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Executive Summary

The Pittsburgh Gaming Task Force ("PGTF") was convened to examine the issues surrounding the introduction of gaming to the City of Pittsburgh and to make recommendations to the Mayor's Office on important matters with regard to its development.

Alea Advisors was retained to assist the PGTF but lending our gaming industry expertise to the analysis and discussion of many of these important issues. This report is meant to provide the PGTF with an understanding, not only of the potential revenue to be generated from a gaming venue in Pittsburgh, but more broadly, the competitive, financial and operational considerations to be encountered by a potential gaming license applicant ("Applicant").

Specifically, this report:

- reveals the competitive environment in which this venue will operate;
- quantifies the potential range of revenues that could be achieved at the gaming venue;
- discusses the financial effects on the gaming venue of the enabling legislation with its significant gaming tax; and
- offers a range of likely investments that an Applicant may propose depending on an Applicant's cash flow margin assumptions, investment appetite, internal return hurdle rates, and payback horizon.

This report reveals the economic backdrop against which an Applicant makes development decisions, and in doing so provides insight into why differences might exist among various Applicant proposals.

Highlighting these economic considerations is meant not only to educate the PGTF, but also to enable it to begin to craft for the City of Pittsburgh a set of realistic and achievable strategic objectives that it places on any gaming venue. Inherent in these goals will necessarily be an articulated long-term vision for the future of gaming in the City of Pittsburgh.

Finally, this report reveals two important findings:

First, it is appropriate for the City to have specific expectations for any Applicant's proposed development, given the size and scope of the facility, and the likely gaming revenues to be generated at this premium location within the Commonwealth of Pennsylvania. It is thus incumbent upon the PGTF and the City to develop specific realistic goals and to articulate these goals and expectations to the Applicants. It is then the Applicants' responsibility to respond to those prescribed needs of the City and to respond with a workable plan for development.



Second, given the highly taxed nature of the proposed gaming venue, and the challenges an Applicant will face as a result, it is in the City's best interests to work with an operator to assist in the long term success of this gaming venture for the good of the City.



Introduction of Gaming to the Commonwealth of Pennsylvania

On July 5, 2004, Pennsylvania Governor Ed Rendell signed The Pennsylvania Race Horse Development and Gaming Act of 2004 ("Act 71"), a law which permitted track license owners in the Commonwealth of Pennsylvania to install up to 5,000 units at their facilities by obtaining Category I gaming licenses.

The Act also authorized the issuance of five Category II and two Category III gaming licenses which created "slots only" gaming venues that were not required to be associated with a race track. Of the five Category II licenses to be granted in the Commonwealth, one is statutorily required to be within the City of Pittsburgh. Category II licenses also permit up to 5,000 installed slot units. Category III licenses, which limit slot units to 500, are meant to spur tourist development in existing resort locations.

Gaming Venues in the Pittsburgh Area: Current and Proposed

Within the Designated Market Area ("DMA") surrounding Pittsburgh there could ultimately be up to six gaming venues serving the market, including the Pittsburgh Slots Venue. The other venues could include:

- The Mountaineer Racetrack & Gaming Resort, an existing racino in Chester, West Virginia;
- Wheeling Island Racetrack & Gaming Center, an existing racino in Wheeling, West Virginia;
- Presque Isle Downs, a to-be-developed racino in Erie, Pennsylvania;
- The Meadows, currently a harness racing track located in Washington County PA which, under Act 71 will be permitted to operate up to 5,000 slot machines; and
- One additional racino license—the "seventh" license—approved under statute which has yet to be awarded in the Commonwealth but, for purposes of this analysis, is assumed to be developed in Beaver or Lawrence counties.



Table I below provides information on the other competitors' locations and commentary on their likely impact on the Pittsburgh Slots Venue:

Table I Analysis of Competition to Pittsburgh Slots Venue

Gaming Competitors within the Pittsburgh DMA	Location	Driving Distance from Downtown Pittsburgh	Currently Open?	Impact on Pittsburgh Venue
The Mountaineer Race Track & Gaming Resort	Route 2 Chester, New York	40 miles	Y	Estimated to draw the majority of its current revenue from the Pittsburgh metropolitan area. Will compete strongly to retain existing customers. Also expected to continue to push WV legislature to expand gaming to permit table games, which are not permitted under current PA statute.
Wheeling Island Racetrack & Gaming Center	South York Street Wheeling, West Virginia	60 miles	Y	Estimated to draw the majority of its current revenue from the Pittsburgh metropolitan area. Will compete strongly to retain existing customers. Also expected to continue to push WV legislature to expand gaming to permit table games, which are not permitted under current PA statute.
Presque Isle Downs	Summit Township Erie, Pennsylvania	130 miles	N	Will likely capture patrons from Erie, PA and Cleveland, OH who might otherwise have visited the Pittsburgh slot venue.
The Meadows	Meadow Lands, Washington County PA	30 miles	N	Will likely capture current Pittsburgh area patrons and draw additional from West Virginia and Ohio.
Possible 7th Racino Licence	To Be Determined (possibly Beaver or Lawrence County)	possibly 45 miles	N	Could potentially capture patrons from surrounding counties in PA and OH

Source: Alea Advisors

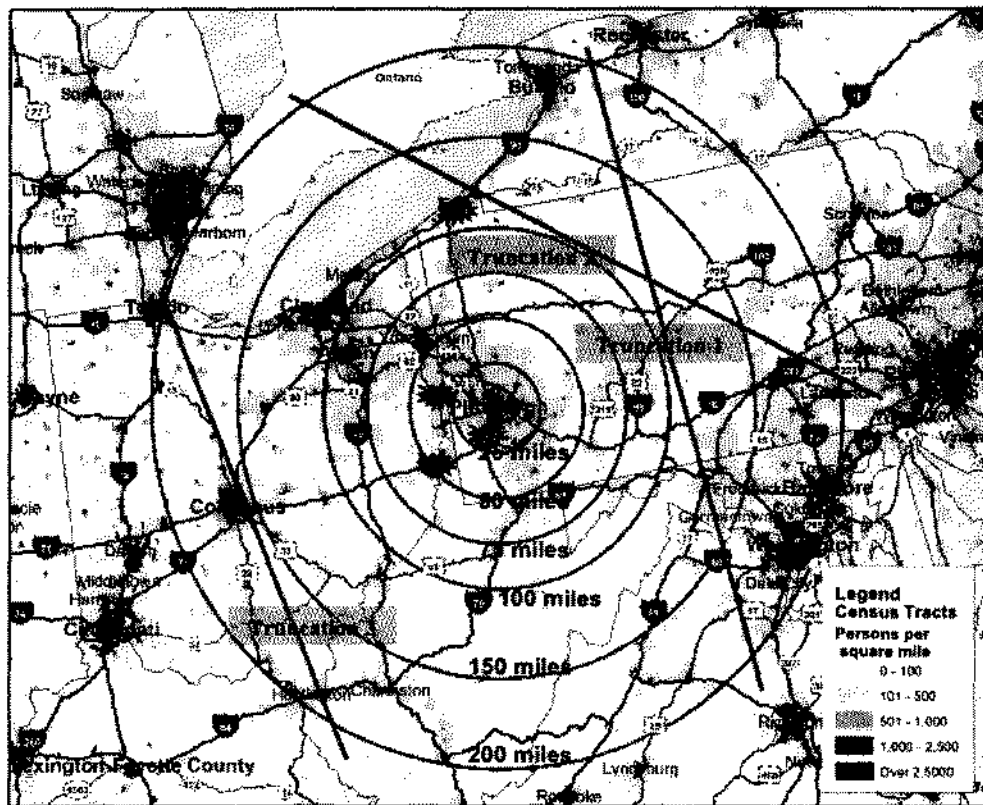
In addition, there is the possibility that an additional Category II venue and a Category III "resort" slot venue as permitted by Act 71 could ultimately be developed within the Pittsburgh DMA. Please note that the possibility of these additional competitors is still speculative and is mentioned here for completeness only but not included in the financial determination of gaming revenue at the Pittsburgh Slots Venue.

