

PENNSYLVANIA GAMING CONTROL BOARD

PUBLIC HEARING

CATEGORY 3 LICENSING UPDATE

TUESDAY, FEBRUARY 3, 2009, 12:24 A.M.

STATE MUSEUM AUDITORIUM
HARRISBURG, PENNSYLVANIA

BEFORE:

MARY DiGIACOMO COLINS, CHAIRMAN
RAYMOND S. ANGELI
JEFFREY W. COY
JAMES B. GINTY
KENNETH T. McCABE
SANFORD RIVERS
GARY A. SOJKA
KEITH WELKS, EX-OFFICIO REPRESENTATIVE

HILLARY M. HAZLETT, REPORTER
NOTARY PUBLIC

1 CHAIRMAN DiGIACOMO COLINS: I'm now going to
2 ask for an update regarding the Category 3s. We had
3 opened the record for, I believe, ten days and received
4 briefs. We would like them to come forward.

5 As for the Sands Petitions, they will be
6 handled in the body of the meeting, once we go into the
7 public meeting.

8 Let's get the Category 3 update now, if you
9 don't mind. I guess we could start -- I see the
10 representatives of Valley Forge are here. Let's start
11 with them.

12 All right. Good afternoon. Counsel, will you
13 introduce yourselves for the record please?

14 MR. QUAGLIA: Certainly, Your Honor. Ray
15 Quaglia from the Ballard Spahr firm for the Applicant,
16 Valley Forge Convention Center Partners, LP.

17 With me is my partner, Adrian King from the
18 Valley Forge firm. We have for the Board this afternoon
19 two witnesses.

20 We have directly to my right Gary Brandeis, the
21 financial advisor for the Applicant and sitting directly
22 behind him, of course, Ira Lubert, the majority owner of
23 the Applicant.

24 CHAIRMAN DiGIACOMO COLINS: Could I ask the
25 witnesses, please, to rise and take an oath, if you

1 would?

2 (Witnesses sworn en masse.)

3 CHAIRMAN DiGIACOMO COLINS: Thank you.

4 Counsel?

5 MR. QUAGLIA: Thank you, Your Honor.

6 Mr. Brandeis, before the Board, since, I
7 believe, this is your first appearance, could you please
8 identify yourself and provide a brief biography.

9 MR. BRANDEIS: Sure. Thank you.

10 My name is Gary Brandeis. I'm a Pennsylvania
11 resident. I have over 20 years of real estate,
12 commercial -- commercial finance experience.

13 For a good period of time, I worked for Lincoln
14 Property Company, which is one of the nation's largest
15 real estate investment, management, and development
16 companies.

17 I have worked on what I would consider billions
18 of dollars of transactions over the last 20 years,
19 anywhere from a hotel, office, industrial, and retail
20 projects.

21 Formally practiced as a certified public
22 account here in Pennsylvania and have an accounting
23 degree from Penn State University.

24 Currently, I'm a managing director and a
25 partner in FB Capital's real estate investment business

1 and I have been working on this project since January of
2 2007 when we started talking about filing an
3 application.

4 My role really was the financial side, putting
5 together our proformas, working with PKF on their
6 assumptions and revenue assumptions, and helping us
7 model what this project would look like financially, as
8 well as talking to lenders, mortgage brokers, etc., on
9 how ultimately this project would get financed. So we
10 are now in excess of two years in kind of putting all of
11 this together.

12 So that is my background. I feel I am well
13 qualified to talk about real estate finance, capital
14 markets, and this project specifically.

15 Just to give you a little bit of background on
16 the capital markets, the financial issues today in the
17 real estate space isn't really a real estate problem.
18 It is a credit and liquidity problem.

19 Specifically, for us here in the northeast, if
20 you look at supply and demand. We really haven't
21 overbuilt our supplies; office, hotel, retail. It is
22 really a liquidity crisis where we can't get financing
23 to do developments.

24 We think that once the economy does start to
25 grow that the real estate markets will do quite well and

1 won't take a long period of time to do that.

2 That being said, there is virtually no
3 liquidity in the capital markets. That is why you are
4 hearing stories from folks about not being able to get
5 financing.

6 We have a little bit of a different tack and we
7 have been able to attract financing and have
8 demonstrated twice now highly confident letters from
9 lenders and investors who want to work with us on our
10 project.

11 Just to give a sense of how financing occurred,
12 the liquidity issue isn't necessarily at the project
13 level. So, typically a project like this, we would go
14 to a bank, a regional bank or a local bank to get
15 project level financing for two reason; one to acquire
16 the asset and then secondly to improve it.

17 At that point, once the improvements were done
18 and there was some short-term stabilization in the
19 asset, we would go out to the long-term capital markets,
20 which have typically been the CMBS market, which is Wall
21 Street capital, securitized capital, and life insurance
22 companies that would tend to give long-term financing.

23 The CMBS market has virtually disappeared.
24 Just to give you some flavor there, in 2006, \$300
25 billion of commercial securitizations took place; 2007,

1 \$235 billion of commercial securitizations took place;
2 last year, in 2008, \$20 billion took place. The
3 projections are that probably half of that will get done
4 in 2009.

5 So, project lenders, who typically would give
6 us short-term financing, always depended on this
7 long-term financing for their takeouts.

8 So when we were done, our renovations, our,
9 development, or our repositioning, they would then go to
10 those financing sources to take them out of the
11 short-term financing.

12 The problem is that the long-term financing
13 doesn't exist or it is very, very difficult to get.
14 Therefore, the project financiers, the regional banks,
15 those lenders aren't making those loans.

16 So that is the credit crisis, if you will, in a
17 nutshell and what folks like us are facing in financing
18 projects today.

19 As far as Valley Forge Convention Center, it is
20 a unique project. Last year, 2008, the property, as a
21 hotel convention center had just under \$6 million of net
22 operating income.

23 The good news is is that the project has been
24 there for a long time. We have a long history of net
25 operating income, which makes that project financeable,

1 not as easy as to finance as it used to be but
2 financeable.

3 Lenders will look at us and say, here is the
4 real estate. It exists. There is 485 hotel rooms.
5 There is a 100,000 square foot convention center and
6 here is 20 years of operating history. That is a
7 financeable asset.

8 The other issue that makes our project a little
9 bit different is that we are dealing with an existing
10 asset and a large portion of the financing that we are
11 going to attract is real estate financing, which means
12 there is a hard asset behind that financing. There is a
13 tangible asset with a long history.

14 It is a little bit different than doing
15 ground-up construction with no history and potentially
16 the risk of taking an asset that is half built, so a
17 much different situation.

18 As far as the overall capitalization goes,
19 almost 46 percent of our gross capitalization reflects
20 improvements into the asset, which not only includes the
21 construction of the gaming facility inside our existing
22 convention center but also the redevelopment of the
23 center from an amenity perspective and a hotel
24 perspective.

