

Pennsylvania Gaming Control Board Overview of Loan Repayment

Overview of the Act

The original Pennsylvania Race Horse Development and Gaming Act (“the Act”), as passed in 2004, provided for a total appropriation of \$36.1 million for the fiscal years 2004 – 2006 from the General Fund. This funding, which is characterized as a loan from the General Fund, was for start-up operational costs of the Pennsylvania Gaming Control Board (“PGCB”), and the regulatory operations for gaming through the Department of Revenue (“DOR”) and the Pennsylvania State Police (“PSP”). According to section 1901 of the Act, this funding is to be repaid once all of the licenses are issued and all facilities began operation.

The Act also established an agency funding mechanism for ongoing gaming oversight of the industry as casinos commenced operations. Sections 1401 and 1402 of the Act provide, in part, that the costs and expenses of the PGCB and related agencies (DOR, PSP and Office of Attorney General) which have statutory responsibilities relating to gaming are to be paid for by each licensee from escrow accounts established and maintained within the State Treasury for each licensee. These accounts are referred to as “1401 accounts.”

Since few casino facilities were in operation by the start of fiscal year 2007 – 2008, complete funding from the industry through the 1401 accounts was not feasible, as it would place an extraordinarily heavy financial burden on only a few market participants. Therefore, subsequent loans were required for the fiscal years 2007 – 2010¹ to fund PGCB operations. As a result, approximately \$63.8 million was borrowed from the Property Tax Relief Reserve Fund for these fiscal years to fund the PGCB’s operational costs. The DOR, PSP and Office of the Attorney General received funding during these periods from the 1401 accounts by existing operational casino facilities.

Changes to the Fiscal Code

During the summer of 2010, amendments to the Fiscal Code were passed, which mandated that the Board, after consultation with licensed entities, establish a schedule governing the repayment of the loans by licensed gaming entities no later than June 30, 2011. These provisions also called for repayment of the loans to begin when at least eleven slot machine licenses have been issued and eleven

¹ The 2006 – 2007 fiscal year was funded through a surplus left over from unused funds from the initial appropriation.

licensed gaming entities have commenced operations of slot machines. While the repayment of the initial \$36.1 million in appropriations continues to be deferred until all licensees have begun operations, the repayment start date for the subsequent loans has been established to coincide with the next licensed gaming entity to begin operations, as ten facilities are currently operational.

The legislative provision for the establishment of a repayment schedule mandates that the repayment schedule must, at a minimum: (1) set forth the frequency of the payments (quarterly, semi-annually, or annually); (2) assess the cost of repayment in an amount that is proportional to each slot machine licensee's gross terminal revenue ("GTR"); and (3) result in full repayment not earlier than five years, but not more than ten years following commencement of the loan repayments. Notably, the Fiscal Code is silent on which time period the GTR should be assessed, which could be historical from the opening of each facility or based upon prospective assessments. Also important, the loan payments must commence at any point after the eleventh facility opens and once the repayments begin, the loans must be paid in full within ten years.

Input from the Industry

At the December 7, 2010 Industry Meeting, the PGCB requested that the facilities provide their input regarding repayment options based on the changes in the Fiscal Code, including when the loans will begin repayment: either on the day the eleventh facility opens or at some point subsequent to that day.

The PGCB received letters and documents from seven of the ten currently operating casinos, as well as from Valley Forge Convention Center ("Valley Forge"), which has been awarded a Category 3 license but which is pending appeal before the Pennsylvania Supreme Court. Specifically, the following facilities: Mohegan Sun at Downs ("Mohegan Sun"); the Parx Casino ("Parx"); Harrah's Chester ("Harrah's"); Hollywood Casino at Penn National ("Hollywood"); Sands Bethlehem Resort ("Sands"); the Rivers; Sugarhouse; and Valley Forge have provided input. No response from Presque Isle Downs, the Meadows or Mt. Airy was received.

A copy of each repayment proposal letter is attached.



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Re: Loan Repayment Submission

Dear Doug:

This letter is being jointly submitted on behalf of Downs Racing, L.P. t/b/a Mohegan Sun at Pocono Downs ("MSPD") and Greenwood Gaming and Entertainment, Inc. d/b/a Parx Casino ("Parx") in response to the Board's directive at the December 7, 2010 Industry Meeting. At that Meeting, Board representatives circulated materials and conducted an open discussion of loan repayment issues, pertaining to loans which have been made in order to defer the payment of administrative costs and expenses of the Board and other gaming agencies by licensed gaming entities. At the December 7 Meeting, the Board identified three open issues which will be determined by the Board in the future, as follows:

- 1) The frequency of the payments;
- 2) Whether the payments in proportion to GTR are based upon GTR from opening of each facility to the June 31, 2011 date or upon the last year, quarter or on a periodic basis moving forward;
- 3) Whether the payments begin on the first day the eleventh licensed facility opens or at a later date after the eleventh facility has established a period of GTR; and
- 4) The length over which the payments will be repaid.