Pittsburgh Designated Market Area Defined

To understand further how other facilities will compete against the Pittsburgh Slots Venue and to assess the revenue potential from the population bases served by the Pittsburgh Slots Venue, a geographic representation of the Pittsburgh DMA was created.

As shown in Map I below, 25 and 50-mile rings surround Pittsburgh. Locations of existing racinos (pink), future gaming venues (orange) and one additional as yet determined potential racino competitor (green) to the Pittsburgh Slots Venue are also marked. The map also highlights areas of urban density.

Map I Pittsburgh Designated Market Area



Source: Alea Advisors

Map I also indicates (by the orange lines) that it is necessary to truncate, that is remove, certain population bases from the overall Pittsburgh DMA to account for additional existing or planned gaming venues that not shown in Table I. These facilities are



located more than 200 miles away in Buffalo, New York State, Harrisburg, Pennsylvania, and Southern Indiana. The populations within these affected areas were removed from the total count within each ring as follows:

Truncation 1: The Pittsburgh DMA was truncated equidistant between the City of Pittsburgh and Penn National Racetrack in Harrisburg PA. It is expected that gaming patrons in this easternmost region of the Pittsburgh DMA would be more likely to travel to Penn National Racetrack's racino once open as it will be more proximate to them and easily accessible via major highways.

Truncation 2: The Pittsburgh DMA was truncated equidistant between the City of Pittsburgh and Finger Lakes Gaming & Racetrack in Farmington, NY (near Rochester). It is expected that gaming patrons in New York State and this northern PA region of the Pittsburgh DMA would be more likely to travel to the Finger Lakes racino as it is proximate to them and easily accessible via major highways.

Truncation 3: The Pittsburgh DMA was truncated equidistant between the City of Pittsburgh and Lawrenceburg, Indiana to account for the existence of full-scale casinos in and around southeastern Indiana. It is expected that gaming patrons west of Columbus, Ohio would be more likely to travel to these casinos as they offer both table games and slot machines, is proximate to them, and is easily accessible via major highways.

Based on these truncations, a picture begins to appear of the geographic reach of a slot venue in Pittsburgh—defined as the Pittsburgh Designated Market Area—which has been further divided into ring segments which are:

- 0-25 miles from the City of Pittsburgh;
- 25-50 miles from the City of Pittsburgh;
- 50-75 miles from the City of Pittsburgh;
- 75-100 miles from the City of Pittsburgh; and
- 100-150 miles from the City of Pittsburgh;

The 150-200 mile ring was eliminated entirely because very little of it remained after the Truncations 1, 2, and 3.

Population, Income and Spending Data

Recent census data was then gathered for the Pittsburgh DMA, as defined, to examine the population, income and spending levels for relevant categories. This information is summarized for each ring making up the Pittsburgh DMA in Table 2:

Table 2 Select Census Data: Pittsburgh DMA (2004)

	0-25 miles	25-50 miles	50-75 miles	75-100 miles	100-150 miles
Adult Population	1,374,389	777,207	1,036,948	1,423,848	2,956,588
Median Age	41	41	40	38	38
Number of Total Households ("HH")	775,119	423,190	567,415	781,811	1,639,622
By Income:					
<\$25,000	234,752	151,681	198,577	236,115	467,945
\$25,000-\$49,999	222,337	133,002	182,473	244,950	493,875
\$50,000-\$74,999	145,141	77,368	102,732	153,217	327,663
\$75,000-\$99,999	78,748	33,431	45,163	73,549	171,559
\$100,000-\$149,999	59,976	19,917	26,867	49,686	119,751
>\$150,000+	34,165	7,791	11,603	24,294	58,829
Aggregate Household Income	\$43,774,459,450	\$19,228,765,986	\$26,364,352,681	\$40,841,136,180	\$90,245,082,576
Average Household Income	\$55,547	\$44,656	\$45,557	\$51,161	\$54,254
Median Household Income	\$41,320	\$35,023	\$35,420	\$39,899	\$42,087
Aggregate Entertainment Expenditures	\$1,576,252,185	\$752,287,973	\$1,024,399,313	\$1,520,588,707	\$3,281,751,889
Aggregate Food Away from Home Expenditures	\$1,777,017,486	\$864,171,237	\$1,174,926,645	\$1,727,268,232	\$3,707,996,282
Aggregate Alcoholic Beverages Expenditures	\$258,918,044	\$126,014,477	\$171,317,776	\$251,751,090	\$540,320,520

Source: Alea Advisors

Population Levels

Of the total adult population residing in the Pittsburgh DMA in 2004, over 2.1 million people live within a 50-mile radius of the downtown area of Pittsburgh. There are more than 1 million residents in each of the 50-75 mile and 75-100 mile rings, and the 100-150 mile ring encompasses both the cities of Erie, Pennsylvania and Cleveland, Ohio, two additional areas of population density. In total, the more than 7.5 million adults residing within the Pittsburgh DMA will provide a strong foundation for visitation and gaming revenue for the Pittsburgh Slots Venue.

The median age within the segments ranges from 38 to 41 years of age.



Income Level Indicators

Income levels for the DMA, however, are below national averages. Specifically, average household incomes ("HHI") in 2004 ranged from \$44,656 to \$55,547 as compared to a national average in 2004 of \$62,011.

Spending Indicators

Aggregate expenditures on items critical in the analysis of a region's willingness to game, also known as propensity, were then examined on a by-segment basis within the Pittsburgh DMA. Specific categories analyzed included total expenditures on entertainment, expenditures on food away from home, and expenditures on alcoholic beverages. Spending in these categories provides indicators on the spending patterns of a population base, and assist in determining an area's predisposition to spend the income that it earns on activities like gaming.

Through the analysis of an index which compares spending on these relevant categories to a population's overall income production, known as The Alea Index®, the region's propensity to game was revealed: Across all regions the spending indices in the Entertainment and Food Away From Home category showed a high likelihood that these population bases would spend the income that was earned on categories that are considered strong proxies for gaming activity and spend.

Economic Conclusions: Pittsburgh DMA

Even after truncating to account for competition in neighboring regions outside of the Pittsburgh DMA, there remain more than 7.5 million adults within easy market reach of the gaming venues within the DMA, including the Pittsburgh Slots Venue. In addition, while adults in the region tend to earn below the national average, they show a high willingness to spend the income that is earned on categories which are good indicators of gaming propensity.

Comparable Gaming Markets Determined

In order to more effectively estimate the gaming revenue potential within the Pittsburgh DMA and prepare a more complete analysis of the Pittsburgh Slot Venue, comparable markets within the US where gaming already exists were studied. Comparable markets were determined to be those that had similarities to the Pittsburgh DMA with regard to:

- Total population levels
- Population density characteristics
- Feeder market characteristics
- Total and average income levels
- Spending characteristics, and
- General competitive market environments

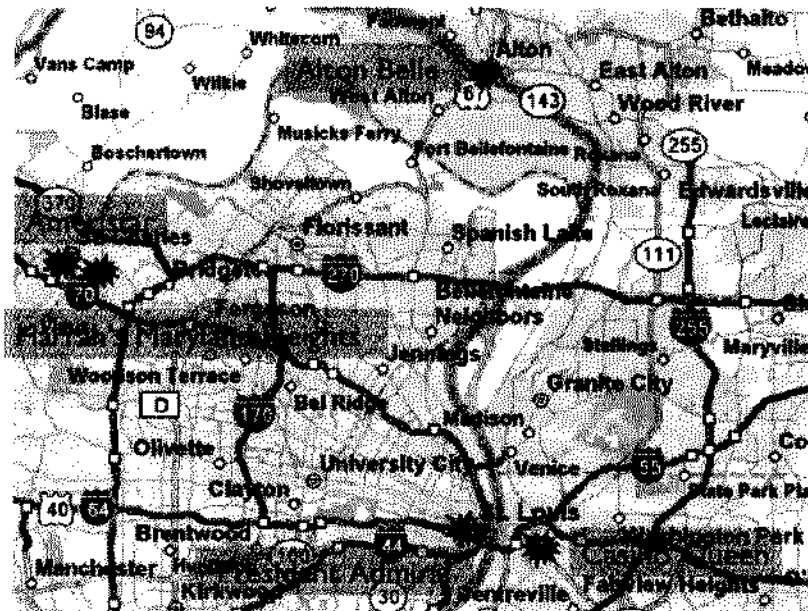
Two markets were identified as comparable to the Pittsburgh DMA: ***St. Louis, Missouri*** and ***Kansas City, Missouri***.

