

SANDS CASINO RESORT BETHLEHEM



CONTEST OF THE BUSHKILL GROUP, INC.'S APPLICATION FOR A CATEGORY 3 SLOT MACHINE LICENSE



Legislative Intent: 4 Pa.C.S. § 1102(3)

- A primary Legislative intent of the Gaming Act is to “provide a significant source of new revenue to the Commonwealth ...” 4. Pa. C.S.A. § 1102(3).

Legislative Intent: 4 Pa.C.S. § 1102(3)

- Bushkill's Fernwood proposal is least likely to provide new revenue and most likely to cannibalize existing revenue.
- Location is the key to revenue potential.

Legislative Intent: 4 Pa.C.S. § 1102(3)

- Casinos already located in Eastern Pennsylvania:
 - Mohegan Sun at Pocono Downs
 - Mt. Airy
 - Sands Casino Resort Bethlehem
 - Parx
 - Sugar House
 - Harrah's Chester
- Two more coming:
 - Category 2 in Philadelphia
 - Category 3 in Valley Forge

Casinos in Eastern Pennsylvania



Casinos in Eastern Pennsylvania



Map of Pennsylvania Casinos



Adams County



Bushkill's October 23, 2008 Presentation



Gaming Resort Market Assessment

The Innovation Group was retained to conduct an assessment of the applicant's market region to project the number of annual gamer and revenues expected from a variety of market segments, ranging from local population to regional tourists.

A constrained gravity model was used to project gaming activity for the Tri-State area, with primary focus on the Poconos and the surrounding 100-mile radius. Particular attention was paid to drive times to the market center and the location of competitive alternatives in the market.

Bushkill's

October 23, 2008 Presentation



Report Considerations

- historical accuracy of The Innovation Group studies
- anticipated gaming at Split Rock
- smoking ban in effect
- only 33% is local day-trip market
- 72% of gaming visits from out of state
- 81% of gaming revenues not cannibalized from existing PA facilities

September 2003 Innovation Group Report

- Innovation Group Report Prepared for Pennsylvania Senate Democratic Appropriations Committee, September 2003

Pennsylvania Slot Machine Facilities: Statewide Revenue Projections

Prepared for:
SENATE DEMOCRAT APPROPRIATIONS COMMITTEE
COMMONWEALTH OF PENNSYLVANIA

September 2003

Prepared by:
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Pennsylvania Slot Machine Facilities: Statewide Revenue Projections

Introduction

The Commonwealth of Pennsylvania is considering legislation allowing the operation of slot machine parlors at six horse racetracks (four existing and two newly licensed) as well as six additional, non-racetrack facilities. This report assesses the gaming revenues to be generated by these 12 facilities. Two scenarios were examined based on differences in the siting of the six non-racing facilities: 1) the locations of the six non-racing facilities being pre-determined; 2) the locations of the six non-racing facilities based on the optimal market potential and thus the maximum state tax revenue potential. In each scenario, the six racetrack facilities are the same: the existing racetracks of The Meadows, Philadelphia Park, Penn National, and Pocono Downs, and proposed racetracks in Chester and Erie (Presque Isle Downs).

Pennsylvania Horseracing Tracks			
Track	Owner	Type	Location
Existing			
Penn National Race Course	Penn National	Thoroughbred	Grantville
Philadelphia Park	Greenwood Racing Corp. (Private)	Thoroughbred	Philadelphia
Pocono Downs	Penn National	Harness	Wilkes-Barre
The Meadows	Magna Entertainment (MEC)	Harness	Washington
Proposed			
Chester	Joe Lashinger group	Harness	Chester Waterfront
Presque Isle Downs	MTR Gaming	Thoroughbred	Erie

Source: The Innovation Group

In Scenario One, the six non-racing facilities are assumed as follows: two facilities in Jowntown Philadelphia, one facility in downtown Pittsburgh, one facility in Long Pond (the Pocono 500 NASCAR), and two locations to be determined. In Scenario Two, six locations were chosen based on the best market potential as revealed in our gravity model demand analysis, which is described in Methodology section. The resulting analysis estimates gaming visits and gaming revenues for the twelve proposed facilities, as well as the projected impact on state tax revenues.