The Board directed that industry input on these four issues be submitted in the form of a letter to you by no later than January 28, 2011. This correspondence is submitted jointly by MSPD and Parx in response to this directive.

I. INTRODUCTION

MSPD and Parx were the first two licensed gaming facilities in the Commonwealth to open for business in November and December of 2006, respectively. Accordingly, MSPD and Parx have an acute interest in these issues and, in particular, the issue of how the pro rata share of Gross Terminal Revenue (“GTR”) is calculated for loan repayment allocation purposes. Simply put, because they have been open the longest, they have the most at stake.

Since they have been operating for the longest period of time, MSPD and Parx bring a unique perspective to this debate, having been involved in the development of loan repayment issues, along with Harrah’s Chester Downs,¹ as described below, since the very onset from both an administrative and legislative perspective. The gist of the matter is that the loan program was designed and intended to protect the early opening casinos from being penalized for commencing operations early, by assuring that a critical mass of gaming facilities shared equally in a proportion of these regulatory loan obligations, whether or not these obligations were incurred prior to when a given facility opened for business.

While others coming later to the game may try to re-invent the purpose of deferral of administrative cost repayment through the loan program, the Board should resist such attempts and recognize the loan program in the context of the purpose for which it was developed and intended to be implemented. That purpose being to benefit and provide an incentive for the gaming facilities that opened early and started providing tax revenue for the Commonwealth, rather than as a penalty (through a larger proportionate share of the repayment obligation), as later opening casinos will undoubtedly promote.

II. BACKGROUND

This background is extensive, but important to understanding and properly deciding the issues at hand. When the original Pennsylvania Race Horse Development and Gaming Act (“Gaming Act”) was signed into law in July of 2004, it contained a system under which slot machine licensees would be responsible for payment of the regulatory costs incurred by four state agencies – the Board, the Department of Revenue (“DOR”), the Pennsylvania State Police (“PSP”), and the Attorney General’s Office (“AG”) (jointly “Gaming Agencies”). Under this system, as established by Section 1401 of the Gaming Act, each slot machine licensee was required to deposit \$5 million into a designated

¹ Harrah’s Chester Downs opened shortly thereafter in January of 2007.

account with the State Treasury (“1401 Account”).² Under Section 1402, DOR is authorized to establish regulatory assessments and the assessment amounts are then to be deducted from and transferred to the appropriate Gaming Agency. Upon drawdown of a 1401 account, licensees were then required to replenish the account to \$5 million.

The original Gaming Act also made an initial appropriation to the Gaming Agencies in a total amount equal to \$36.1 million. Under Section 1901 of the Gaming Act, this was a two year appropriation that was funded by a loan from the General Fund which was to be repaid to the General Fund on a quarterly basis commencing with the date slot machine licensees began operating slot machines. Under Section 1402, sums necessary to repay loans from the General Fund could also be deducted from the 1401 Accounts. However, under Section 1402(b), the Board was given discretion to defer assessing slot machine licensees for loan repayment until all licensed gaming entities had opened for business. The original Act contained no guidance on how the loan repayment obligation should be allocated between gaming facilities.

Over the period from 2004 until the end of 2006, the Board was formed, slot machine licenses were awarded and issued, hundreds of pages of temporary regulations were promulgated, a central computer system was bid, selected and constructed (all to the benefit of all licensees) and industry business plans were developed. As the fall of 2006 came around, it became clear that there would be a very large and growing time gap between the opening of initial gaming facilities and later gaming facilities. On one hand, this was due to the ability of three racetracks, MSPD, Parx and the Meadows, to quickly open temporary facilities, and, on the other hand, this was also due to delays caused by a wide variety of factors affecting other projects.

In the fall of 2006, MSPD announced that it would open the first Pennsylvania gaming facility in November of 2006, Parx (then Philadelphia Park) announced that it would open its doors in December of 2006 and Harrah’s announced that it would commence operations in January of 2007. It became a growing concern of these facilities, that because they would have to soon establish 1401 accounts, they would have to entirely fund the gaming regulatory system at an enormous cost until a critical mass of other gaming facilities opened at some unknown point in the future, despite the fact that the regulatory system that was being developed was to the benefit of both existing and future gaming facilities.³ This problem was exacerbated by the fact that the original \$36.1

² The deposit amount was reduced to \$1.5 million for Category 1 and Category 2 and \$1 million for Category 3 licensees by Act 1 of 2010.

³ The concerns of MSPD and Parx were expanded further by some initial discussions with the Gaming Board Staff and then Executive Director Neeb in which it was insisted that DOR in conjunction with the Board was prepared to implement an assessment rate on the 1401 Accounts of 5% of Gross

million loan would also come due unless the Board exercised its discretion under Section 1901 to defer this repayment obligation.