In this section of the analysis, actual 2004 economic and demographic data for each segment within these comparable gaming markets was gathered and then overlaid with actual revenue and visitation statistics from casinos in these markets in 2004. The insights these analyses provided assisted in the creation of important revenue benchmarks for the Pittsburgh DMA in order to determine the revenue potential of the Pittsburgh Slots Venue.

St. Louis, Missouri

Map 2 below shows the location of the five casinos currently operating within the St. Louis gaming market.

Map 2 Location of St. Louis area Casinos



Source: Alea Advisors

In 2004 these five casinos generated over 14.9 million gaming visits and over \$920 million in gaming revenue as detailed in Table 3 below. As noted, casinos throughout Missouri are permitted to have both table games and slot machines.

Table 3 2004 St. Louis Gaming Market Data

Property Name	2004 Gaming Revenue	Total Slot Machines	Total Table Games	Annual Visitation
Casino Queen	\$166,333,000	1,122	34	2,166,506
President Admiral	\$72,541,910	1,066	39	1,627,142
Ameristar St. Charles	\$295,090,984	3,274	87	4,650,660
Harrah's Maryland Heights	\$279,739,717	2,773	81	5,073,436
Alton Belle	\$107,281,000	1,070	20	1,410,579
Total	\$920,986,611	9,305	261	14,928,323

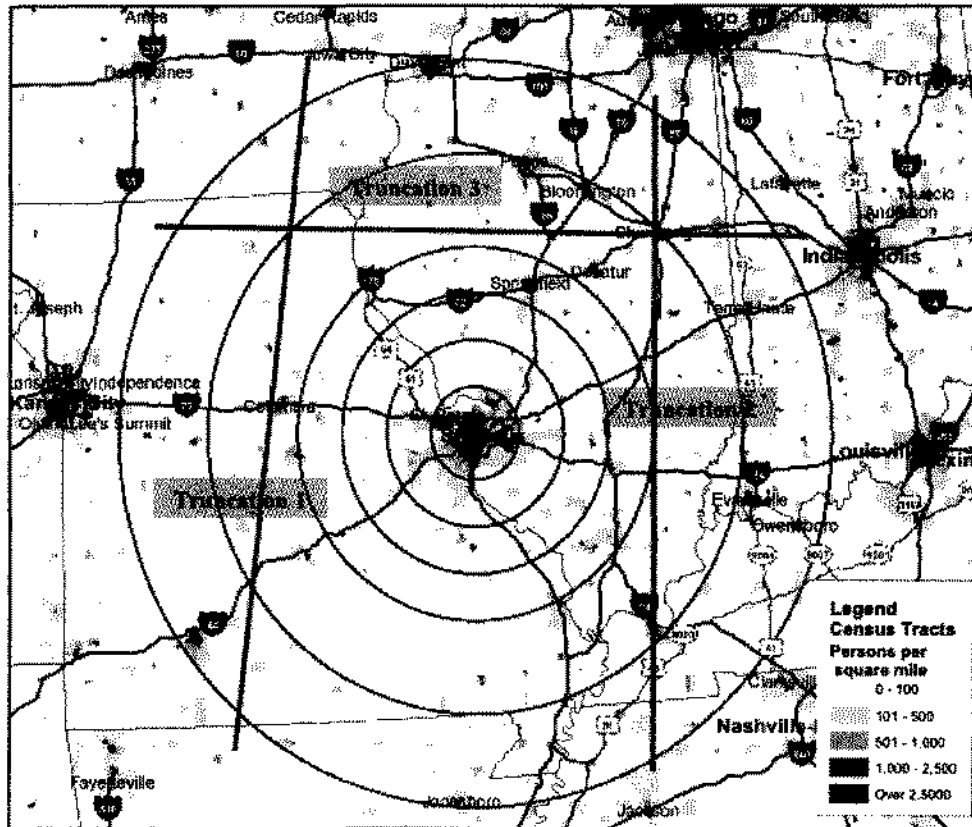
Source: *Missouri Gaming Commission and Alea Advisors*

The average win per unit per day at the over 9,300 slot machines in the St. Louis market was \$238 in 2004.

It is estimated that total gaming visits to casinos in the St. Louis market came from a population base as far as 200 miles away. This phenomenon is not uncommon for gaming markets in less-densely populated regions, especially in the Midwestern United States where: 1) highway systems permit accessibility; 2) entertainment options, while available, are not as prevalent; and 3) research shows a greater willingness to drive farther distances to visit casinos.

Map 3 on the next page illustrates the population base from which the St. Louis market draws.

Map 3 St. Louis Designated Market Area



Source: Alea Advisors

As was the case with the Pittsburgh DMA, the market segments surrounding the St. Louis market were necessarily truncated to account for the existence of regional competitors as follows:

Truncation 1: The St. Louis DMA was truncated equidistant between St. Louis and Kansas City, Missouri to account for the existence of full-scale casinos there. It is expected that residents west of this truncation line would be more likely to travel to these casinos as they are more proximate to them, and easily accessible via major highways.



Truncation 2: The St. Louis DMA was truncated equidistant between St. Louis and Evansville, Indiana to account for the existence of full-scale casinos there. It is expected that residents east of this truncation line would be more likely to travel to these casinos as they are more proximate to them, and easily accessible via major highways.

Truncation 3: The St. Louis DMA was truncated equidistant between St. Louis and Chicago, Illinois to account for the existence of full-scale casinos there. It is expected that residents north of this truncation line would be more likely to travel to these casinos as they are more proximate to them, and easily accessible via major highways.

Population Levels

In 2004, more than 1.9 million adults lived within 50 miles of St. Louis—a comparable amount to the 2.1 million that live within 50 miles of Pittsburgh. The median age was slightly younger than Pittsburgh, ranging from 37 to 39.

Table 4 Select Census Data: St. Louis DMA (2004)

	0 to 25 miles	25-50 miles	50-75 miles	75-100 miles	100-150 miles	150-200 miles
Adult Population	1,564,582	339,862	309,045	554,169	771,046	396,287
Median Age	37	37	39	37	37	38
Number of Total Households						
By Income:						
<\$25,000	882,101	180,036	163,088	308,277	429,695	222,387
\$25,000-\$49,999	215,316	41,844	54,992	101,037	149,083	92,973
\$50,000-\$74,999	245,509	54,802	54,415	97,444	135,040	70,984
\$75,000-\$99,999	179,846	42,887	31,665	58,775	77,737	33,451
\$100,000-\$149,999	106,550	21,877	12,748	26,541	35,357	13,230
\$150,000+	86,602	13,569	6,629	16,955	22,159	7,576
	48,278	5,057	2,639	7,525	10,319	4,171
Aggregate Household Income	\$55,767,380,264	\$10,170,537,186	\$7,574,995,902	\$15,022,425,837	\$20,653,766,697	\$9,107,538,453
Average HH Income	\$62,342	\$55,629	\$44,437	\$47,592	\$46,847	\$40,288
Median HH Income	\$47,694	\$46,783	\$36,464	\$37,700	\$35,897	\$30,368
Aggregate Entertainment Expenditures	\$1,906,801,073	\$365,995,509	\$296,849,527	\$574,721,528	\$794,659,312	\$368,365,353
Aggregate Food Away from Home Expenditures	\$2,124,646,674	\$412,553,614	\$341,126,866	\$658,865,054	\$909,404,606	\$426,346,812
Aggregate Alcoholic Beverages Expenditures	\$309,413,285	\$60,110,228	\$49,744,331	\$95,764,034	\$132,588,961	\$62,190,498

Source: Alea Advisors

Income Level Indicators

Like the Pittsburgh DMA, income levels within all but the 0-25 mile segment of the St. Louis DMA were below national average of \$62,011 in 2004. After an analysis of income and Aggregate Entertainment and Food Away From Home Expenditures it was revealed that, as with the Pittsburgh market, residents within the St. Louis DMA were likely to spend the income that they did earn on categories that are important proxies for gaming activities.