Comparative Analysis

In this section we examine gaming statistics from other jurisdictions and discuss methodological issues in forecasting gaming revenues. In particular, we discuss the winner-unit method of forecasting gaming revenues. This method examines win-per-unit in

The Innovation Group Project # 11683

September 2003

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September 2003 Innovation Group Report: Analyzed Optimal Locations

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Report: Lehigh Valley and Maryland Border Is Best

Philadelphia, behind Las Vegas. Philadelphia is the closest major metropolitan area to Atlantic City, less than a one-hour drive, and there is no comparable feeder market there. Atlantic City exerts an enormous influence on Philadelphia. By contrast, potential racino development in the Baltimore-Washington D.C. metropolitan area would be largely self-contained, and the facilities would enjoy a near-monopoly in the 25-mile radius area of heavily populated central Maryland.

Gamblers at Philadelphia facilities would be less inclined to wait for machines or take crowded conditions, with Atlantic City providing a convenient alternative. We would therefore expect conditions at Philadelphia to more closely match Delaware Park rather than, for example, Chicago, where a limited supply of gaming positions for more than 5 million adults has led to extraordinarily high win per position (more than \$800 in Elgin).

In the first series of gravity models, the goal was to determine which other locations would maximize state revenues besides the six defined locations: the four licensed tracks (Penn National, Philadelphia Park, Pocono Downs, and Chester), two facilities in downtown Philadelphia, and one facility in Long Pond. A base analysis assessed the revenue potential for the four licensed tracks, which resulted in total revenues of \$1.08 billion. Adding two facilities in downtown Philadelphia resulted in revenues of \$1.48 billion, an increase of \$392 million. Adding Long Pond increased total revenues by \$71 million but caused revenues at Pocono Downs to drop from \$103 million to \$85 million. Besides downtown Philadelphia, Shrewsbury, near the Maryland border, adds the most revenues, \$296 million. A facility in the suburbs west of Philadelphia, in the vicinity of I-476 and I-76, adds another \$117 million to the total. Replacing W. Philly with Allentown adds \$174 million, for a total of \$2 billion in eastern Pennsylvania. Without Shrewsbury, Allentown adds \$175 million, meaning the two markets are far enough apart to have little impact on each other.

Eastern Pennsylvania Summary

	Tracks Only	Add Downtown Philadelphia	Add Long Pond	Add Shrewsbury	Add West Philly	Subtract W Philly, Add Allentown
Total W. Penn	\$1,086,243,764	\$1,478,216,645	\$1,549,248,273	\$1,845,265,294	\$1,962,489,220	\$2,019,417,542
Philadelphia Park	\$406,876,210	\$305,542,119	\$302,608,132	\$301,233,179	\$282,746,179	\$261,657,031
Philadelphia (2)	\$0	\$636,770,266	\$638,602,031	\$635,512,196	\$553,303,825	\$820,097,667
Chester	\$361,359,457	\$235,653,846	\$233,396,894	\$226,840,192	\$192,876,437	\$221,000,116
Penn National	\$212,110,100	\$195,475,933	\$193,783,789	\$175,215,095	\$169,299,736	\$170,243,481
Pocono Downs	\$103,897,967	\$102,774,491	\$84,824,573	\$83,679,834	\$63,559,244	\$79,813,777
Long Pond			\$95,130,854	\$95,097,607	\$91,215,018	\$82,591,103
Shrewsbury				\$324,879,190	\$316,323,535	\$321,614,802
Allentown						\$251,846,991
West Philadelphia					\$274,165,246	
Lancaster						
Net Value Added		\$391,972,882	\$71,029,828	\$296,019,021	\$117,223,928	\$174,172,249

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Highest Net Value Added Facilities

	Value Added	After MD, Ohio, WV Impact
West Philadelphia	\$117,223,926	\$108,160,111
Allentown	\$174,172,249	\$172,877,239
Shrewsbury	\$296,019,021	\$127,853,598
New Castle	\$134,285,606	\$78,420,069

Therefore, for Scenario One, Allentown and Shrewsbury were selected for adding the greatest revenue benefit to the Commonwealth. The following table shows the statewide result for Scenario One:

Scenario One Gravity Model Results

	# of Machines	Win per Machine	2006 Visits	2006 Revenues	MD, Ohio, WV Impact	
Six licensed tracks:	Philadelphia Park	3,000	\$266.26	4,670,232	\$291,557,931	\$289,444,631
	Chester	2,500	\$242.28	3,582,374	\$221,080,116	\$217,877,729
	Penn National	2,500	\$186.57	2,668,450	\$170,243,151	\$129,333,460
	Pocoro Downs	1,500	\$145.78	1,536,785	\$79,813,177	\$79,382,127
	Meadows	2,000	\$206.91	2,999,550	\$151,043,758	\$117,722,694
	Pesquo Isle	1,500	\$185.14	2,638,518	\$101,364,549	\$75,903,389
Four Defined non-tracks Philadelphia (2)	Philadelphia (2)	6,000	\$283.42	10,150,875	\$620,697,567	\$616,482,105
	Long Pond	1,500	\$150.84	1,331,518	\$82,584,103	\$82,217,846
	Pittsburgh	3,000	\$315.50	6,743,312	\$345,477,813	\$307,035,385
Two Alternates	Allentown	3,000	\$211.73	3,797,343	\$231,846,991	\$230,398,575
	Shrewsbury	3,000	\$293.71	4,861,933	\$321,614,507	\$153,438,680
Total	29,500	\$243.08	44,590,790	\$2,617,323,652	\$2,299,236,654	

Scenario Two (Market-Based)

For the market scenario, the Innovation Group was tasked with determining six of the twelve proposed licenses (the other six belonging to the licensed tracks). The combination that maximized statewide revenues was to drop Long Pond and use the license at New Castle, and to make downtown Philadelphia a single 5,000-slot casino, using the available license to add a facility in West Philadelphia. The following table shows the results:

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- Innovation Group rejected a second licensee in the Poconos in favor of a casino on the Maryland Border.
- Bushkill proposes a third licensee in the Poconos.

Mason-Dixon Applicant Will Maximize New Revenue

- Consistent with the 2003 Innovation Group report to the Commonwealth, the proposed Mason–Dixon Resort located near the Pennsylvania–Maryland border would maximize revenue.
- The Mason–Dixon Resort would fulfill the purpose of Section 1102 because it would draw new business from Maryland and Washington DC.

September 2003 Innovation Group Report

facility would bring to the Pennsylvania market, leaving out the revenues cannibalized from other facilities.

The impact of racinos in Ohio and Maryland (Little Orleans), and table games in West Virginia, would bring the defined scenario down to \$500 million and the New Castle scenario down to \$579 million. The added value of New Castle would decline from \$134 million to \$78 million after the impact. The greatest impact comes from racetracks in Ohio (two in southeast Cleveland and two in Columbus).

Impact of Ohio, WV, and MD on Western Pennsylvania

	Defined (2 tracks + Pittsburgh)	Ohio, WV, MD Impact on Defined Scenario	Add New Castle Instead	Ohio, WV, MD Impact on New Castle Scenario
Total W. Penn	\$597,888,120	\$500,661,478	\$732,171,728	\$579,061,546
Meadows	\$151,043,758	\$117,722,694	\$138,708,158	\$109,331,010
Pittsburgh	\$345,477,813	\$307,035,995	\$320,662,230	\$294,276,784
Presque Isle	\$101,364,549	\$76,903,389	\$93,449,694	\$70,106,406
New Castle			\$181,351,646	\$105,369,346
E. Pittsburgh				
Beaver Valley				
Allentown				
Impact		-\$97,224,642		-\$153,090,182
Net Value Added			\$134,285,608	\$78,420,089

Scenario One (Defined)

With 10 of the 12 proposed licenses defined in Scenario One, The Innovation Group was tasked with identifying two additional locations. In assessing which two facilities would make the most sense economically to add to the ten already defined (six licensed tracks plus Long Pond, downtown Pittsburgh, and two facilities in downtown Philadelphia), the choices were narrowed down to the four locations shown in the following table. Shrewsbury is by far the highest, at \$296 million. Allentown has the second highest value added potential, and given its distance from Maryland—would be virtually unaffected by out-of-state developments. With Maryland, revenues at Shrewsbury drop from \$320 million to \$153 million; however, even with the Maryland impact it remains the second highest value added facility in the state (second to Allentown). New Castle also is highly exposed from Ohio, dropping to \$78 million added value. A potential variation would be if Maryland opened racinos but Ohio did not, in which case New Castle would have the second highest value added.

Mason-Dixon Applicant Will Maximize New Revenue

- Impact of Maryland gaming also minimized because of table game offerings in Pennsylvania.
- Maryland is slots only. MD Const. art. XIX, § 1, Md. State Government Code Ann. § 9-1A-02.

Overlapping Markets

- Bushkill's proposed Fernwood facility will result in overlapping markets.
- Bushkill's proposed Fernwood facility will fall within the market area of Mt. Airy, Mohegan Sun at Pocono Downs, and Sands Casino Resort Bethlehem.