25 Ultimately, this is a large opportunity for the

1 project, not only in the gaming side but to do things in
2 the hotel to make it more attractive, more competitive,
3 and a bigger draw for the region. Obviously, the other
4 amenities in the area are well-known to Valley Forge
5 Park and the other amenities.

6 So, ultimately, the gaming -- the gaming
7 opportunity here ultimately acts as a catalyst for the
8 redevelopment of this project.

9 We have and have recently provided a second
10 highly confident letter from a group called the Delaware
11 Valley Real Estate Investment Fund of which I have had a
12 large relationship with them going back to 2001.

13 They are -- I will give you a quick background
14 of who they are. They are a pension fund management and
15 investment company.

16 Their sole goal in life is to invest union
17 pension money from the City of Philadelphia. The
18 Philadelphia Building Trades Money, they invest for
19 those trades.

20 They have really two goals. One, they want to
21 make a return on their investment and their money.
22 Secondly, they want to invest that money outside of the
23 city limits.

24 So they are targeting projects in Montgomery,
25 Chester, Bucks County, Delaware County, Burlington

1 County, Camden County, etc.

2 Their goal is they want that go to union
3 workers and union construction taking place outside of
4 the city limits.

5 If you are from Philadelphia, it is a pretty
6 well-known fact that if you are doing construction in
7 city, it is union construction. However, in the
8 surrounding areas, it is not. It is typically open
9 shop.

10 So their goal is a little bit different than
11 most lenders. Most lenders want to get the money out,
12 get the money back with their interest rate.

13 Delaware Valley wants to get their money out
14 and make a return but also point to job creation, union,
15 expansion, and really get their message out to the
16 market.

17 By making investments in projects outside of
18 the City of Philadelphia, they obviously require us to
19 use union construction, which helps their message.

20 Very, very strong local group. Very well
21 capitalized; and again in this environment, we had to go
22 out of the box and say how do we finance this project
23 because the traditional sources have somewhat dried up.

24 This was the perfect storm for us. They have
25 capital. They want to create construction jobs outside

1 of the City of Philadelphia. They like the project.
2 They like the project today.

3 They want to be involved with the Applicant
4 from a business perspective; and you know, they want to
5 create the jobs and build on the story.

6 In addition to that, you may have heard in
7 prior testimony that the project itself doesn't have a
8 great history with the unions.

9 When the project was built back in the early
10 '70s, it was built open shop. There was a 5,000 union
11 person march. There was property damage. The developer
12 was personally attacked. It doesn't have a great
13 reputation from the union perspective.

14 I have had specific conversations with Delaware
15 Valley that this is their opportunity to turn that
16 around.

17 If they can be part of the development, the
18 redevelopment of this project and be part of a good part
19 of this project and be part of the good news that is
20 going to come out of this project, it is a huge plus for
21 them and something they are very cognizant of.

22 So they participate in both equity, mezz, and
23 senior debt positions. They also have a great stable of
24 coinvenstors that also share the same message as them on
25 the union side, including ULLICO, the National Electric,

1 NEBF, ASB Capital and MEPT, pretty well-known names in
2 the union/pension world.

3 Just to give you some background on them, they
4 have invested about \$100 million of equity over the past
5 few years and have about \$700 million worth of real
6 estate assets under management right now.

7 The structure of the transaction as we have
8 been working with them on, you know, it is fairly
9 standard, it is -- kind of a capital of senior stacking
10 mezz debt that will help us finance this project.

11 \$44 million of the overall capitalization is
12 for the redevelopment of the project, the building of
13 the gaming facility, the changing, the improvements of
14 the hotel rooms, the amenities, the restaurant, the spa,
15 etc.

16 And again, I want to stress this, that their
17 goal is not to invest money in debt but their specific
18 targets are the five counties that surround Philadelphia
19 and expand that union footprint.

20 Again, they have a dual goal in making these
21 investments; one, to make the return, but; secondly, to
22 expand their presence and get their union jobs outside
23 of the City of Philadelphia, which has been difficult
24 for them, to be honest with you.

25 This is a high-profile project, high on their

1 agenda, at the top of their list. Hopefully, that gives
2 you a good background in the financing.

3 We have been working on this for two years. I
4 can answer any questions you have about our proformas,
5 our assumptions, etc.

6 MR. QUAGLIA: Your Honor, would you like us to
7 have Mr. Lubert testify before any questions from the
8 Board?

9 CHAIRMAN DiGIACOMO COLINS: That would be good.
10 Thank you.

11 MR. QUAGLIA: Thank you, Mr. Brandeis.

12 MR. BRANDEIS: Can I clarify one thing, please.
13 Delaware Valley has invested \$100 million, I said
14 earlier, of equity, debt, and mezz instruments, not just
15 equity. They will do all facets of that. I didn't want
16 to mislead anybody.

17 MR. QUAGLIA: Thank you. The Applicant's
18 second and final witness for this afternoon is the --
19 familiar to the Board, Ira Lubert.

20 And if I can give the Board a head's up. One
21 issue that I know Mr. Lubert would like to clarify is
22 that in our January 29th submission updating --
23 providing updated financial information, we made the
24 statement at Page 3 that based on preliminary -- based
25 on preliminary discussions with the staff, we --

1 counsel made the suggestion at Page 3 that an award of a
2 Category 3 license could be conditioned on permanent
3 financing being secured within 180 days of the finality
4 of the license.

5 We said that, following this approach, the
6 Applicant will be empowered to quickly reach final
7 agreement with its lenders. And Mr. Lubert with his
8 somewhat more extensive business experience has pointed
9 out to us, a lender could also be empowered to extract
10 significantly better terms if the Applicant effectively
11 has a date-certain gun to its ahead. I'm going to leave
12 the clarification to Mr. Lubert but just so the context
13 is clear.

14 Mr. Lubert?

15 MR. LUBERT: Thank you very much.

16 Thank you for rewarding me the opportunity to
17 speak to you again today. I did want to clarify about
18 the financing risk.

19 You have heard, I think, a very thorough
20 background of what is going on in our capital markets to
21 the today.

22 I actually tell our investors in my other
23 businesses that we are going through a tsunami from a
24 financial perspective that frankly I have never seen
25 before. This is my fourth downturn in the economy.

1 None anywhere is close to this one for two major
2 reasons.

3 One, this is a global meltdown deleveraging, if
4 you will. So there is -- in prior downturns, when the
5 United States was suffering, places like Asia or Japan
6 were doing better. So you had outlets to get capital.

7 Today, there are no outlets to get capital. We
8 are hopeful that will change over time. That is
9 probably the primary reason.

10 Two, there has been, I think, just a major
11 deleveraging and I have talked to folks all over our
12 investing world.

13 What we are hearing is it has just been a
14 massive global 35 percent give or take deleveraging. So
15 I tell people if you were worth \$1 yesterday, you are
16 probably worth 65 cents today. If you are lucky, it is
17 25 percent; and if you are not that fortunate, it is 45
18 cents. It is something along those lines.