Economic Conclusions

Overall, the segments making up the St. Louis DMA closely mirror the income and spending levels and behavioral trends for much of the Pittsburgh DMA and are thus useful comparisons when determining the gaming visitation and revenue potential of the Pittsburgh DMA.

St Louis 2004 Gaming Market

Using the known adult population in each of the rings in the St. Louis DMA in 2004 as well as actual 2004 visitation and revenue, Alea Advisors estimated the propensity, number of annual trips, and average trip budget for each of the rings as shown in Table 5 below. Included in these estimates were reasonable assumptions of the revenue generated by tourists who visited the casino during their trip to St. Louis.

These estimates were based on reasonable assumptions given the data discussed earlier on each segments' willingness to game. In addition, reasonable assumptions were made on the level of participation expected from segments that were further from the casino locations—specifically, fewer trips were expected from segments that were farther away. These were tied to actual visitation in the St. Louis market in 2004.

Table 5 St. Louis DMA 2004 Gaming Revenue Breakdown

St. Louis Designated Market Area	0-25 miles	25-50 miles	50-75 miles	75-100 miles	100-150 miles	150-200 miles	Total for DMA
Adult Population	1,504,582	339,862	308,045	554,169	771,048	396,287	3,934,993
Propensity (share of population that games)	35%	35%	35%	35%	35%	35%	35%
Number of annual Trips	13	16	18	10	4.2	2	10
Total Gamer Visits to St. Louis area casinos	7,118,848	1,903,227	1,736,652	1,039,592	1,123,693	277,401	14,093,323
Average trip budget	\$85.00	\$70.00	\$57.00	\$51.86	\$80.00	\$60.00	\$82.39
2004 Gaming Revenue by Segment	\$462,725,127	\$133,225,904	\$98,847,164	\$100,578,192	\$67,418,170	\$18,844,054	\$879,236,611
Contribution from Tourist Segment:							
Total Overnight Visitation to St. Louis ("Tourists")				16,780,000			
Estimated % of Tourists who visit a casino				5.0%			
Number of annual Tourist visits to a casino				835,000			
Estimated Tourist gamer budget				\$50.00			
Gaming revenue attributed to Tourists				\$41,750,000			
2004 Total Gamer Visits							14,928,323
2004 Total Gaming Revenue							\$920,986,611
Total 2004 Population in 0-50 ring							1,994,444

Source: Alea Advisors

Then average trip budgets were estimated in each of these and tied to actual total gaming revenue in 2004 of \$920 million.

These important assumptions with regard to propensity and number of trips, along with the known average trip budget in St. Louis market act as key benchmarks useful in estimating visitation and gaming revenue for the Pittsburgh DMA as will be discussed later. But first one additional comparable market—Kansas City, Missouri—is examined.

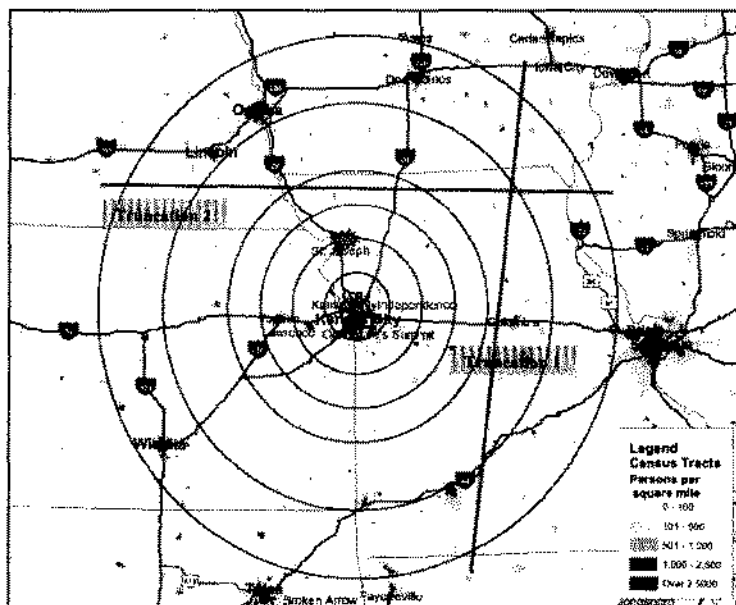
Kansas City, Missouri

Casinos in the Kansas City gaming market (including Terrible's St. Jo Frontier Casino located in St. Joseph Missouri) are shown on Map 4. As with the St. Louis gaming market, these casinos draw visitors from as far away as 200 miles. And also like St. Louis, the presence of other competing gaming markets within this reach results in the need to truncate the Kansas City DMA as shown below to remove population bases that are closer to these competitors. Specifically:

Truncation 1 The Kansas City DMA was truncated equidistant Kansas City, Missouri and St. Louis to account for the existence of full-scale casinos there. It is expected that residents east of this truncation line would be more likely to travel to St. Louis casinos as they are more proximate to them, and easily accessible via major highways.

Truncation 2 The Kansas City DMA was truncated equidistant to Des Moines, Iowa to account for the existence of full-scale casinos there and in Council Bluffs. It is expected that residents north of this truncation line would be more likely to travel to Iowa casinos as they are more proximate to them, and easily accessible via major highways.

Map 4 Kansas City, Missouri Designated Market Area



Source: Alea Advisors

Map 5 indicates the location of the four casinos in the Kansas City metropolitan area.

Map 5 Location of Kansas City area Casinos



Source: Alea Advisors

These four casinos, as shown above, along with Terrible's St. Jo Frontier Casino in St. Joseph 50 miles to the north, generated over \$701 million in gaming revenue from their table games and slot machines in 2004. In addition, these casinos drove approximately 12.2 million gaming visits in 2004 as detailed in Table 6 on the next page.

In 2004 the average win per unit per day generated at the 8,012 slot units located at the four Kansas City casinos pictured in Map 5 was \$201.



Table 6 2004 Kansas City, Missouri Gaming Market Data

Property Name	2004 Gaming Revenue	Total Slot Machines	Total Table Games	Annual Visitation
Argosy Riverside	\$146,772,795	1,762	40	2,226,386
Harrah's North Kansas City	\$188,913,621	1,800	47	3,120,873
Isle of Capri	\$103,810,724	1,550	30	2,261,051
Ameristar	\$237,470,093	2,900	107	4,162,584
Terrible's St. Jo Frontier	\$24,369,386	587	11	437,652
Total	\$701,336,619	8,599	235	12,208,546

Source: Missouri Gaming Commission, company websites and Alea Advisors

Population Levels

Nearly 1.5 million adults reside within 50 miles of Kansas City which compares well to the 1.9 million population base surrounding St. Louis and the 2.1 million residents within 50 miles of Pittsburgh.