MSPD and Parx turned to the General Assembly for a solution, which at the time was considering an amendment package to the Gaming Act in the form of SB 862 of 2006. That legislation was enacted on November 1, 2006. Of relevance here, SB 862: (1) added Section 1901.1 of the Gaming Act which made deferral of all regulatory cost loan repayment obligations mandatory, rather than discretionary, broadened the deferral language until all licensed facilities were operational to apply to all loans to the state gaming fund rather than just loans from the General Fund, and adopted a system of allocation of loan repayment obligations between licenses that "assesses to each slot machine licensee costs for repayment of any such loans in an amount that is proportional to each slot machine licensee's gross terminal revenue;" and (2) required future budgets of the Gaming Agencies to be formally appropriated rather than just being subject to Board approval.

Following the passage of SB 862 and during the period of the initial casino openings, MSPD and Parx entered into a series of discussions with Board and DOR representatives and members of the General Assembly in an attempt to resolve the Board's short-term funding problems⁴ and develop a system of 1401 Account assessments that was fair, equitable and economically reasonable.⁵ Ultimately, these discussions led to a funding system that has largely survived to this day.

The system that was developed contained the following elements:

- The Board would direct bill licensees for Board regulatory costs that were directly assignable to a given facility.
- A loan of \$800,000 was drawn from each 1401 Account to be recovered when all gaming facilities were up and running.

Terminal Revenue ("GTR") -- an assessment rate that would have made gaming operations in Pennsylvania unsustainable from a business perspective.

⁴ At the time, the Board's original appropriation funded by the initial \$36.1 million loan had been almost entirely expended and the Board required immediate short term funding to finance day to day operations.

⁵ In May of 2007, DOR provided notification that at the beginning of 2007-08 fiscal year, there would be an adjustment to also withdraw from the 1401 Accounts the costs of the PSP that were directly assignable to an individual facility. MSPD and Parx are uncertain as to what extent this was ever implemented.

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- The 1401 Accounts would be assessed on an ongoing basis at an assessment rate of 1.5% of GTR (including promotional play).
- The remaining operating costs would be funded by annual loans from the General Fund or another source to be paid back when all or a critical mass of facilities was opened for business, with repayment allocated in proportion to the relative GTR of a given facility.

This consensus program was announced by an industry letter from the Department of Revenue in late January 2007 and was discussed extensively at a meeting of the Senate Committee on Community, Economic and Recreational Development held on January 30, 2007. At that Committee hearing, then Board Chairman Decker addressed the 1401 Accounts, the first \$36.1 million loan, and the allocation of the loan repayment obligation in the following excerpt from his testimony.

The Act provides the creation of what are generally described as § 1401 accounts. Again, the 1401 accounts are to be used to meet the funding needs of the four agencies. Unfortunately, while the Act required the awarding of all licenses at the same time, it could not account for the staggered start up of the individual facilities. At this time, three facilities [MSPD, Philadelphia Park, and Harrah's Chester] are open for business and are doing well. However, is it fair to require only these three facilities to fund the operations of four regulatory bodies while the remaining facilities come on line?

What this amounts to is a question of fairness.

Prepared Testimony of Tad Decker, January 30, 2007 Senate Community, Economic and Recreational Development Committee Meeting at 12.⁶

Read in the context of his testimony, Chairman Decker's remarks provide an accurate and concise statement of the reason behind the initial \$36.1 million loan and S.B. 862's proportion of GTR repayment obligation scheme. That reason being to assure that the casinos which opened early were not assigned the entire loan repayment obligation during the period until other casinos came on line by requiring that later opening casinos

⁶ These remarks were made in the context of describing the rationale behind the initial \$36.1 million loan, SB 862's proportion of GTR repayment obligation scheme, as well as (at that time) potential future regulatory cost loans. A complete copy of then Chairman Decker's testimony is attached hereto as Exhibit "A."

shared in the funding of the Gaming Agencies during the period before they opened for business. As Chairman Decker put it, and as will be addressed further below, it was then and is now a question of fairness. In the discussion that followed that day, several members of the Committee indicated agreement with the Chairman's comments, and no one indicated any disagreement or objection.

As a result of the development of this regulatory cost recovery scheme, and as formally implemented by a January 29, 2007, letter from DOR and the Board to licensees, there was an initial \$800,000 drawdown from the three active 1401 Accounts. Furthermore, DOR commenced drawdowns on a periodic basis at a rate of 1.5% of GTR retroactive to the licensee's opening.⁷

Also starting around this time, MSPD and Philadelphia Park began receiving and paying frequent invoices from the Board, including from individual bureaus, for recovery of direct costs which were deemed directly assignable to them, consistent with the above described scheme. As discussed below, these direct billings are substantial and the associated revenues are then deducted from the total amount of the appropriated budget to be funded by the 1401 Accounts and regulatory cost loans.