Overlapping Markets: Mt. Airy

- Mt. Airy's markets identified in its 2006 presentation*:



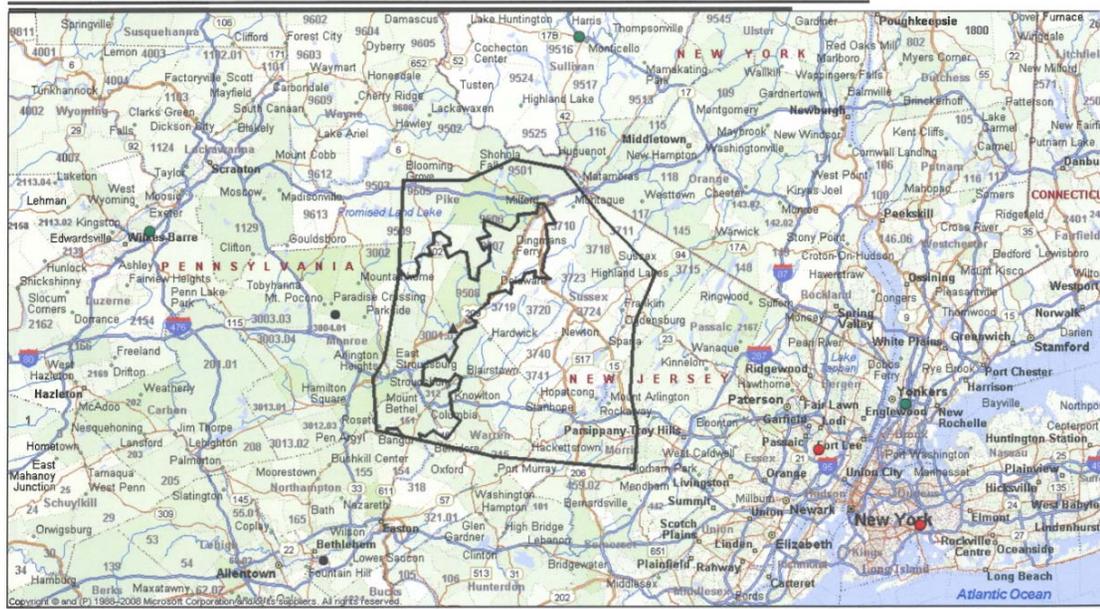
*See slide no. 73.

Overlapping Markets: Mt. Airy

- These markets overlap with what Bushkill identified in its 2010 Public Input presentation as its “Market Area to East”*:



Market Area to East



*See slide no. 23. Although not part of its geographical presentation, Bushkill defines a substantial part of its market as New York and New Jersey.

Overlapping Markets: Mt. Airy



Overlapping Markets: Mt. Airy

- In its December 2006 presentation at slide no. 74, Mt. Airy predicted gross revenue of \$155 million and \$140 million from its primary and secondary markets, respectively., which would overlap with Bushkill's market.

Mount Airy Resort & Casino

FINANCIAL PROJECTIONS

Methodology:

1. Quantify gaming potential
2. Estimate share to be captured

Primary Market:

8 counties with 1.1 million adults
Capture \$155 million gaming revenue

Secondary market:

37 counties with 14.4 million adults
Capture \$140 million gaming revenue

Overlapping Markets: Mt. Airy

- Fernwood website promotes Mt Airy:
 - ▣ “Mt. Airy Casino offers 2,500 of the most popular slots with electronic table games including poker, roulette and blackjack. **Located approximately thirty minutes** from Fernwood, you can spend the day enjoying the excitement of the Pocono's premier casino, playing the slots, dining, plus dancing in their Gypsies Lounge and Nightclub.” (emphasis added).
 - ▣ Fernwood similarly promoted Mohegan Sun until very recently.

Overlapping Markets: Sands Bethlehem

- The Fernwood website states the drive time from the Lehigh Valley Airport, as approximately 45 minutes, and from Newark Airport as approximately 90 minutes.
- The October 2006 Innovation Group report for Sands Bethlehem stated New York and Philadelphia were within 90 minutes. See p. 12.

Overlapping Markets: Sands Bethlehem

- The 2006 Innovation Group Report assumed the existence of Mohegan Sun and a Category 2 facility in the Poconos. See p. 16.
- The 2006 Innovation Group Report divided the market for Sands Bethlehem into 15 segments. See p. 25.

Overlapping Markets: Sands Bethlehem

- Innovation predicted the gaming revenue from the market segments of Central NJ, Newark and New York as \$155 million. See p. 25.