Table 7 Select Census Data: Kansas City, Missouri DMA (2004)

	0-25 miles	25-50 miles	50-75 miles	75-100 miles	100-150 miles	150-200 miles
Adult Population	1,144,014	315,265	318,490	212,000	688,199	1,071,191
Median Age	36	34	38	38	36	37
Number of Total Households ("HH")	646,765	168,528	177,502	116,669	382,677	594,552
By Income:						
<\$25,000	140,164	46,078	53,584	43,530	138,030	174,061
\$25,000-\$49,999	184,052	51,961	57,965	39,753	129,816	192,952
\$50,000-\$74,999	137,517	36,919	35,614	20,328	65,700	118,556
\$75,000-\$99,999	83,113	18,322	16,268	7,509	26,132	55,673
\$100,000-\$149,999	66,545	10,902	9,754	4,024	15,490	35,797
\$150,000+	35,374	4,346	4,317	1,525	7,509	17,493
Aggregate Household Income	\$41,790,470,784	\$9,064,159,857	\$8,822,159,550	\$4,979,803,125	\$17,089,116,480	\$30,849,100,667
Average HH Income	\$63,925	\$52,199	\$48,692	\$41,318	\$43,474	\$51,044
Median HH Income	\$49,872	\$42,784	\$39,360	\$33,359	\$34,024	\$40,092
Aggregate Entertainment Expenditures	\$1,411,781,437	\$334,817,202	\$334,700,521	\$199,842,150	\$674,624,967	\$1,149,591,365
Aggregate Food Away from Home Expenditures	\$1,568,787,952	\$379,646,199	\$381,814,094	\$230,887,592	\$776,537,770	\$1,306,107,936
Aggregate Alcoholic Beverages Expenditures	\$228,436,559	\$55,329,567	\$55,659,959	\$33,676,621	\$113,245,565	\$190,368,200

Source: Alea Advisors



Income Level Indicators

The \$701 million in gaming revenue generated in the Kansas City casinos in 2004 was derived from the segments described in Table 7 which compare favorably to the population statistics for St. Louis and Pittsburgh. For example, all but the 0-25 mile ring had average household income below the national average of \$62,011 in 2004. Yet these same segments, after an analysis of the index of income to spending, as in St. Louis and Pittsburgh spend a disproportional share of the income that they do earn on categories such as entertainment and food away from home

Economic Conclusions

Overall, the segments making up the Kansas City DMA closely mirror the income and spending levels and behavioral trends for much of the Pittsburgh DMA and are thus useful comparisons when determining the gaming visitation and revenue potential of the Pittsburgh DMA.

Kansas City 2004 Gaming Market

Using the known adult population in each of the rings in the Kansas City DMA in 2004 as well as actual 2004 visitation and gaming revenue for the Kansas City market, Alea Advisors estimated the propensity and number of annual trips for each segment as shown in Table 8 below.

As in St. Louis, these estimates were based on reasonable assumptions given the data discussed earlier on the segments' willingness to game. In addition, reasonable assumptions were made on the level of participation expected from segments that were further from the casino locations—specifically, fewer trips were expected from segments that were farther away.

Table 8 Kansas City DMA 2004 Gaming Revenue Breakdown

Kansas City Designated Market Area*	0-25 miles	25-50 miles	50-75 miles	75-100 miles	100-150 miles	150-200 miles	Total for DMA
Adult Population	1,144,014	315,255	316,490	212,090	688,199	1,071,191	3,748,159
Propensity (share of population that games)	33%	35%	35%	33%	33%	33%	33%
Number of trips annually	13	16	11	8.5	7	5	10
Total gamer visits	4,907,520	1,765,454	1,228,187	594,650	1,589,740	2,124,655	12,208,545
Average trip budget	\$67.00	\$58.00	\$50.00	\$45.00	\$49.91	\$50.00	\$57.45
2004 Gaming Revenue by Segment	\$329,823,944	\$98,567,104	\$61,309,325	\$26,759,700	\$79,343,750	\$106,232,786	\$701,336,619

*NOTE: This data includes St. Joseph market

Source: Alea Advisors

Then average trip budgets were estimated by segment and tied to actual total gaming revenue in 2004 which was \$701 million.

Pittsburgh DMA Gaming Revenue Potential

Using 2004 census data and the results of the analyses of gaming behavior in the comparable markets of St. Louis and Kansas City, Missouri in 2004 in which full-scale gaming is currently offered, Alea Advisors began to construct a baseline estimate of potential gaming revenue demand within the Pittsburgh DMA for that same year—2004.

Two critical estimates went into creating this baseline: first, an amalgam of propensity and annual number of trips known as the “Participation Rate.” This was determined for each segment with the Pittsburgh DMA as summarized in Table 9 below based on the Participation Rates of the various segments within the other comparable markets.

Table 9 2004 Pittsburgh DMA Participation Rate Estimate Sources

Pittsburgh DMA Segment	Comparable Market Segments Used as Participation Rate Proxies	Estimated 2004 Participation Rate
0-25 miles	0-25 St. Louis and 0-25 KC	4.5
25-50 miles	25-50 St. Louis and 25-50 KC	5.0
50-75 miles	50-75 St. Louis and slightly higher 50-75 KC	5.5
75-100 miles	25-50 KC (reduced for distance)	3.0
100-150 miles	25-50 St. Louis (reduced for location) and 25-50 KC (reduced for location)	2.0

Source: Alea Advisors

The Participation Rate metric is simply the propensity rate percentage multiplied by the number of total annual trips. Applying the Participation Rates determined above to 2004 adult population estimates for each segment making up the Pittsburgh DMA provides an estimate of the total gamer visits that the Pittsburgh market could be expected to generate if full-service casinos were available in the Pittsburgh DMA as shown in Table 10 on the next page.

**Table 10** Estimate of Gaming Revenue Potential of Pittsburgh DMA in 2004

Pittsburgh Designated Market Area*	0-25 miles	25-50 miles	50-75 miles	75-100 miles	100-150 miles	Total for DMA
2004 Estimated Market Potential						
Adult population	1,374,389	777,207	1,036,948	1,423,848	2,956,568	7,568,980
Participation Rate	3.5	3.5	3.5	3.5	3.5	3.5
Total gamer visits	6,157,263	4,382,359	5,698,029	4,235,948	5,898,393	26,341,992
"Slots Only" Adjustment	(25.0%)	(25.0%)	(25.0%)	(25.0%)	(25.0%)	
Adjusted gamer visits	4,617,947	3,284,269	4,273,522	3,176,961	4,423,795	19,756,494
Average trip budget	\$52.00	\$56.00	\$55.00	\$55.00	\$72.00	\$58.27
Total 2004 DMA Revenue Potential	\$240,133,246	\$182,799,086	\$235,043,707	\$174,732,847	\$318,513,225	\$1,151,222,111
			Total 2004 Population in 0-50 mile ring:			2,151,598
*Includes Mountaineer Park and Wheeling Downs facilities						
			Pittsburgh 2004 DMA estimated win per visitor			\$58.27
			Kansas City 2004 DMA estimated win per visitor			\$57.45
			St. Louis 2004 DMA estimated win per visitor			\$61.69

Source: Alea Advisors

However, given that some gamers prefer table games which are not offered at the gaming venues within the Pittsburgh DMA, total visitation was reduced in each segment by 25 percent. This percentage was used because, in general, 75 percent of gaming patrons prefer slot machines. It should be noted that some players who prefer table games are still expected to visit the Pittsburgh Slots Venue, either on their own or with a spouse, but for conservancy sake it is appropriate to reduce the total number of visitors expected given that the facility will not offer full-service casino gaming.

Second, an average trip budget—or the amount each patron is expected to lose at the gaming venue—was determined for each segment. This was based on income levels within the segment and the distance traveled. For example, patrons who come less often because of distance (100-150 mile segment) are likely to spend slightly more money when they do visit.

Based on these assumptions, it was estimated that total demand for slot machine gaming within the Pittsburgh DMA in 2004—both realized and latent (that is, unmet)—was approximately \$1.15 billion as shown in Table 10 above.

The effect of a racino in Erie, Pennsylvania

In properly determining gaming revenue benchmarks for the Pittsburgh area gaming venues specifically, one must first consider the effect that the racino in Erie will have on the northern regions of the 75-100 mile and 100-150 mile segments. Portions of these segments are likely to be lost to the Erie racino, further reducing the available patrons for the remaining six gaming venues that are more proximate to downtown Pittsburgh,



specifically the two West Virginia racinos, a racino at The Meadows, a potential racino in Beaver or Lawrence counties, and the Pittsburgh Slots Venue itself.

To account for this ultimate loss to competition in Erie, the total revenue potential in the 75-100 and 100-150 mile segments was reduced further by 15 and 30 percent, respectively as shown in Table 11 below.