Finally, consistent with this regulatory cost recovery scheme, during the legislative budgetary process in each fiscal year starting in the 2007-2008 fiscal year, and continuing through the 2009-2010 fiscal year, the General Assembly provided regulatory cost loans to defer licensee cost recovery through the annual Fiscal Code Amendment. Each Fiscal Code Amendment, starting with H.B. No. 1295 of 2007, superseded Section 1901.1 of the Gaming Act and shared the following common characteristics:⁸

1. A loan was provided from the Property Tax Relief Fund to cover the amount necessary to fund the outstanding costs (after costs directly billed to licensees are accounted for) for the budget appropriated to the PGCB. It is MSPD's and Parx's understanding that the decision was made to fund outstanding PGCB appropriated costs only and to require funding of the other three Gaming Agencies directly from the 1401 Accounts, because the Board's outstanding costs closely equated on an annual basis to 1.5% of GTR -- the drawdown rate that had generally been agreed to in developing the regulatory cost recovery scheme. Accordingly, the legislative decision to have the loan monies directed to one agency was driven by a desire to maintain the 1.5% drawdown rate which had previously been agreed to.

⁷ This regulatory cost recovery scheme was generally finalized by DOR through final regulations promulgated on July 21, 2007 at 61 Pa. Code § 1001.6.

⁸ The result is that only the original \$36.1 million loan is governed by Section 1901.1.

2. The loan repayment obligation was deferred until at least 11 slot machine licensees have opened for business – departing from Section 1901.1, which provides for deferral of loan repayment until all 14 licensed facilities are open;⁹ and
3. The loan repayment obligation was to be assigned and periodically assessed to licensees over a payment term “in an amount that is proportionate to each slot machine licensee’s gross terminal revenue” – the identical allocation language included in Section 1901.1 of the Gaming Act.

As a result of these three Fiscal Code amendments, there are three regulatory cost loans with an outstanding balance of \$63,851,403 for which repayment is deferred until at least 11 facilities are open. Furthermore, there is the original \$36.1 million loan which is deferred until all 14 casinos open their doors for business.

To complete the chronology of events, in the Fiscal Code Amendment governing the 2010-2011 fiscal year – S.B. 1042 of 2009 -- the General Assembly determined to not issue any regulatory cost loan and to fund the outstanding costs of all four Gaming Agencies from the 1401 Accounts. The amendment also requires the Board to establish a loan repayment schedule by June 30, 2011, regardless of whether 11 casinos were open for business by that time. The amendment also reiterates the identical loan repayment allocation language included in Section 1901.1 and all three prior fiscal code amendments discussed above.

Also, starting in the 2010-2011 fiscal year, as a result of Act 1 of 2010 (“Table Games Amendment”), a new source of gaming revenue for regulatory cost recovery was created -- gross table game revenue (“GTGR”). In this regard, it is noteworthy that the assessment rate to the 1401 Accounts for this fiscal year remains at 1.5% of gross gaming revenue even absent a regulatory cost loan -- albeit 1.5% of the sum of GTR and GTGR.

III. DISCUSSION

MSPD and Parx will provide their input regarding each of the four issues identified by the Board at the December 7, 2010 Industry Meeting. However, because of the magnitude of its importance, the second issue -- whether the payments in proportion to GTR are based upon GTR from the opening of each facility until the June 30, 2011 date

⁹ This modification was made because by mid-2007, it was becoming clear that the opening of several of the licensed facilities would very likely be delayed for years to come.

or upon the last year, last quarter or on a periodic basis moving forward --will be addressed first.

A. Whether The Payments In Proportion To GTR Are Based Upon GTR From Opening Of Each Facility To The June 30, 2011 Date Or Upon The Last Year, Last Quarter Or On A Periodic Basis Moving Forward.

As discussed comprehensively below, the statutory language, the underlying purpose of the regulatory cost loans and repayment deferral, and principles of equity, all support a Board determination that the loan repayment obligation allocation be based proportionately on each licensee's pro rata share of statewide GTR at the time that loan repayment becomes due ("Contemporaneous Approach"). Although late opening casinos, which did not start contributing tax dollars to the Commonwealth until relatively recently, may argue that proportional GTR should be calculated based on the entire operating life of each facility ("Historical Approach"), such arguments are self serving, erroneous and inequitable and must be summarily rejected.

1. The Statutory Language Is Clear That Allocation Should Be Calculated Based On the Proportion of GTR At the Time Of Loan Repayment

The statutory language at issue is found in § 1799E(g) of the Fiscal Code, which provides as follows in relevant part:

- (g) Establishment of Repayment Schedule. -- No later than June 30, 2011, the Pennsylvania Gaming Control Board, in consultation with all licensed gaming entities, shall establish a schedule governing the repayment by licensed gaming entities of loans provided to the Pennsylvania Gaming Control Board under Sections 1720-G, 1720-I and 1720-K. The following shall apply:
 - (1) Repayment of loans provided to the Pennsylvania Gaming Control Board pursuant to Section 1720-G, 1720-I and 1720-K by licensed gaming entities shall begin at such time as at least 11 slot machine licenses have been issued and 11 licensed gaming entities have commenced operation of slot machines.
 - (2) The Pennsylvania Gaming Control Board shall establish a repayment schedule that, at a minimum:

- (i) Sets forth the dates upon which the repayments shall be due, payments may be required on a quarterly, semiannual or annual basis.
- (ii) Assesses to each slot machine licensee costs for repayment of loans from the property tax relief reserve fund made under Sections 1720-G, 1720-I and 1720-K in an amount that is proportional to each slot machine licensee's gross terminal revenue.
- (iii) Results in full repayment of amounts loaned pursuant to Sections 1720-G, 1720-I and 172-K not earlier than five years nor later than ten years following commencement of the loan repayments by the slot machine licensee.