19 The ramifications of having a deleveraging of
20 our economies worldwide, I'm not sure everyone
21 understands and I don't certainly have all of the
22 answers but do understand what that means and what it is
23 going to be.

24 If you have a real estate property and you
25 finance 70 percent of it, yesterday; and today, you

1 really have no equity or you have heard from other
2 Applicants, if you are under construction today and you
3 had a budget of X dollars and because of deleveraging,
4 your debt exceeds your equity. The lenders are very
5 hesitant to do rational things.

6 Finally, I think it will change, but there
7 really are no rules in the capital markets with lenders
8 today. Who would have ever thought that institutions
9 like Wachovia, Merrill Lynch, and I could go on and on,
10 would suffer like they did.

11 I sympathize with the decisions that this Board
12 has to make. As I said to you when I was before you,
13 this will be the only commercial, if you will, from
14 myself and my partners. I came before you before.

15 I have a history of success, some failures but
16 primarily mostly successes in what I have accomplished.
17 We were before this Board last year with the Pittsburgh
18 gaming situation. We went out and secured over \$700
19 million of funding.

20 The financial markets were bad but certainly
21 not as bad as they are today. We were able to
22 accomplish that in a short period of time. That project
23 is on time and hopefully, will open in August.
24 Everything seems good.

25 I have been in front of this Board now for

1 about a year and a half on the Valley Forge license.
2 Even in this economy, we have a highly confident from
3 the lender you heard about from my partner.

4 Frankly, we even have a backup, where we are
5 talking with a national gaming organization that would
6 like to come in and invest up to a third of the
7 ownership and secure the debt for us.

8 I think it speaks to a couple of things for us.
9 One, I have been in this business many, many years,
10 although I haven't seen what I am seeing these days, I
11 have been around these kinds of situations.

12 Two, the project itself is a world-class
13 project and can create jobs and revenue for the
14 Commonwealth.

15 Third, and probably the thing we underestimate
16 and don't articulate enough is that I think of all of
17 the Applicants you have, we are near the top of being
18 able to open the facility from the time you would be
19 gracious enough to grant us the license.

20 Finally, I would just ask, I am licensed in
21 front of this Board. I would just ask if you find your
22 way clear of awarding us a license, please don't give us
23 a three-month, six-month, or one-year because it sends
24 the wrong message to the capital markets.

25 If we are not doing our job, you can certainly

1 bring us back before this Board and make an alternative
2 decision to say we no longer want to work with you if we
3 are not successful.

4 But having our, you know, what I will call our
5 hands tied behind our back in negotiating with financial
6 institutions where they will know if it is a three-month
7 or six-month, or nine-month window to secure financing,
8 they may take us the whole way up.

9 In fact, the second option we have, have
10 already asked in writing to only negotiate with them on
11 an exclusive basis for 90 days. We have that letter in
12 our possession. We have not signed this letter.

13 If this Board says yes, we are going to approve
14 you, but you have 30 days, 60 days, 90 days, a year and
15 I go down to the 11th hour with a potential partner
16 financier, the opportunity could not work well for me,
17 for my partners or for the Board or the Commonwealth.

18 I would just ask if you would give that
19 consideration. Thank you very much.

20 MR. QUAGLIA: Mr. King has one point on which
21 to elucidate.

22 MR. KING: And just to follow-up on what
23 Mr. Lubert testified to and this also comes out of some
24 discussions with staff on sort of putting a condition on
25 any license which could be granted, we just point out

1 that ordinarily, when this Board makes a decision of
2 licensure, the first step is to decide to grant or award
3 a license.

4 That license is actually not issued until the
5 various conditions, which are attached to that award,
6 are satisfied.

7 I think that is an important point which is
8 that with respect to financing, which often is included
9 as a condition, that is where the Board can build in,
10 obviously, the requirement that permanent financing be
11 in place before issuance.

12 I understand -- I think everybody in this room
13 understands that this Board does not want to be put in a
14 position where it would grant or award a license and
15 then ultimately have the recipient not be able to follow
16 through because of financing.

17 I think we have tried to put in front of you
18 testimony and evidence to suggest that this is a very
19 strong project, a very strong team that has shown that
20 it can get financing and move forward.

21 In fact, once that financing is in place,
22 because we actually have our hotels and our convention
23 center and resort facility in place, we can move very
24 quickly and be up and running and generating jobs and
25 revenue for the Commonwealth.

1 I think that we all have to acknowledge that
2 the Commonwealth, gaming industry in the Commonwealth,
3 the Board, and the Applicants are all subject to what is
4 going on in the financial markets.

5 It is an awful situation that affects every
6 aspect of our society. We are not immune from that. I
7 don't think that if the Board takes the proper prudent
8 steps to protect itself, if in my estimation, the very
9 unlikely chance we are not able to get financing, if the
10 Board had to take this license back, that would
11 obviously be what it would have to do; but given the
12 history of the Category 3 licenses, you have had two
13 Applicants, who applied back originally, who withdrew.

14 You had four Applicants, who then applied for
15 those -- again, for the two licenses, two withdrew. You
16 have us and the other Applicant in front of you.

17 I guess what we are saying to you today is we
18 are ready to go, and we have a good track record. We
19 know we will be able to get financing and move forward.

20 MR. QUAGLIA: With that, Your Honor, we'll open
21 the floor to questions.

22 CHAIRMAN DiGIACOMO COLINS: Well, let me ask
23 Chief Enforcement Counsel to inquire. Then when you are
24 finished, I'll see if the Board has questions.

25 MR. MILLER: Thank you, Madame Chairman. I'm

1 Dale Miller, Deputy Chief Enforcement Counsel for the
2 Eastern Region. Good afternoon, Board. Good afternoon,
3 Mr. Lubert, Mr. Brandeis, and counsel.

4 I understand that Delaware Valley Real Estate
5 Investment Fund has recently issued a second letter as
6 of, I believe, January 29th reaffirming their highly
7 confident ability to obtain financing.

8 I note in the first letter Delaware Valley
9 stated that they were highly confident of their ability
10 to raise debt financing. It is in the bottom of Page 1
11 of that letter.

12 Then in the second letter, Delaware Valley
13 states that they are highly confident of the ability to
14 provide the debt financing.

15 Is that just a matter of semantics or is that a
16 real difference?

17 MR. BRANDEIS: I think it is a real difference.

18 MR. MILLER: Could you explain that, please?

19 MR. BRANDEIS: Sure. When they issued the
20 first letter in October and we talked about the size of
21 the transaction, etc., they talked about coinvestment
22 opportunities and what I mentioned earlier, the ULLICOs,
23 MEPTs, the other union-related investment companies.

24 Well, they have had time to further their
25 discussions with them and get additional comfort from

1 them and not only rate investing their own dollars that
2 they have control of but also in attracting the proper
3 coinvestors from some of those groups.

4 So I think they felt frankly more confident in
5 the fact that they could attract those coinvestors to
6 get us where we need to go.

7 MR. MILLER: So what you're saying, the outlook
8 for borrowing the money is even better today than it was
9 back in October; is that correct?