Therefore, the 2004 benchmark for gaming revenue potential of the Pittsburgh Area (to be served by two West Virginia racinos, a racino at The Meadows, a potential racino in Beaver or Lawrence counties, and the Pittsburgh Slots Venue) is estimated to be approximately \$1.029 billion as highlighted in yellow. This figure represents both realized and latent demand in the market in 2004.

Table 11 Estimate of Gaming Revenue Potential of Pittsburgh Area venues in 2004

Pittsburgh Designated Market Area*		0-25 miles	25-50 miles	50-75 miles	75-100 miles	100-150 miles	Total for DMA
2004 Estimated Market Potential							
Adult population		1,374,389	777,207	1,036,948	1,423,848	2,956,588	7,568,980
Participation Rate		3.4	3.4	3.5	3.2	3.8	3.5
Total gamer visits		6,157,263	4,352,359	5,698,029	4,235,948	5,898,393	26,341,992
"Slots Only" Adjustment		(25.0%)	(25.0%)	(25.0%)	(25.0%)	(25.0%)	
Adjusted gamer visits		4,617,947	3,264,269	4,273,522	3,176,961	4,423,795	19,756,494
Average trip budget		\$52.00	\$56.00	\$55.00	\$55.00	\$72.00	\$58.27
Total 2004 DMA Revenue Potential		\$240,133,246	\$182,799,086	\$235,043,707	\$174,732,847	\$318,513,225	\$1,151,222,111
Lost to Competition: Erie racino					(15.0%)	(30.0%)	
Adjusted 2004 Pittsburgh DMA Revenue Potential		\$240,133,246	\$182,799,086	\$235,043,707	\$148,522,920	\$222,959,258	\$1,029,458,217
		Total 2004 Population in 0-50 mile ring:					2,151,596
*Includes Mountaineer Park and Wheeling Downs facilities		Pittsburgh 2004 DMA estimated win per visitor					\$58.27
		Kansas City 2004 DMA estimated win per visitor					\$57.45
		St. Louis 2004 DMA estimated win per visitor					\$61.89

Source: Alea Advisors

Estimate of 2009 Gaming Revenue Potential of the Pittsburgh Area

To estimate the next benchmark—that of the potential size of the gaming market in 2009—the Participation Rates used in 2004 were reviewed to determine if additional adjustments were needed to account for shifts in spending. It was determined that no adjustments in Participation Rates were needed.

Then changes in income in each segment were examined. Table 12 highlights the estimated increase in median household income expected between 2004 and 2009 for each segment. These percentage increases are used to determine what type of increase, if any, can be expected in the average trip budget from 2004 to 2009 for each segment of the Pittsburgh DMA.

Table 12 Changes in Median Income in Pittsburgh DMA from 2004 to 2009

	0-25 miles	25-50 miles	50-75 miles	75-100 miles	100-150 miles
2004 Median HH: Pittsburgh Designated Market Area	\$41,320	\$35,023	\$35,420	\$39,899	\$42,087
2009 Median HH: Pittsburgh Designated Market Area	\$46,344	\$38,826	\$39,200	\$44,970	\$47,281
Percentage Increase	12.2%	10.9%	10.7%	12.7%	12.3%
Compound Annual Growth Rate: 2004-2009	2.3%	2.1%	2.0%	2.4%	2.4%

Source: Alea Advisors

So, 1) Using the original Participation Rates, 2) after conservatively adjusting average trip budget to account for likely increases in household income in each segment, and 3) continuing to reduce the DMA estimate to account for slots only gaming and the presence of a racino in Erie, it is estimated that the gaming revenue potential for the Pittsburgh Area in 2009 will be \$1.09 billion as highlighted in yellow in Table 13 below:

Table 13 Estimate of Gaming Revenue Potential of Pittsburgh Area in 2009

Pittsburgh Designated Market Area*	0-25 miles	25-50 miles	50-75 miles	75-100 miles	100-150 miles	Total for DMA
2009 Estimated Market Potential						
Adult population	1,362,401	771,436	1,030,428	1,447,389	3,030,065	7,641,719
Participation Rate	4.5%	4.5%	5.5%	3.0%	2.0%	
Total gamer visits	6,103,556	4,320,042	5,662,202	4,305,982	6,044,960	26,436,762
"Slots Only" Adjustment	(25.0%)	(25.0%)	(25.0%)	(25.0%)	(25.0%)	
Adjusted gamer visits	4,577,667	3,240,031	4,246,651	3,229,487	4,533,735	19,827,571
Change in average trip budget 2004 to 2009	6.0%	5.0%	5.0%	6.0%	6.0%	
2009 Average Trip Budget	\$55.12	\$58.60	\$57.75	\$58.30	\$76.32	\$61.65
Total 2009 DMA Revenue Potential	\$252,321,025	\$190,513,835	\$245,244,118	\$188,279,075	\$346,014,637	\$1,222,372,689
Lost to Competition: Erie racino				(15.0%)	(30.0%)	
Adjusted 2009 Pittsburgh DMA Revenue Potential	\$252,321,025	\$190,513,835	\$245,244,118	\$160,037,214	\$242,210,246	\$1,090,326,437
				Population in the 0-50 mile ring:		2,133,837
*Includes Mountaineer Park and Wheeling Downs				Estimated Compound Annual Growth Rate: Pittsburgh Market Revenue 2004-2009		1.16%

Source: Alea Advisors



Estimate of Gaming Revenue for Pittsburgh Slots Venue: Years One to Five

Using as benchmarks the estimated gaming revenue potential of the Pittsburgh Area of \$1.029 billion in 2004 and \$1.09 billion in 2009, and assuming a January 1, 2008 opening date for the Pittsburgh Slots Venue, estimates for gaming revenue at the Pittsburgh Slots Venue were determined as follows:

First, the compounded annual growth rate between the 2004 and 2009 was calculated as 1.16 percent. The market potential of the Pittsburgh Area for each of the interim years of 2005, 2006, 2007, 2008, 2010, 2011 and 2012 was then determined by applying this 1.16 percent compounded annual growth rate.

Then, to arrive at the gaming revenue expected specifically from the Pittsburgh Slot Venue during its first five years of operation (2008 to 2012), the potential gaming revenue generated in the Pittsburgh Area was reduced further by:

- the estimated revenue to be achieved at the two currently operating West Virginia racinos for 2008 to 2012;
- the estimated revenue likely to go to the planned racino at The Meadows from 2008 to 2012; and
- the estimated revenue likely to go to a potential racino in Beaver or Lawrence County from 2008 to 2012.

What remains was the net amount available to the Pittsburgh Slot Venue. However, at any new gaming operation, a ramp up period is expected in order for the market to become aware of the facility and for marketing programs to take hold. Therefore, annual revenue estimates were reduced to account for this ramp up period to arrive at, ultimately, the total estimated gaming revenue for the first five years of operation of the Pittsburgh Slots Venue. Table 14 below summarizes total revenue and visitation estimates for the Pittsburgh Slots Venue in its first five years of operation:

Table 14 Pittsburgh Slots Venue: Estimate of Gaming Revenue and Visitation (2008 to 2012)

	First Full Year of Operations: 2008	Year Two: 2009	Year Three: 2010	Year Four: 2011	Year Five: 2012
Estimated Gaming Revenue	\$317,000,000	\$350,000,000	\$377,000,000	\$396,000,000	\$407,000,000
Estimated Annual Revenue Growth Rate		10.4%	7.7%	5.0%	2.8%
Estimated Visitation	5,200,225	5,677,197	6,046,586	6,280,108	6,382,185

Source: Alea Advisors

The Pittsburgh Slots Venue is expected to produce approximately \$317 million in gaming revenue during its first full year of operation (assumed as 2008). It is expected to compete successfully against the two West Virginia racinos, as well as the racino at The Meadows, and an additional possible racino in Beaver or Lawrence counties by virtue of its premium location in the heart of Pittsburgh. By Year Five (2012), the Pittsburgh Slots Venue is estimated to produce approximately \$407 million in gross gaming revenue.