Of course, the regulatory cost loans at issue are the three loans for the 2007-2008, 2008-2009, and 2009-2010 fiscal years. These three loans have an outstanding balance of \$63,851,403.

The entire scope of the statutory language is in the context of date(s) upon which loan repayment(s) becomes due. Accordingly, while not expressed again in subsection (g)(2)(ii), it is clear that reference to an "amount that is proportional to each slot machine licensee's gross terminal revenue" is also intended to be calculated as the licensee's proportion or pro rata share of statewide GTR at the time loan repayment(s) become due.

While it is acknowledged that the provision is not artfully drafted, this represents the only reasonable interpretation of the statutory language. The alternative interpretation which the late-opening casinos may promote is that proportion of GTR should be determined as a historic or all-in calculation under which a given licensee's total GTR over its entire period of operation (in the case of MSPD and Philadelphia Park for over four years), is divided into total statewide GTR since the first slot machine in Pennsylvania received its first wager. As addressed specifically below, adoption of the is approach would effectively destroy the underlying purpose of the regulatory cost recovery program. Furthermore, such an interpretation is based on a far reaching leap of faith from the express words included in subsection (g)(2)(ii) and could only be justified if additional language were included in the subsection providing some support for such a Historic Approach. However, no such language was included in the provision (or in Section 1901.1 of the Gaming Act or previous Fiscal Code amendments), and cannot be inserted into the subsection at this time.

The rules of statutory construction and the underlying case law supports this interpretation of the statutory language. Specifically, courts have held that:

[t]he sections of a statute must be read together and construed with reference to the entire statute. A construction which fails to give effect to all provisions of a statute must be avoided.

American Rock Mechanics, Inc. v. N. Abbonizio Contractors, Inc., 887 A.2d 322, 325 (Pa.Super. 2005); citing *Wilson v. Central Penn Industries, Inc.*, 452 A.2d 257 (Pa.Super. 1982).¹⁰ A similar ruling is set forth in *Gontarchick v. City of Pottsville*, 962 A.2d 703 (Pa.Cmwth. 2008), in which the Commonwealth Court reviewed the pension provisions of the Third Class City Code and the city's pension ordinance and found:

¹⁰ In *American Rock*, plaintiff brought suit against the defendant for sums due it for subcontracting work completed on a job site owned by a township. On appeal, defendant contended that, in spite of the payment terms set forth in the contract between the parties, Section 3933 of the Commonwealth Procurement Code provided that defendant's obligation to pay plaintiff did not arise until 14 days after defendant itself received its payment for the project from the township.

The Superior Court, in rejecting defendant's argument, examined two subsections of Section 3933, which provided:

(a) Performance by a subcontractor in accordance with the provisions of the contract shall entitle the subcontractor to payment from the party with whom the subcontractor has contracted.

...

(c) When a subcontractor has performed in accordance with the provisions of the contract, a contractor shall pay to the subcontractor . . . the full or proportional amount received for each such subcontractor's work and material. . . 14 days after receipt of a progress payment.

The court, reading subsections (a) and (c) *together* found that the import of the language was twofold: 1) subsection (a) provided that payment was to be made in accordance with the terms of the contract between the parties and 2) subsection (c) established a cutoff date by which a contractor *must* pay its subcontractor, regardless of any other contract terms. Importantly, the court found that subsection (c) did not supersede subsection (a) and that defendant was obligated to make payment in accordance with the agreed upon contractual terms.. In so ruling, the court found:

[defendant's] assertions to the contrary focus only on isolated excerpts of the statutory language and fail to recognize the scheme evident upon consideration of the statute as a whole. To that extent, [defendants'] argument is self-serving. . .

Id., at 325-326.

[t]hat when construing one section of a statute, the section must be read not in a vacuum but rather together with all other sections.

Id., at 707.

The courts' reasoning in *American Rock* and *Gontarchick* are equally applicable to the current language at issue in Section 1799E(g). The triggering events for loan repayment in this Section are the passage of June 30, 2011, and at least 11 licensed gaming entities having commenced operation of slot machines. Using these criteria, but adopting the Historical Approach outlined above, creates the type of improper focus on isolated excerpts of the statutory language that the Superior Court sought to prevent in *American Rock*. Similarly, the Historical Approach creates an "inequitable and unreasonable result," which the Commonwealth Court specifically reversed in *Gontarchick*.¹¹

Essentially, the Historical Approach requires that the Board read Section 1799E(g)(2)(ii) in a vacuum, with no regard for the triggering events found in 1799E(g) and (g)(1). *See, Gontarchick, supra*. In addition, advocating the Historical Approach actually *requires* that the Board *add* language to Section 1799E(g) beyond that which was drafted by the legislature (*e.g.*, ". . . in an amount that is proportional to each slot machine licensee's [total] gross terminal revenue" *from the date of licensure or from commencement of gaming operations*, etc.). Neither the Board nor a court have this power because each:

[i]s without authority to insert a word into a statutory provision where the legislature failed to supply it.