10 MR. BRANDEIS: Well, from an industry
11 perspective, absolutely not. It is worse. We have, I
12 think, had some time to spend more time with them. They
13 have had some opportunity to review the project further,
14 get more information, and then obviously discuss that
15 with some of these potential coinvestors.

16 I think they feel more confident that because
17 of the -- not only the -- how the numbers look from a
18 performance perspective but also the implications for
19 them as a union pension fund and other union pension
20 fund investors, what this means to them from a union
21 perspective, jobs perspective, etc.

22 MR. MILLER: Delaware Valley, I take it,
23 invests in things other than gaming; is that correct?

24 MR. BRANDEIS: Correct. They are a real estate
25 -- their focus is on real estate investments that center

1 around job creation.

2 MR. MILLER: How does the gaming industry
3 investments compare to those other investments to which
4 they participate? Is it more risky, less risky, and why
5 does Delaware Valley want to get into the gaming
6 business?

7 MR. BRANDEIS: They don't necessarily want to
8 be in the gaming business from a perspective of -- they
9 are more interested in the project as a whole.

10 Remember, we are talking about a 485-room hotel
11 and convention center, real estate that exists that has
12 a history.

13 So, part of the financing is senior debt
14 financing and the other part is construction financing
15 that will allow us to reposition and convert the project
16 into a gaming facility, as well as upgrade some of the
17 amenities and improve the hotel aspect of the project.

18 So they have done probably a half a dozen
19 hotels in the Philadelphia metropolitan area as an
20 investor partner to -- you know, if you are familiar
21 with the Crown Plaza behind the King of Prussia Mall,
22 that used to be a Holiday Inn, they were the dollars
23 behind that repositioning.

24 They just invested \$10 million in a hotel
25 project in -- near Penn State Great Valley campus, a

1 suite hotel that has just been reopened.

2 They are very, very hotel savvy investors.
3 They understand the hotel business. They understand the
4 value of this asset as it exists today and what the
5 potential is going forward.

6 MR. MILLER: I note that in the proposed term
7 sheet that you submitted back in October, you state that
8 Delaware Valley will retain a third-party construction
9 consultant at project cost.

10 Does that mean that you will, if you lend the
11 money, retain some sort of oversight of the construction
12 of the project?

13 MR. BRANDEIS: Clearly, as a lender, the lender
14 always has some construction oversight. What they mean
15 is that they are going to have a consultant that we have
16 to pay for in the project, that will review the
17 construction and when we apply for payment -- see, one
18 of the other benefits of this financing is a large
19 portion of it isn't given to us up front. They are
20 going to give it to us over time as we make the
21 improvements.

22 So every month or so, we will provide them with
23 what is called a payment application. It says, we need
24 \$10 million this month to pay for these five things.

25 What he is saying there is they are going to

1 have a consultant that works for them review those
2 payment applications to make sure that the \$10 million
3 we are asking for is for work that was actually done.

4 MR. MILLER: I note also in that same term
5 sheet, you state the closing of this loan will be
6 conditioned on a slot machine license and also
7 conditioned on an executed Double Tree Hotel finance
8 agreement. Has that finance agreement with Double Tree
9 Hotel -- franchise agreement --

10 MR. BRANDEIS: It is a franchise agreement.

11 MR. MILLER: Has that been consummated?

12 MR. BRANDEIS: It has not been consummated.

13 MR. MILLER: Is that a problem and do you
14 anticipate that will be a problem?

15 MR. BRANDEIS: No. In the hotel business, a
16 big part of your success is the franchise name you have
17 on your door. Some are better than others.

18 The Double Tree is part of the Hilton family of
19 hotels. I think if you ask hotel people, they will tell
20 you it is the first or second best hotel chain to be
21 involved with from a reservation perspective, driving
22 business not only in room, but meetings, corporate
23 business.

24 Going from a Radisson to a Hilton chain hotel
25 is a significant upgrade for our asset and will enable

1 us to significantly drive meetings business and rooms
2 business. So obviously, they want us to have that
3 Double Tree franchise agreement because part of the
4 value that we are going to create is going to be in that
5 franchise agreement.

6 MR. MILLER: So you are confident that that
7 agreement can be reached?

8 MR. LUBERT: If I might answer that. We have
9 already met with Double Tree on numerous occasions. We
10 have what is called a PIP agreement from Double Tree,
11 which says if we complete these different enhancements
12 to the asset over a period of time, then they will grant
13 us the Double Tree franchise.

14 We have actually already started commencing
15 Phase I of those improvements. We started that in the
16 fall of last year.

17 MR. MILLER: Thank you. Let me ask you this
18 also. Also on the term sheet, it states that the
19 investment structure will consist of a debt at 6.5
20 percent current interest with additional interest to be
21 determined at the time of closing. That was in October.

22 MR. LUBERT: Correct.

23 MR. MILLER: Is that 6.5 percent still the
24 interest rate that you anticipate being the, I guess,
25 minimum interest rate.

1 MR. BRANDEIS: Yes, sir, it is. The reason
2 there is a little bit of ambiguity there is because we
3 still need to determine and work with them what
4 ultimately the financial stack looks like; how much is
5 going to be senior debt, how much is going to be
6 mezzanine debt, etc.

7 So that is going to be priced based on what
8 that stack looks like and we are not far enough along
9 with them pending this license to make those
10 determinations.

11 MR. MILLER: Okay. One final question on the
12 term sheet, the term sheet states that the loan amount
13 is \$107,000, which seems to be a rather large -- I'm
14 sorry -- \$107 million, which seems to be a rather large
15 amount for the facility you are proposing.

16 Is that the amount of money that is actually
17 going to be borrowed or is there some real estate
18 involvement there that is going to reduce the amount of
19 the actual debt?

20 MR. LUBERT: The capital structure is a
21 combination of enhancements to the asset, as well as the
22 transfer to the hotel asset itself as we communicated
23 when with we came before the Board last year. The
24 structure of the transaction has not changed at all.

25 And just one other, if I could go back to your

1 Double Tree question on franchise, we are currently the
2 owner of Hilton Hotel in Charlotte, North Carolina. So
3 we have worked with the franchise or group for about, I
4 am guessing, this is a guess, it is at least over 12
5 years now we owned this Hilton Hotel. We have worked
6 with them and owned more than one Hilton Hotel. We have
7 worked with the franchise for many years.

8 MR. MILLER: Has Delaware Valley reviewed all
9 of the plans of the Valley Forge Convention Center here
10 in depth, and have you completed your due diligence
11 prior to issuing this letter that you are highly
12 confident you can raise the money?

13 MR. BRANDEIS: They have done, what we would
14 call, predue diligence or preliminary due diligence,
15 which is a review of our numbers, our proformas.

16 They have inspected the property in a
17 preliminary way. We have walked the property with them,
18 showed them the rooms, shown them the convention center,
19 and showed them our plans and specs for what the
20 redevelopment is going to look like.