Depending on the number of units installed at the Pittsburgh Slots Venue, the average win per unit per day—a common metric in analyzing the performance of a slot facility—would fall within the ranges detailed in Table 15, based on the expectation of gaming revenue achieved as summarized in Table 14.

Table 15 Range of Win Per Unit Per Day Estimates at the Pittsburgh Slots Venue Under Various Facility Size Scenarios

Number of Units at Pittsburgh facility	First Full Year of Operations:	Year Two:	Year Three:	Year Four:	Year Five:
	2008	2009	2010	2011	2012
	Average Win Per Unit Per Day				
3,000	\$289	\$320	\$344	\$362	\$372
3,500	\$248	\$274	\$295	\$310	\$319
4,000	\$217	\$240	\$258	\$271	\$279
4,500	\$193	\$213	\$230	\$241	\$248
5,000	\$174	\$192	\$207	\$217	\$223

Source: Alea Advisors

A Word of Caution

Based on the estimated levels of gaming revenue, the Pittsburgh Slot Venue can be viewed as an attractive operation for a potential gaming license Applicant. However, given the high gaming tax to be imposed on gaming revenues in the Commonwealth, an operator must ultimately consider the likely cash flow to be generated after payment of the gaming tax to fully examine the economics of the proposed gaming venue development. This topic will be discussed next.

Economics of Development and Operation of Pittsburgh Slots Venue

Introduction

As noted, gaming revenue is an important part of any analysis of a gaming venue, but it is not the only critical economic element to analyze. The level of investment an operator is willing to make to build a new gaming venue is largely dependent on the return on investment that can be expected. And return on investment is driven largely by the amount of cash flow produced by the business.

Also, even if all operators assumed the same level of cash flow, they might differ on their own internal hurdle rates which in turn affects the amount of investment they are willing to make. This section is meant to provide the PGTF with insight into a realistic range of cash flow to be produced at a Pittsburgh Slots Venue, especially given the highly taxed nature of the environment which in turn can be useful in estimating how an Applicant might arrive at their proposed project investment amount.

Beginning on page 30, typical ranges of investment for a facility of this type are provided and various payback periods and net present values are calculated in order to highlight the breadth of possibilities for Pittsburgh. From this analysis, the PGTF will have a better understanding as to why different Applicant's propose different levels of investment.

Pennsylvania Taxation Environment and Impact on Cash Flow

Comparable gaming markets where only slot machines are permitted typically produce strong operating margins as labor expenses are minimal compared to table games operations. Earnings Before Interest Taxes Depreciation and Amortization or "EBITDA" is a common measure of cash flow at casino properties. EBITDA represents the amount of cash that remains out of total revenue after all operating expenses (labor, marketing, etc.) are paid. EBITDA margins for comparable slot venues in typical midwestern states **where approximately 30 percent of revenue is paid to the state in the form of gaming tax** generally range from 20 to 30 percents after accounting for this state gaming tax.

While the operating costs associated with the Pittsburgh Slots Venue are expected to be similar to the operating costs of these Midwestern slots only venues, Pennsylvania's gaming tax will be significantly higher--an effective rate equating to approximately 54 percent of gaming revenue. This will have a significant effect on the venue's ability to produce cash flow even though the costs associated with operating a slots only venue will be lower than a full service casino which offers both slot machines and the more labor-intensive table games operation.



As illustrated by the common sized statements in Tables 16, 17, and 18, the net effect on the Pittsburgh Slots Venue of this 54 percent gaming tax will be to reduce the likely EBITDA margins (after accounting for the PA gaming tax) from the 25 percent level which is typical in midwestern states.

Table 16 Common Sized Statement: Typical midwestern US Gaming Jurisdiction (slots only)

Gaming Revenue	100.0%
Less: Average Gaming Tax	(25.0%)
Slot department operating costs: Average	(40.0%)
Other department costs: Average	(10.0%)
Typical EBITDA margin (after gaming tax)	<u>25.0%</u>

Source: Alea Advisors

Table 17 Common Size Statement: PA Jurisdiction estimated EBITDA margin Scenario One

Gaming Revenue	100.0%
Effective PA Gaming Tax Rate	(54.0%)
Slot department operating costs: Low	(30.0%)
Other department costs: Low	(5.0%)
EBITDA margin (after PA tax)	<u>11.0%</u>

Source: Alea Advisors

Table 18 Common Size Statement: PA Jurisdiction estimated EBITDA margin Scenario Two

Gaming Revenue	100.0%
Effective PA Gaming Tax Rate	(54.0%)
Slot department operating costs: Higher	(40.0%)
Other department costs: Low	(5.0%)
EBITDA margin (after PA tax)	<u>1.0%</u>

Source: Alea Advisors

Tables 17 and 18 suggest that the EBITDA margin will range from 1 and 11 percent. EBITDA margins can vary based on the proficiency of an operator and his/her ability to produce operating efficiencies, the extent and success of marketing initiatives, and a host of other strategic and internal management decisions. Thus for analysis purposes EBITDA margins of 5, 10, and 15 percent were determined to be reasonable. Table 19 below summarizes total revenue and then EBITDA at 5, 10 and 15 percent respectively for the first five years of operation.

Table 19 Estimated EBITDA (after PA gaming tax) produced by Pittsburgh Slots Venue Years One to Five Under Various EBITDA Scenarios

	Pittsburgh Slot Venue Revenue Estimate	EBITDA produced at 15% margin	EBITDA produced at 10% margin	EBITDA produced at 5% margin
Year 1	\$317,000,000	\$47,550,000	\$31,700,000	\$15,850,000
Year 2	\$350,000,000	\$52,500,000	\$35,000,000	\$17,500,000
Year 3	\$377,000,000	\$56,550,000	\$37,700,000	\$18,850,000
Year 4	\$396,000,000	\$59,400,000	\$39,600,000	\$19,800,000
Year 5	\$407,000,000	\$61,050,000	\$40,700,000	\$20,350,000

Source: Alea Advisors

These estimated EBITDA (after PA gaming tax) ranges have significant implications for the type and level of capital investment that can be expected for the Pittsburgh Slots Venue. Given that operators are required to generate a proper return on their investment, when cash flow margins are expected to be lower in a highly taxed environment less capital will necessarily be invested in order for the developer to meet needed return on investment ("ROI") hurdles. All operators in Pennsylvania will face these economic realities.

The Pittsburgh Slots Venue, however, will benefit from its premium location proximate to a dense population base and near other existing visitation generators within the City of Pittsburgh. This will enable it to possibly attain a competitive advantage over its neighboring racino competitors, if developed properly, marketed well, and managed effectively.



Pittsburgh Slots Venue: Likely Investment Ranges Discussed

There are a number of financial and mathematical approaches to placing a “value” on an investment, determining a likely purchase price for a business, or analyzing the likely amount of capital investment by an Applicant for gaming development in the City of Pittsburgh.

To study the economics behind the likely levels of investment, and provide a range estimates, Alea Advisors has:

First, estimated a range of payback periods under various EBITDA margin assumptions and levels of investment;

Second, calculated the present value of the EBITDA streams that are likely to be generated under three EBITDA scenarios, thus estimating the maximum amount an Applicant might be willing to invest; and

Finally, analyzed acquisition multiples typical in the gaming industry for properties of the type, size, and scope expected in Pittsburgh. These multiples were then applied to various EBITDA margin assumptions.

It is important to note that these three analyses produce a very wide range of values, that these values are only estimates and, importantly, that these analyses do not attempt to quantify extraneous factors (such as an Applicant's strong strategic desire to enter the Pittsburgh market) or other internal corporate decisions which might cause an Applicant to invest much more or much less than is determined in these analyses.