Key Savings and Loan Association v. Louis John, Inc., et al., 549 A.2d 988, 991 (Pa.Super. 1998), *citing Worley v. Augustine*, 456 A.2d 558 (Pa.Super. 1983).¹²

¹¹ *See also, Housing Authority of the County of Chester v. Pennsylvania State Civil Service Commission*, 730 A.2d 935 (Pa. 1999) (holding that all sections of a statute must be read together and in conjunction with each other and construed with reference to the entire statute); *Mid-State Bank and Trust Company v. Blesh*, 710 A.2d 1187 (Pa.Super. 1998) (holding that it is well-settled that statutes or parts of statutes which relate to the same persons or things must be construed together, insofar as possible, as one statute).

¹² In *Key Savings*, two individuals were partners in various real estate transactions which were financed by a bank. One partner withdrew from the partnership, and subsequently secured an order directing the bank to mark as satisfied an improperly entered confessed judgment, which it failed to do. The withdrawing partner brought an action for liquidated damages pursuant to 42 Pa.C.S. § 8104(b) for the bank's failure to mark the judgment satisfied. The trial court denied the withdrawing partner's petition for Section 8104 liquidated damages, finding that he was not so entitled absent a "wanton and willful refusal" by the bank to mark the judgment satisfied. *Id.*, at 991.

The Pennsylvania Supreme Court long ago reached a similar result.

[A]s the court in construing a statute must ascertain and give effect to the legislative intent as expressed in the language of the statute, the court cannot, under its powers of construction, supply omissions in a statute, especially where it appears that the matter may have been intentionally omitted. It makes no difference that the omission resulted from inadvertence, or because the case in question was not foreseen or contemplated. The intention and meaning of the Legislature must primarily be determined from the language of the statute itself, and not from conjectures aliunde.

Commonwealth ex rel. Cartwright v. Cartwright, 40 A.2d 30, 33 (Pa. 1944).

Without question, adoption of the Historical Approach would require the Board to *add language* to Section 1799E(g). The courts are clear that such an approach is an improper and that only the Legislature has the power to modify the language of any statute to add the language necessary to follow the Historical Approach. *See, Key Savings; Cartwright, supra.*¹³

The bottom line is the statute determines this issue for the Board. The only reasonable interpretation requires calculation of a licensee's loan repayment obligation as a

On appeal, the Superior Court reversed the trial court, finding that the requirement for a "wanton and willful refusal" was not part of Section 8104.

[I]n order to construe the statute as imposing liability on a creditor only when failure or refusal to mark a judgment satisfied is unreasonable or willful, one must: . . . insert the words "without good cause" or "willfully or unreasonably" into the statute [even] though they were not supplied by the legislature. . . Thus, in order for the [statute] to imply a willful or unreasonable act, we would have to revise the statute. . .

Id., at 992. Here, the Historical Approach would require the Board to make similar additions to the Fiscal Code, and is, thus, improper.

¹³ *See also, Calvert Distillers Corp. v. Board of Finance and Revenue*, 103 A.2d 668 (Pa. 1954) (holding that courts may not supply words which are not found in a statute and so give it a meaning which it otherwise does not have); *Lisanti Painting Company v. Workers' Compensation Appeal Board (Starinchak)*, 973 A.2d 464 (Pa. 2009) (holding that a reviewing court may not supply an omitted provision from a statute even if the omission was a result of the Legislature's inadvertence or failure to foresee the exact circumstance in question).

proportional amount or pro rata share of a licensee's contemporaneous share of statewide GTR at the time loan repayment becomes due, and the Historic Approach must be rejected.

It does appear, however, that the Board may have some discretion as to certain subissues here. For example, it is not practical to measure proportional GTR based on a single hour, or day that loan repayment becomes due, and certainly, the Board has discretion to take a snapshot of monthly GTR or some other reasonable, but still contemporaneous, period.

Furthermore, the Board may also have some discretion to determine how frequently proportional GTR should be recalculated – an issue directly related to issues addressed below, that being how frequently loan repayments will be assessed and become due. With this said, it is MSPD's and Parx's position that the most reasonable application of subsection (g)(2)(ii) which tracks its express language is that each time DOR assesses licensees for loan repayment – or when a loan repayment becomes due – the assessment should be based on the licensee's proportion of statewide GTR for the previous month. This calculation should apply to all licensed facilities open for business at the time of any given loan repayment assessment, including licensed facilities that open after the 11th casino commences business.¹⁴

Such an approach is not only supported by the express statutory language, but is consistent with the underlying purpose of the regulatory cost loan program as explained below. Accordingly, it should be adopted by the Board.

2. The Underlying Purpose Of The Regulatory Cost Loan Program Will Be Defeated Unless A Contemporaneous Approach To Proportional GTR Is Adopted.