21 We have done a fairly thorough review of them,
22 of the proforma, our assumptions, why we think they are
23 accurate and reasonable.

24 They have looked at the historical performance
25 of the hotel; and so, from that perspective, they have

1 had enough information and learned enough to provide
2 these letters.

3 Obviously, before we do any formal loan
4 documents, they are going to do more work including an
5 appraisal, a structural review, a physical review of the
6 project, just like any lender would.

7 MR. LUBERT: I just want to make sure we are
8 clearly articulating this. What they have done is very
9 normal in the process of any type of a loan transaction
10 in good/bad times or even if it were gaming or non
11 gaming.

12 I might add unless and until we have a license
13 granted, the amount of time and resources that a lender
14 puts into the due diligence of a project, the cost and
15 time of that is very extensive.

16 So what they obviously can't do is extend
17 resources on behalf of their pensioners and then find
18 out we don't have the ability to complete the
19 transaction with them because we failed to get the
20 license.

21 MR. MILLER: So some due diligence has been
22 completed but not all due diligence.

23 MR. LUBERT: That is absolutely correct; but
24 that is very consistent on what would happen in any
25 project, not just this project.

1 MR. MILLER: And I'll be brief here. My
2 understanding from counsel is that what you are asking
3 the Board to do is issue this license or award this
4 license on a conditional basis for 180 days, that is
5 what you said in your Petition. Mr. Lubert's testimony
6 seemed to soften or modify that proposal; is that
7 correct?

8 MR. LUBERT: That is correct. We would prefer
9 the Board --

10 MR. MILLER: What do you propose?

11 MR. LUBERT: We prefer the Board issue the
12 license and have whatever provisions they would have per
13 my attorney's comments about the license can be granted
14 but not issued until we perform the different
15 contingencies that you will put into that granting of
16 the license. One could be financing. I would prefer
17 not having a time frame tied to that, if possible, for
18 the reasons I have mentioned before.

19 MR. MILLER: So you want the Board to award a
20 license and then let the license sit and not be issued
21 while those conditions are worked out and the financing
22 is worked out and only when the financing is worked out
23 do you want the license to be issued? Is that your
24 position at this point?

25 MR. KING: Yes.

1 MR. MILLER: Okay. And the lenders, I am
2 assuming, have analyzed the projected revenue flow and
3 you are confident that that flow will take care of any
4 payments that will have to be made on the loan?

5 MR. BRANDEIS: Yes.

6 MR. MILLER: And you are confident today, as
7 you sit here, that that could be done?

8 MR. BRANDEIS: Yes. Very much so. We are
9 aware of other slot machine performance in the state,
10 out of the state. We have modeled accordingly in what
11 we feel is conservative.

12 MR. MILLER: That is all I have. Thank you.

13 CHAIRMAN DiGIACOMO COLINS: Any questions from
14 the Board?

15 Commissioner Ginty?

16 COMMISSIONER GINTY: A lot of my questions are
17 going to be very naive, I'm afraid. I'm looking at this
18 document, which is this highly confident letter and I'm
19 not sure what it is.

20 I mean, is it -- is it enforceable in any way?
21 I mean, this is, I'm sure, Financing 101. I'm just
22 really trying to understand what the process is here.

23 MR. LUBERT: Good question. Letters -- you
24 would consider this from your business background as a
25 nonbinding letter of intent; but I really again want to

1 emphasize, this is typical in most environments.

2 It is one thing to sit before this Board to say
3 we are in a tsunami; but when you go before a lender for
4 a project like this, they give all you a highly
5 confident letter, but they have the ability to find
6 reasons not to go forward if that is what they chose to
7 do.

8 There are obviously legal ramifications for
9 that. In this case, we have been with this lender for a
10 long period of time.

11 They have performed, what I consider to be,
12 honest effort due diligence and really want to go
13 forward with us.

14 Again, one of the reasons I keep going back to
15 the time frame, I want to have options for myself and
16 frankly, this Board. I have a second option now that I
17 would like to pursue.

18 The one way I feel highly confident that I can
19 get this deal done and financed is if I have more than
20 one option and I do have two options today. I feel very
21 good about that in this environment.

22 COMMISSIONER GINTY: Then let me ask the second
23 naive question. Could you get a commitment by the
24 lenders here subject to your getting a license? In
25 other words, the reverse of where you are right now?

1 MR. LUBERT: I don't know, but I would doubt
2 it. The reason I would doubt is for what I mentioned
3 before; the amount of time and money that they put into
4 the due diligence process, not knowing whether we would
5 ever get that license, I would think would be -- grounds
6 for them not to want to go forward.

7 COMMISSIONER GINTY: Is it ever done where the
8 borrower might advance the funds for the due diligence
9 that would go into such a commitment?

10 MR. LUBERT: I don't know if it is ever done.
11 I'm sure there has been an exception, but I would
12 suggest to you that it is not normally done.

13 COMMISSIONER GINTY: Just a couple of other
14 points. How many construction jobs? I forget what we
15 are talking about roughly.

16 MR. LUBERT: I think 350, that is a guess; 350
17 construction and 150 permanent.

18 COMMISSIONER GINTY: And these would be union
19 jobs?

20 MR. LUBERT: 500 total, yes.

21 COMMISSIONER GINTY: Out in the suburbs?

22 MR. LUBERT: Yes.

23 COMMISSIONER GINTY: One last question. When
24 did you file your application with the Board?

25 MR. LUBERT: End of June of 2007.

1 COMMISSIONER GINTY: Thank you. I have no
2 further questions.

3 CHAIRMAN DiGIACOMO COLINS: Commissioner Sojka?

4 COMMISSIONER SOJKA: Just a couple of very
5 quick ones. I was a little bit surprised when you
6 mentioned that you have been with this Del Valley Real
7 Estate Investment for a long time. That means just in
8 this negotiation, you have never done a project with
9 them before?

10 MR. LUBERT: No. That is correct.

11 COMMISSIONER SOJKA: Thank you. Again, just in
12 clarification of the size of the loan and the actual
13 Category 3 slot machine situation, again, could you just
14 reiterate a rough percentage of the money that is going
15 to go strictly to building the slots amenity as opposed
16 to the other improvements to the facility?

17 MR. BRANDEIS: The budgets we have today
18 reflect a little over \$44 million of capital
19 improvements, some of which is for gaming and some of
20 which is for other hotel amenities.

21 I think probably a third to a half of that
22 would be more on the gaming side, to construct the
23 gaming facility, acquire the machines, do the
24 surveillance, and all of the things we have to do. So
25 somewhere between 15 and \$20 million for the gaming.

1 COMMISSIONER SOJKA: And the rest will simply
2 have to do with --

3 MR. BRANDEIS: Correct. For example, the PIP
4 that Mr. Lubert mentioned earlier from Double Tree is
5 approximately \$11 million, to get the hotel to a spec
6 that Double Tree will say that you can put -- the Double
7 Tree flag can go on the hotel.