Payback Period Analyzed

A successful gaming licensee is required to pay an upfront fee of \$50 million to the Commonwealth. Based on this and the size and scope of comparable gaming venues, Alea Advisors estimates, for purposes of analysis, a range of costs likely to be incurred by a developer of the Pittsburgh Slots Venue as follows:

Table 20 Estimated Capital Investment Ranges: Pittsburgh Slots Venue

Cost of License	\$50,000,000
High Construction Cost	\$400,000,000
Medium Construction Cost	\$275,000,000
Low Construction Cost	\$170,000,000
High All-in Costs	\$450,000,000
Medium All-in Cost	\$325,000,000
Low All-in Costs	\$220,000,000

Source: Alea Advisors

Given the estimate of gaming revenue and the EBITDA margins summarized in Table 19, the payback period for the three investment levels (low, medium and high) shown in Table 20 range from 4.1 to 19.4 as follows:

Table 21 Payback period for Pittsburgh Slots Venue under various EBITDA margin and Investment Scenarios

	Assuming a 15% EBITDA margin	Assuming a 10% EBITDA margin	Assuming a 5% EBITDA margin
All-In Costs:			
High: \$450 million	7.7 years	11.0 years	19.4 years
Medium: \$325 million	5.8 years	8.3 years	15.0 years
Low: \$220 million	4.1 years	5.8 years	10.8 years

Source: Alea Advisors

As shown in Table 21, for example, if an operator invests \$450 million in the Pittsburgh Slots Venue and is able to achieve over time an average EBITDA margin of 15 percent, the investment will likely be paid back (excluding any additional financing/carrying costs associated with the initial capital investment) in 7.7 years. However, if \$450 is invested but an EBITDA margin of only 5 percent is achieved over time, the payback will take nearly 20 years.

Present Value of EBITDA streams generated by Pittsburgh Slots Venue Analyzed

Another approach in analyzing the amount an Applicant might invest in a Pittsburgh Slots Venue is by calculating the present value of EBITDA likely to be generated at the facility over the years it is in operation. These cash flow streams are then discounted under three scenarios to determine the present value today of fifteen years of cash flow production. The exact discount rate used by an investor will depend largely on their "cost of capital" which is, in the simplest of terms, the price an investor or corporation pays to borrow the money needed to build a facility. For example, if a corporate has access to funds which carry an interest rate of 6 percent, the discount rate used to calculate the present value of cash flow from that investment would be 6 percent. As various gaming operators will have differing costs to borrow, Alea Advisors has provided three likely discount rate scenarios—6 percent, 8 percent and 10 percent—based on current financial market conditions.

Table 22 Present Value of a Pittsburgh Slots Venue under various EBITDA margins and Discount Rate Scenarios

	Assuming a 15% EBITDA margin	Assuming a 10% EBITDA margin	Assuming a 5% EBITDA margin
At a discount rate of:			
6%	\$612,776,443	\$408,517,629	\$204,258,814
8%	\$534,350,066	\$356,233,377	\$178,116,689
10%	\$469,966,572	\$313,311,048	\$156,655,524

Source: Alea Advisors

Table 22 illustrates, for example, that if an operator can borrow money at 6 percent and expects to operate the Pittsburgh Slots Venue under a 10 percent EBITDA margin scenario, the present value of fifteen years of that cash flow would be \$408.5 million—that is, an operator under these assumptions is not likely to invest more than \$408.5 million in the Pittsburgh Slots Venue.

Based on earlier revenue estimates coupled with these discount rates and EBITDA margin assumptions, this analysis suggests that an investor could invest anywhere from \$156 million to \$612 million in a Pittsburgh Slots Venue. **This is a very wide range and, again, is only an estimate.** It does not attempt to quantify extraneous factors such as an Applicant's strong strategic desire to enter the Pittsburgh market or other internal decisions which might cause an Applicant to invest much more or much less than this range.

Comparable Gaming Industry Multiples Analyzed

The "value" of a gaming enterprise can also be thought of in terms of the price an investor would pay to buy the established business. For gaming venues, the value or purchase price is often simply a multiple of average annual EBITDA. For individual properties, such as the Pittsburgh Slots Venue, current market multiples range from 5.0 to 7.0 of EBITDA.

Therefore given three likely EBITDA margin scenarios and an acquisition multiple of either 5.0 or 7.0, a wide range of enterprise values are produced as illustrated in Table 23 on the next page:

Table 23 Estimated Enterprise Value Ranges for the Pittsburgh Slots Only Venue under various EBITDA and Acquisition Multiple Scenarios

Typical Property Acquisition Multiples:	5.0	7.0
Applied to 15% EBITDA margin (after PA tax)	\$277,050,000	\$387,870,000
Applied to 10% EBITDA margin (after PA tax)	\$184,700,000	\$258,580,000
Applied to 5% EBITDA margin (after PA tax)	\$92,350,000	\$129,290,000

Source: Alea Advisors

Based on earlier revenue estimates, these EBITDA margin assumptions and typical acquisition multiples in the industry, this analysis suggests that an investor could invest anywhere from \$92 million to \$388 million in a Pittsburgh Slots Venue. **This is a very wide range and, again, is only an estimate.** It does not attempt to quantify extraneous factors, such as an Applicant's strong strategic desire to enter the Pittsburgh market, or other internal decisions which might cause an Applicant to invest much more or much less than this range. And again, this range is, as illustrated, highly dependent on an operator's own EBITDA margin assumption which is based on their specific management expertise and ability to run casinos efficiently.

Summary

The ranges determined in these three approaches once again highlight that the potential level of investment that the City can expect in the Pittsburgh Slots Venue can vary widely depending on:

- an Applicant's historical ability to generate strong EBITDA margins at other facilities which impacts its own EBITDA margin assumptions for the Pittsburgh Slots Venue;
- an Applicant's internal rate of return requirements (placed on it either by shareholders or financial partners) driven largely by its financial structure, cost of capital, and other gaming investment options and choices available elsewhere throughout the world;
- an Applicant's desire to enter the Pittsburgh market. Is the Pittsburgh license important to them for strategic reasons? This could mean that an Applicant is willing to invest more dollars (e.g. pay a "premium") or accept a longer payback period;
- an Applicant's belief that specific elements in its proposed development (e.g., entertainment or sporting venues, etc.) will generate in excess of expected



revenue levels, thus stealing more share of the gaming market in the Pittsburgh DMA from other competing gaming venues operating throughout the region as detailed in Table I on page 6.

Thus, the PGTF should not only look at the Applicant's proposed development and investment level but closely examine the Applicant's own estimates for gaming revenue and cash flow to gain comfort that the investments proposed are based on reasonable and sound operating assumptions.

Conclusions

The City of Pittsburgh has a tremendous opportunity to benefit from the development of a slots venue as mandated by Act 71. Based on the demographic and economic mark-up of the region to be served by the Pittsburgh Slots Venue, there is ample demand which could ultimately make the property successful.

While new competitors will be entering the market (along with existing facilities currently operating in West Virginia) against which the Pittsburgh facility will have to compete, its location in a thriving area within the City and its ability to not only attract existing visitors to the City but generate new visits based on its offered amenities mix and location proximate to well-designed sporting venues or entertainment districts could enable it to steal market share from these other competitors. Again, a well-designed and interesting facility in a strong location will be an important element in attaining this competitive advantage.

While the highly taxed nature of the gaming environment in Pennsylvania will create a challenge to attaining adequate returns on the investment, an experienced and efficient operator with marketing knowledge will be well positioned to mitigate these concerns, justifying an overall well-designed and attractive development for the City.

Therefore:

It is appropriate for the City to have specific expectations for any Applicant's proposed development, given the size and scope of the facility, and the likely gaming revenues to be generated at this premium location within the Commonwealth of Pennsylvania. It is thus incumbent upon the PGTF and the City to develop specific realistic goals and to articulate these goals and expectations to the Applicants. It is then the Applicants' responsibility to respond to those prescribed needs of the City and to respond with a workable plan for development.

Second, given the highly taxed nature of the proposed gaming venue, and the challenges an Applicant will face as a result, it is in the City's best interests to work with an operator to assist in the long term success of this gaming venture for the good of the City.

*In 49 BC, as Caesar crossed the Rubicon defying the edict of Rome he declared
"iacta alea est" . . . the die is cast.
Let Alea Advisors help you ford your own Rubicon*