As explained in the Background section above, the entire underlying purpose of the regulatory cost loan program was to protect the early opening casinos, and, in particular, MSPD, Philadelphia Park and Harrah's Chester, from being penalized for opening early by requiring them to fund the entire regulatory cost bill until other casinos commenced business. As legislated in SB 862, Section 1901.1's deferral and repayment mechanisms were clearly intended to assure that future casinos were obligated to pay their fair share of regulatory costs incurred prior to the time they opened for business.

¹⁴ The reference to "slot machine licensee's gross terminal revenue" in subsection (g)(2)(ii) is broader than the reference to the term "slot machine licensees" in subsection (g)(1), and includes all slot machine licensees in operation at the time of a given calculation of proportional GTR for loan repayment assessment purposes.

The policy rationale for this initiative was recognition of the fact that a very significant portion of the regulatory costs incurred by the Gaming Agencies were to construct and implement regulatory agencies, regulatory structures, and regulatory schemes necessary to regulate the new gaming industry in Pennsylvania. The Board had to be formed from scratch. The other three Gaming Agencies had to develop expertise in gaming matters. Hundreds of state employees had to be hired. A central control computer system had to be bid, retained, constructed and paid for. Hundreds, if not thousands, of pages of temporary regulations had to be promulgated and then administered through processes to make them permanent regulations. Lawsuits had to be defended. These activities, and many others, were not for casinos that opened early or opened late, they were necessary for all Pennsylvania casinos, no matter when they opened. The fact of the matter is that no Pennsylvania casino can operate for one hour of one day without a Board, a taxing authority (the DOR), a comprehensive administrative structure with gaming expertise, a central control computer system or governing regulations.

In fact, all of the initial \$ 36.1 million loan was expended for these types of activities for all casinos, including those that still have not opened, virtually all of which was expended before any casino opened for business. Furthermore, these general administrative activities continue to this day, and represent a very significant portion of overall regulatory costs on an ongoing basis.

With this in mind, if the Board were to adopt the Historic Approach advocated by the late opening casinos it would completely destroy the underlying purpose of the regulatory loan program, that being to require all or a critical mass of casinos to fund these common regulatory costs, deferred by the loans, based on the relative revenue size of the casino, and without regard to when they opened for business. Essentially, under the Historic Approach, the net result is that each casino would pay the same amount of the loans that it would have paid if repayment had not been deferred at all, and repayment had began over some term at the time of opening. Deferral would have served no purpose.¹⁵ And, of course, the net result would be that the early opening casinos would have loan repayment obligations in disproportion to late opening casinos for repayment of costs incurred for all casinos, including the original \$36.1 million loan, which has the same loan repayment allocation language. At the end of the day, early opening casinos, which provided the value of early tax revenue streams to the Commonwealth, would be penalized for opening early -- the exact result that the regulatory loan program was intended to avoid.

¹⁵ Yet, for each of the four loans, the General Assembly deferred all repayments until all, or a critical mass, of casinos were opened for business.

While MSPD and Parx believe the statutory language in question is open to only one reasonable interpretation – the Contemporaneous Approach discussed above – even if it were not, consideration of the underlying purpose of the statutory language lead one to the same result. Accordingly, the Contemporaneous Approach should be adopted by the Board.

3. The Loan Repayment Program Under the Contemporaneous Approach is Fair and Equitable to All.

The net result of the loan repayment program under the Contemporaneous Approach requires all 11 casinos to fund the regulatory costs incurred prior to the time any casino was open (the \$36.1 million loan) and the loan portion (equal to the PGCB budget, but representing the common costs incurred for the benefit of all casinos) of regulatory costs in the next three fiscal years after casinos opened, in proportion to their revenue size.¹⁶ While not perfect, this approach is fair and equitable to all.

One must remember that this does not mean that early opening casinos are not paying most of the regulatory costs incurred after they opened for business -- they indeed did and are. From the day they opened, MSPD and Parx have paid all of the costs directly allocated to their facilities through direct billings, plus approximately 1.5% of GTR (including promotional play) drawn straight from their 1401 Accounts, plus costs directly attributable to on site state police (again from their 1401 Accounts).

These amounts are far from de minimus. As to direct billings/licensing fees, MSPD has paid approximately \$1,823,884.02 since it opened, and Parx has paid approximately \$1,876,666.95. As to 1.5% of GTR (and GTGR for the period of table game operations), MSPD has paid \$13,645,111.52 through drawdowns and Parx has paid \$ 25,213,257.36. Additionally, the amounts of these drawdowns for MSPD and Parx paid prior to the time the three late opening casinos, Sands, Rivers and Sugarhouse, commenced business is represented in the following:

<u>Casino (Date Opened)</u>	<u>MSPD</u>	<u>Parx</u>
Sands (5/22/09)	\$ 6,737,882.68	\$ 13,408,187.04
Rivers (8/9/09)	\$ 7,712,658.75	\$ 14,858,138.38
Sugarhouse (9/23/10)	\$ 12,492,582.14	\$ 22,808,161.73

¹⁶ As proposed herein, it would also require the remaining three unopened casinos to commence their proportion of all four loans from the time they opened and for the remainder of the loan term.