8 COMMISSIONER SOJKA: Thank you.

9 CHAIRMAN DiGIACOMO COLINS: Commissioner
10 Rivers?

11 COMMISSIONER RIVERS: No questions.

12 CHAIRMAN DiGIACOMO COLINS: Commissioner
13 McCabe?

14 COMMISSIONER McCABE: No questions.

15 CHAIRMAN DiGIACOMO COLINS: Commissioner Coy.

16 COMMISSIONER COY: Just one or two. The
17 Delaware Valley fund, is that what we are calling it, is
18 it regulated at all? Is it a regulated fund much like a
19 bank would be regulated?

20 MR. BRANDEIS: No, it is not. It is not an SEC
21 registered investment. They do do an annual audit,
22 obviously, for their investors but it is not regulated,
23 no.

24 COMMISSIONER COY: Right. And so the highly
25 confident letter from them is not an enforceable item

1 and it is not a commitment?

2 MR. BRANDEIS: Not a formal commitment. But
3 let me say this: They are very careful in issuing these
4 letters. They just don't throw them around like loose
5 paper.

6 COMMISSIONER COY: But you couldn't go back,
7 Mr. Lubert, or anyone couldn't go back to them next week
8 and say give me the money based on this, you have to?

9 MR. BRANDEIS: I think the next step is we go
10 back and say, hey, we got the license.

11 COMMISSIONER COY: Right.

12 MR. BRANDEIS: Let's go into Stage 3 of our
13 process and then we would talk about spending money;
14 appraisals, environmental, structural, etc., etc.

15 COMMISSIONER COY: I think we understand what
16 you are asking for. I just wanted to check on that.

17 MR. LUBERT: Can I just finish that if you
18 don't mind? Let's assume that might happen. I want to
19 make it very clear that the letter, as I stated before,
20 is not a binding letter; but we have a second option.
21 If that were to happen, Mr. Coy, we would go to the
22 second option.

23 COMMISSIONER COY: And I gather just from the
24 nature of your conversation so far, you are not prepared
25 to discuss that?

1 MR. KING: No. We will.

2 MR. LUBERT: We have a letter of intent from
3 Penn National Gaming to become a minority owner, to take
4 only the financing obligations. Again, it is a
5 nonbinding letter. They want a 90-day exclusivity
6 period to negotiate with us and not allow us to
7 negotiate with the lenders that we had first. That is
8 part of the terms.

9 COMMISSIONER COY: For 30 percent ownership?
10 Is that what you said?

11 MR. LUBERT: Up to 33. It could be zero to 33
12 is what their letter states. Again, and we have their
13 permission in writing to publicly -- I mean, this is a
14 public forum. They are a public company.

15 I really think it speaks to -- I want to just
16 go back and reemphasize. I know your fiduciary
17 obligation. There is job creation here and revenue for
18 the Commonwealth.

19 It speaks to the quality of the project when we
20 are sitting in this type of economic environment that we
21 have options that frankly we are not hearing that other
22 people have.

23 We have the options and it speaks to it and we
24 can get up and running quickly. My hope would be, and
25 this is why I keep emphasizing the lack of a time frame,

1 if we can negotiate in good faith, we can get the best
2 opportunity for the most profitability.

3 COMMISSIONER COY: Thank you.

4 Mr. Pitre or Mr. Miller, just a question, has
5 BIE or investigative folks completely and thoroughly
6 vetted this Delaware Valley Fund?

7 MR. PITRE: No, we haven't vetted the Delaware
8 Valley Fund as of yet. We would need something -- a
9 reason to vet them.

10 Right now, what Mr. Lubert is telling me, they
11 will definitely get the money from the Delaware Valley
12 Fund, we would have to identify the source of all of
13 that money once we received that information from them
14 but it is --

15 COMMISSIONER COY: But that has not been done?

16 MR. PITRE: That has not been done.

17 COMMISSIONER COY: Thank you.

18 CHAIRMAN DiGIACOMO COLINS: Commissioner
19 Angeli?

20 COMMISSIONER ANGELI: Just a question on the
21 follow-up on Commissioner Sojka's comment. The
22 percentage of the dollars that are going to the casino
23 floor itself is somewhere around 35 percent, roughly?

24 MR. LUBERT: I'm sorry?

25 COMMISSIONER ANGELI: The amount of dollars

1 that are going -- of the \$170 million, the amount of
2 money that is going to the casino floor, roughly around
3 30, 35 percent?

4 MR. BRANDEIS: Of the gross improvements? Yes.

5 COMMISSIONER ANGELI: Yes. To the casino
6 floor?

7 MR. BRANDEIS: Yes.

8 COMMISSIONER ANGELI: So that the remainder of
9 that is for all of the other -- the hotel structures and
10 all of the other things.

11 To service the debt, is it the revenue from the
12 500 slots that makes all of the rest of the project
13 viable or if you didn't have the 500 slot machines and
14 you borrowed \$75 million could you do the other project?

15 MR. BRANDEIS: Yes.

16 MR. LUBERT: We stated that the property last
17 year did a little under \$6 million without gaming.

18 COMMISSIONER ANGELI: Okay. And the investment
19 structure of the debt at six and a half percent, have
20 you figured out because that is not -- that is just
21 right now, in consideration, have you considered what
22 the level could be that you could sustain your project
23 if that percentage rate went up and went too high?

24 MR. BRANDEIS: Well, what we discussed with
25 them is a fixed rate piece of financing for the senior

1 debt portion, which the collateral is the hotel and the
2 convention center. It is real collateral, hard assets.

3 The additional pieces of debt that make up the
4 gross piece of debt will be priced accordingly based on
5 its position in the capital stack.

6 So six and a half percent would be the senior
7 debt and the other portions of debt would be a higher
8 rate.

9 COMMISSIONER ANGELI: Explain the senior debt
10 to me.

11 MR. BRANDEIS: Senior debt is a first mortgage.

12 COMMISSIONER ANGELI: Okay.

13 MR. BRANDEIS: So it has priority position.

14 COMMISSIONER ANGELI: That would be for the
15 whole \$107 million?

16 MR. BRANDEIS: No, it would not. It would be
17 for a portion of the 107 depending on what ultimately
18 the value of the asset comes back with via an appraisal
19 both on an as-is basis and a future value.

20 COMMISSIONER ANGELI: So that would be a fixed
21 six and a half percent? You know that?

22 MR. BRANDEIS: Correct.

23 MR. LUBERT: It is just a percentage of that
24 \$107 million we don't know. It could 80 percent of that
25 number, 70 percent of that number. That is what would

1 happen to the mass of due diligence they would do.

2 MR. BRANDEIS: And the revenue and that income
3 that supports that debt service is a combination of the
4 hotel income, operating income, and gaming income.

5 One clarification, Delaware Valley, in this
6 case, is a lender, senior lender and mezz lender. It is
7 not an equity investor or owner.