As the facilities will have the ability to expand for analysis purposes, it is assumed that the Pocono or the Gettysburg facilities will ramp up at the same time as the Bethlehem project.

Scenario A - Category 2 in the Pocono Region

The first scenario considers gaming facilities along with Bethlehem, at the three racetracks in Eastern Pennsylvania, two Category 2 facilities in Philadelphia, and one in the Pocono region. The two applicants in the Pocono region are for Mount Airy Lodge and Pocono Manor both of which are in Monroe County. For purposes of this analysis, the development is expected to be of similar size and have similar amenities to the Bethlehem development. Monroe County is approximately 40 miles north of Bethlehem but is accessible from central and north New Jersey by I-80.

Based upon the gravity model, the following table reflects the total gaming revenue and visits that the facility could expect from the local market. With 3,000 units, the Bethlehem facility is projected to generate \$318.9 million in gaming revenue from 4.7 million visits for the local market. Increasing the number of machines to 5,000 in Year 2 will generate \$359.0 million from 5.2 million visits, an increase of 12.4% over Year 1.

	3,000 Units			5,000 Units		
	Year 1 Gaming Revenue	Number of Visits	Win Per Visit	Year 2 Gaming Revenue	Number of Visits	Win Per Visit
Bethlehem	\$95,393,710	1,674,455	\$57	\$99,977,180	1,726,274	\$58
South Pocono	\$4,188,374	84,469	\$50	\$4,599,722	91,251	\$59
Pocono Downs	\$1,892,077	37,363	\$51	\$2,274,350	44,179	\$55
Atlantic City	\$1,127,533	19,085	\$59	\$1,464,115	24,378	\$53
Central NJ	\$60,954,873	722,214	\$84	\$69,349,675	808,271	\$82
Philadelphia	\$36,876,014	563,767	\$65	\$43,185,225	649,451	\$69
Newark	\$60,352,732	724,131	\$83	\$67,173,221	792,815	\$80
New York	\$33,429,851	472,941	\$71	\$40,962,114	570,046	\$53
Delaware	\$669,944	14,217	\$51	\$1,223,946	19,676	\$53
Catskills	\$3,546,884	51,720	\$69	\$3,003,145	43,079	\$70
Maryland	\$3,865,505	53,101	\$73	\$5,545,928	74,942	\$67
North Pocono	\$451,831	8,922	\$51	\$436,890	8,487	\$72
Secondary West	\$9,809,443	149,969	\$65	\$13,008,784	195,605	\$74
Penn National	\$4,889,892	85,829	\$57	\$5,039,945	87,023	\$64
Secondary NW	\$1,228,505	24,260	\$51	\$1,712,554	33,265	\$76
Total	\$318,876,769	4,686,444	\$70	\$358,854,795	5,168,744	\$72

Source: The Innovation Group

Overlapping Markets: Sands Bethlehem

- William Weidner, the then COO of Las Vegas Sands testified at the license hearing for Sands Bethlehem and emphasized the importance of the New Jersey and New York markets.
- “Our high value target markets were northern New Jersey, southern New York and the Philadelphia suburbs in that order.” Transcript, 12/6/06 at p. 48.
- Weidner also emphasized the importance of those markets from the I-78 corridor. Id. at pp. 48-49.
- The importance of that market was emphasized by counsel at the 12/19/2006 hearing in response to a Board question. Transcript, 12/19/2006 at pp. 7-8.

Overlapping Markets: Cannibalized Revenues

- Fernwood admits that a significant portion of its revenues will be cannibalized from existing Pennsylvania facilities.
- At slide 42 of its October 2008 presentation, Fernwood stated that 81% of its revenues would not be cannibalized or that 19% would be cannibalized.



Report Considerations

- historical accuracy of The Innovation Group studies
- anticipated gaming at Split Rock
- smoking ban in effect
- only 33% is local day-trip market
- 72% of gaming visits from out of state
- 81% of gaming revenues not cannibalized from existing PA facilities

Overlapping Markets: Cannibalized Revenues

- The November 8, 2010 Christian Capital Advisors Report contradicts the earlier Innovation Group report by projecting cannibalization of 11%.

Overlapping Markets: Cannibalized Revenues

- Sands Bethlehem believes that the percentage will be much higher based on the overlap in its market and the markets of Mohegan Sun and Mt. Airy.
- Regardless of the percentage of cannibalization, we know from the Innovation Group Report in 2003 that there would be no cannibalization of the existing properties if the License were awarded to Mason–Dixon.