qualifications

## *Understanding the Task 1 analysis details*

### Cash Flow Model Build-up Methodology:

#### Demand / Revenue:

- ▶ Primary GGR drivers include visitors to casino based on location, spend per visitor, and reason for visitation
- ▶ Bottom-up approach to other revenues, e.g., for hotel, occupancy and ADR; for food and beverage, number of covers and average check
- ▶ Loyalty program and Western region casino considered in demand model fair-share capture; model option allows for addition of potential New Hampshire casino
- ▶ Accretive visitation to city due to Casino, unknown (e.g. - Southeastern) additions to competitive supply, and Internet gaming not quantified
- ▶ Ramp-up in performance from 95% of attainable GGR to 100% at stabilized year; similar ramp-up metrics for F&B and hotel revenues.

#### Expenses:

- ▶ Primary expenses include casino, food and beverage, administrative and general, and replacement reserves; majority estimated on a ratio basis
- ▶ Compared percentages to other comparable regional properties, including other Caesars properties

### Data Sources:

- ▶ Assumptions based on published information, third party studies, interviews with regional market participants, interviews with gaming industry participants, internal data sources and discussions with the Proponent

### Key Assumptions

#### Demand/Revenue:

- ▶ On average \$114 spend per visitor with 3.9 casino visits per year (3.3 to subject)
- ▶ 27.0% of population propensity to gamble

#### Expenses:

- ▶ Caesars expense projections low relative to comparable data, due primarily to centralized shared services distributed across properties
- ▶ Economies of scale at subject property (i.e. – total revenue) will potentially allow Caesars to outperform other regional Caesars properties
- ▶ Real estate assessment from City of Boston

#### Financing:

- ▶ 12% high-yield, interest-only construction loan replaced with 9.0% interest-only bank loan or bond issuance when project is fully open and approaching stabilization

#### Other:

- ▶ Inflation set at 2%
- ▶ Construction costs based on proponent's figures; model allows for increased construction costs (e.g. – offsites)
- ▶ Facilities plan for each stage based on proponent's initial proposal; model allows for changes in timing and facilities program

#### Examples of sources include:

- ▶ Interviews with existing and planned regional competitors, gaming company representatives, investment and gaming company analysts
- ▶ Published sources such as public company quarterly and annual reports, and analyst reports
- ▶ Third-party studies prepared by University of Massachusetts Dartmouth, American Gaming Association, Christiansen Capital Advisors and Father McGowan
- ▶ Discussions with and material prepared by the Proponent

EY has not independently validated data



# Report Limitations

**The conclusions and estimates set forth in this evaluation are subject to the assumptions and limiting conditions that follow:**

- ▶ The analyses contained in this Report are based upon estimates, assumptions, and other information developed from our knowledge of the industry and information obtained from the City of Boston and its vendors. These sources of information are the basis for the estimates that are stated in the Report. Ernst & Young has not, as part of its analyses, performed a detailed audit of any of the information used and, therefore, does not express an opinion or any other form of assurance on the accuracy of such information.
- ▶ We are available to discuss the necessity for revisions as a result of changes in market factors or other events affecting the Project and to assist you with additional services that may be required relating to the Project.
- ▶ In addition, our Report is subject to the following limitations:
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  - ▶ The results of our work are not considered to be forecasts or projections as these terms are defined by the American Institute of Certified Public Accountants ("AICPA"). As used in any analysis in this engagement and the Report that follows, terms such as "project", "projections", "estimate", and "forecast" relate to broad and generally perceived expectations of future events or market conditions. All such estimates and assumptions are inherently subject to uncertainty and variation depending on the unfolding of future events, which cannot be accurately foreseen.
  - ▶ Our Report is based upon facts as we know them, estimates, assumptions and other information developed from our knowledge of the industry and meetings with you or your management team at the Project during which Ernst & Young was provided with certain information. Estimates are based upon conditions, as they existed on the date of the analysis and recommendation and do not include an estimate of the potential of any sudden or sharp rise or decline in general economic conditions of events or transactions that may occur subsequent to the effective date of fieldwork on August 10, 2011. Consequently, Ernst & Young does not represent these estimates as results that will be achieved. Actual results achieved may vary materially from those presented.
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