8 COMMISSIONER ANGELI: Thank you. No further
9 questions.

10 CHAIRMAN DiGIACOMO COLINS: All right. Thank
11 you.

12 COMMISSIONER GINTY: May I ask one more
13 question?

14 CHAIRMAN DiGIACOMO COLINS: Yes.

15 COMMISSIONER GINTY: Cyrus, would that make a
16 difference in terms of vetting Delaware Valley?

17 MR. PITRE: Yes, it would.

18 COMMISSIONER GINTY: In what respect?

19 MR. PITRE: Because as was pointed out, they
20 are not regulated. We have to verify who they are, what
21 they are, and where they get their money.

22 COMMISSIONER GINTY: The point -- and I thought
23 you were making this point relative to the vetting
24 process. Was that your intent?

25 MR. BRANDEIS: I wanted to make clear what the

1 structure of their capital is. It is not equity. It is
2 debt. So if that means a difference -- different
3 position or vetting, I don't know the answer to that.

4 COMMISSIONER GINTY: And Cyrus, I heard you say
5 it does make a difference.

6 MR. PITRE: It does. We still have to look at
7 them. We are still going to have to go through the
8 process.

9 COMMISSIONER GINTY: Okay.

10 MR. PITRE: I do have a question. The letter
11 of intent with Penn National, since that was brought up,
12 how long is that good for?

13 MR. KING: It does not have an expiration.

14 MR. PITRE: No expiration? Okay.

15 CHAIRMAN DiGIACOMO COLINS: Before we hear from
16 the other Applicant, I need to have a very short recess
17 with the Board. We will be back in five minutes.

18 (Break.)

19 CHAIRMAN DiGIACOMO COLINS: Everyone, thank you
20 for your indulgence. We had to break for a moment.

21 Mr. King wants to place a matter on the record
22 and then we will go to the next Applicant.

23 Mr. King?

24 MR. KING: Yes. Thank you, Madame Chairman.

25 With respect to DVREIF and we will submit something in

1 writing. I think it is important to note, DVREIF
2 effectively serves as an investment advisor for a group
3 of union pension funds --

4 COMMISSIONER COY: This is the Delaware --

5 MR. KING: Delaware Valley Real Estate
6 Investment Fund. I apologize. Serves, again, as an
7 investment advisor for a group of union pension funds;
8 but importantly, I want to state, those union pension
9 funds are Taft Hartley funds. They are regulated.

10 We will submit some additional information on
11 that, but I think that is a very important point that I
12 wanted to put onto the record.

13 CHAIRMAN DiGIACOMO COLINS: Okay. Thank you
14 very much. Very good.

15 And now the Bushkill Group, please.

16 Good afternoon.

17 MS. JONES: Marie Jones from Fox Rothschild
18 here on behalf of the Bushkill Group. The Bushkill
19 Group would, first, like to thank the Board for giving
20 them the opportunity to provide you with this update
21 regarding the financing for the project.

22 We provided a written submission. I would like
23 to briefly summarize for it for you.

24 Bushkill is committed to the project and
25 continues to believe this is a great project for both

1 the Commonwealth and them.

2 They continued to work with CIT Lending
3 Corporation and its affiliates, the CIT Capital
4 Securities, LLC, to raise the capital necessary for the
5 project.

6 At our October 23rd hearing, you heard from
7 Steven Reedy from CIT and he testified that he was
8 confident in CIT's ability to fund the project and was
9 confident in the proposed plan for the Bushkill
10 facility.

11 Mr. Reedy has provided a letter dated February
12 2nd, which is attached to Bushkill's written submission
13 indicating that CIT and CIT Capital Securities remain
14 confident in the prospects for success of the Category 3
15 license at Bushkill and are highly confident that a
16 conditional award of a Category 3 license will enhance
17 CIT's ability to complete the financing for this
18 project.

19 With the current economic conditions, it would
20 be very difficult and costly for Bushkill to obtain
21 committed financing prior to the granting of a license.

22 Once the lenders know that the license has been
23 conditionally approved, it is much easier for them to
24 commit the financing for the project and the cost to
25 Bushkill significantly reduces.

1 As we are all well aware, the economic
2 conditions have changed significantly since the
3 applications were filed in June 2007.

4 Had Bushkill obtained a term sheet or financing
5 commitment at the time of the filing of the application,
6 it would have likely expired prior to the Eligibility
7 Hearings in October of '07 and definitely before the
8 Suitability Hearings in October of '08.

9 In July of '08, Bushkill obtained a senior
10 secured credit facility proposal letter when it was
11 advised that all supplements to applications had to be
12 filed by July 15th and that the Suitability Hearings
13 were tentatively scheduled for sometime in '08.

14 At the time that Bushkill obtained the proposal
15 letter and the term sheet, it cost them \$200,000
16 approximately. That is a significant cost for a company
17 the size of Bushkill.

18 Had Bushkill moved forward and obtained
19 committed financing at that time, it would have cost
20 significantly more than the \$200,000 than the term sheet
21 cost and it is estimated it would have cost
22 approximately 2 percent of the financing cost for the
23 project, which is approximately \$65 million.

24 While we understand the Board's concern, it is
25 difficult in this current financial market to obtain

1 financing without at least conditional approval, and the
2 commitment fee once we receive that conditional approval
3 would significantly decrease, which would benefit both
4 us and the Commonwealth because we would be able to move
5 forward quickly with this financing and the project once
6 we have a license.

7 Bushkill respectfully suggests that the Board
8 consider approval of the Category 3 license conditioned
9 upon the entity obtaining a financing commitment within
10 180 days of the approval.

11 CIT has indicated in their letter that this
12 would enhance their ability to obtain committed
13 financing for the project.

14 I would be happy to address any questions you
15 may have.

16 CHAIRMAN DiGIACOMO COLINS: Chief Enforcement
17 Counsel, do you have any questions?

18 MR. MILLER: CIT has been involved in gaming
19 before, correct?

20 MS. JONES: That is correct.

21 MR. MILLER: In fact, they are involved in
22 gaming in Pennsylvania, correct?

23 MS. JONES: That is correct.

24 MR. MILLER: So they are familiar with the
25 revenue projections and flow and that sort of thing,

1 correct?

2 MS. JONES: Correct.

3 MR. MILLER: And have you discussed with them
4 that they are confident that the revenue projections
5 will be sufficient to pay any of the debt that is
6 incurred?

7 MS. JONES: Yes. The Bushkill Group has been
8 moving forward with CIT with due diligence and --
9 actually CIT was here at the October 23rd hearings --
10 had previously seen but saw the same thing as the Board
11 did with respect to revenue projections.

12 MR. MILLER: Has CIT performed their due
13 diligence or started performing their due diligence?

14 MS. JONES: They have started.

15 MR. MILLER: But they are not complete yet?

16 MS. JONES: That is correct.

17 MR. MILLER: And your proposal is that the
18 Board issue a conditional license and that those
19 conditions exist for 180 days? Is that still your
20 proposal?

21 MS. JONES: That is still Bushkill's, and CIT
22 is confident that they could finalize it within that
23 time period. I spoke to them.

24 I heard Mr. Lubert's testimony; and while an
25 open-ended time frame would be better, we are still

1 willing to work within 180-day timeframe.

2 MR. MILLER: That is all we have. Thank you.

3 CHAIRMAN DiGIACOMO COLINS: Commissioner Ginty?

4 COMMISSIONER GINTY: Mr. Lubert indicated that
5 by putting a date certain on a condition, you are very
6 much at a disadvantage in negotiating the price of the
7 loan. Do you agree with that?

8 MS. JONES: I will defer to Mr. Lubert's
9 experience on that. However, the Bushkill Group and CIT
10 are confident that they can within that 180-day time
11 frame come back to you with a more significant or a
12 substantial package, if a conditional license is
13 awarded.

14 COMMISSIONER GINTY: And you don't -- and
15 again, if you were to get a commitment letter from them
16 conditioned on the license that would be 2 percent --
17 you think 2 percent?

18 MS. JONES: Yes. They were estimating
19 approximately \$12 million it would cost them and that
20 would have been in October prior to the hearing and that
21 commitment would have expired within 60 days, which is
22 prior to us sitting here today.

23 COMMISSIONER GINTY: Thank you.

24 CHAIRMAN DiGIACOMO COLINS: Commissioner Sojka?

25 COMMISSIONER SOJKA: No questions.

1 CHAIRMAN DiGIACOMO COLINS: Commissioner
2 Rivers?

3 COMMISSIONER RIVERS: No questions.

4 CHAIRMAN DiGIACOMO COLINS: Commissioner
5 McCabe?

6 COMMISSIONER McCABE: No questions.

7 CHAIRMAN DiGIACOMO COLINS: Commissioner Coy?

8 COMMISSIONER COY: Just one or two.

9 Miss Jones, I'm curious about your opinion. I
10 guess I could ask Mr. King or someone else from Ballard
11 if they have an opinion also.

12 I'm curious to know what your opinion is if the
13 Board would issue the conditional license and if either
14 Applicant would fail, in your case, to get the
15 successful financing within 180 days, what do you
16 believe the status of the application would be then?

17 MS. JONES: Well, at that point, we would need
18 to come back to the Board and address it via Petition
19 and either say to the Board at that time, we are at X
20 and we believe we could be done by Y or in the
21 alternative say to the Board, it would be at your
22 discretion, obviously, whether you would take that
23 conditional approval away from us or allow us to
24 continue with our efforts.

25 COMMISSIONER COY: But it would require Board

1 action?

2 MS. JONES: It would require Board action.

3 COMMISSIONER COY: In any case?

4 MS. JONES: Yes.

5 COMMISSIONER ANGELI: Is there a representative
6 from CIT here?

7 MS. JONES: No, there is not.

8 COMMISSIONER ANGELI: I'm just curious as to --
9 and when we see the situation with the other Applicant,
10 too, everyone says I'll give you the financing if you
11 get the license or I will consider giving you the
12 financing when you get the license.

13 Why we can't get some kind of commitment that
14 says, this is a commitment that the financing is in
15 place at this percentage; and when you get the license,
16 we just move forward.

17 Everything seems to be conditional on us giving
18 the license, and then we're going to think about it
19 because we have this temporary conditional license that
20 we gave you. Why isn't it more firm?

21 MS. JONES: It is more firm for us to have the
22 conditional approval and then go to the market because
23 we actually have overcome one of the major hurdles and
24 that is to have this license to be able to put the slot
25 machines in there.

1 We're requesting half of what we are looking
2 for financing for that, for the installation and the
3 build out for that facility.

4 If we do it in the reverse, prior markets, it
5 could have been done much easier. In this market, it
6 would be expensive. The investors are not as ready to
7 take that chance.

8 COMMISSIONER ANGELI: There is no chance
9 because if you don't get the license then they can walk
10 away from the deal, right?

11 MS. JONES: There is the expense of them
12 working with us. They are expending funds and working
13 to get it. So there is -- they are putting out effort.
14 They want to see that we actually have a conditional
15 license that we can move forward.

16 COMMISSIONER ANGELI: Okay. From the
17 standpoint of an interest rate, I didn't see anything
18 that gave a projection as to what the ceiling is on
19 something?

20 MS. JONES: At this time, they have not
21 finalized it. They are still negotiating it.

22 COMMISSIONER ANGELI: Okay. Thank you very
23 much.

24 CHAIRMAN DiGIACOMO COLINS: If the potential
25 arrangements with CIT do not -- if they fall through, is

1 there a fallback position at this point?

2 MS. JONES: There are various entities that we
3 are discussing possible financing with.

4 CHAIRMAN DiGIACOMO COLINS: Mr. Pitre, has CIT
5 been vetted?

6 MR. PITRE: No, CIT has not been vetted. I
7 would note that they are a subsidiary of a commercial
8 bank holding company, but CIT itself would have to be at
9 least looked at by our forensic accountants.

10 MS. JONES: Chairman Colins?

11 CHAIRMAN DiGIACOMO COLINS: Yes.

12 MS. JONES: They actually have made loans to
13 the Meadows, Philadelphia Park, Mohegan Sun, and Presque
14 Isle already. They have been in your system.

15 MR. PITRE: We haven't verified the sources for
16 this particular process, but they have gone through the
17 process before.

18 CHAIRMAN DiGIACOMO COLINS: Okay. Good.

19 COMMISSIONER GINTY: Let me follow up with
20 that. You have to vet -- this is for Cyrus. You would
21 not necessarily have to vet CIT here; but as they get
22 loans from others, you would have to go and vet those
23 lenders as well?

24 MR. PITRE: It is not so much of a vetting as
25 verifying the source of the funds and verifying where

1 the funds are coming from, that those places where the
2 money is coming from are all legitimate sources, and
3 that the money actually exists.

4 CHAIRMAN DiGIACOMO COLINS: All right. If
5 there are no further questions, any testimony, anything
6 else?

7 MS. JONES: No.

8 CHAIRMAN DiGIACOMO COLINS: Very good.

9 COMMISSIONER GINTY: Madame Chairman, I just
10 note that both cases, Bushkill and Valley Forge, the
11 applications have been -- were filed in the summer of
12 2007.

13 I'm not sure where things are going to come
14 down, but I would like to see them put back on the next
15 agenda.

16 CHAIRMAN DiGIACOMO COLINS: Well, I would -- I
17 will do that and I would like -- what I would like to
18 do, though, is to provide the Applicants with an
19 opportunity to provide any additional information should
20 they be able to obtain it on this issue.

21 I'm going to leave the record open and then
22 we'll put it on the agenda for the next meeting. I
23 believe that is February 20th. All right. Thank you
24 very much.

25 (The hearing concluded at 1:24 p.m.)

1 I hereby certify that the proceedings and
2 evidence are contained fully and accurately in the notes
3 taken by me on the within proceedings and that this is a
4 correct transcript of the same.

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Hillary M. Hazlett, Reporter
Notary Public

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