The Contemporaneous Approach fulfills the underlying intent of the loan repayment program and, while not perfect, is fair and equitable to all. Operating casinos are held responsible for the majority of regulatory costs incurred from the time they open, however, all (or critical mass of) casinos are held responsible for a portion of regulatory costs received to benefit all casinos (operating or not), as represented by the amount of the three post-agency regulatory loans. While nobody in the industry is thrilled about the notion of loan repayment, the Contemporaneous Approach is fair and equitable to all and should be adopted.

B. The Frequency of Payments

The first issue identified by the Board at the December 7 Industry Meeting (being addressed as the second issue here) is the frequency of loan payments – once those payments commence. Section 1799-E(g)(2)(i) of the Fiscal Code indicates that “payments may be required [by the Board] on a quarterly, semiannual or annual basis.”

MSPD and Parx recommend that the Board adopt a quarterly payment scheme. Quarterly payments will be more manageable than semiannual or annual payments because they will be for a lesser amount, and will enable more effective cash flow management than a larger less frequent obligation. Consistent with MSPD’s and Parx’s comments above, recalculation of proportioned GTR percentages would also be performed on a quarterly basis allowing for more accurate periodic allocations.

C. Whether the Payment Begins on the First Day the Eleventh Licensed Facility Opens or at a Later Date After the Eleventh Facility Has Established a Period of GTR.

The third issue for which the Board seeks input is when to start loan repayment, and within this context, how to treat the eleventh casino to open. All of the Fiscal Code amendments establishing regulatory loans, as well as, this year’s amendment, SB 2041, require that loan repayment “shall begin at such time as at least 11 slot machine licenses have been issued and 11 licensed gaming entities have commenced operation of slot machines.” (Emphasis added). Accordingly, it appears that the Board has discretion to commence loan payment when “at least” 11 facilities are licensed and operating, and there is no requirement to commence payments immediately after that opening (or within any specified timeframe thereafter). Furthermore, it appears clear that the Fiscal Code language intends that the eleventh casino be subject to the same loan repayment obligation rules as the other 10 casinos.

Based on the foregoing, MSPD and Parx recommend that the Board commence loan repayment at some reasonable period of time after the eleventh casino opens. A six month or year period of conducting business will allow establishment of a GTR record

R. Douglas Sherman, Esquire
January 28, 2011
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and allow the Board to include the eleventh casino in loan repayment from the outset as intended by the Fiscal Code.

D. The Length of Time Over Which the Payments Will Be Repaid

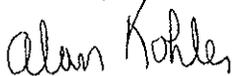
The final issue is the length of time over which the loans will be repaid. Section 1799-E(g)(2)(iii) of the Fiscal Code requires that the three Fiscal Code loans be paid back "not earlier than five years nor later than ten years following commencement of the loan repayments by the slot machine licensees."

MSPD and Parx strongly recommend that the Board exercise its discretion to adopt the maximum ten year period for payback. Regardless of how the Board decides other issues, loan repayments are going to constitute a very serious and painful financial burden, and could be financially crippling to some licensees. This is particularly true for licensed facilities, like MSPD, operating in smaller markets where, given the gaming tax rate in Pennsylvania, producing a profit margin is extremely difficult. Indeed, a five year payback period could make turning a profit virtually impossible during the payback period for all casinos.

Adopting the longest payback term permitted by statute will ease the pain, and for some licensees could avoid some serious financial consequences. Furthermore, there appears to be no downside to the longer term, since the Commonwealth has absolute assurance of payment from the 1401 Accounts.

MSPD and Parx would like to thank you and the Board for the opportunity to comment on these very important and critical issues. If we can provide you with additional information or assistance, please let us know.

Sincerely,



Alan C. Kohler
On behalf of Downs Racing, L.P. and
Greenwood Gaming and Entertainment, Inc.

ACK/jls
Enclosure

EXHIBIT A

**Senate Community, Economic and Recreational Development
Committee
January 30, 2007**

**Remarks of
Tad Decker, Chairman
PA Gaming Control Board**

GOOD MORNING SENATOR EARLL, SENATOR LAVALLE AND MEMBERS OF THE COMMITTEE. I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE YOU AND ENGAGE IN A DIALOGUE REGARDING THE BOARD'S FUNDING.

AS YOU KNOW, THE GAMING ACT REQUIRED MY FELLOW BOARD MEMBERS AND ME TO CREATE A GOVERNMENTAL AGENCY FROM SCRATCH. WHILE WE ARE ALL HIGHLY SUCCESSFUL IN OUR INDIVIDUAL FIELDS, NONE OF US, EXCEPT FOR COMMISSIONER COY, HAVE A BACKGROUND IN GOVERNMENT AFFAIRS, HOW GOVERNMENT OPERATES OR AGAIN, CREATING A GOVERNMENT AGENCY. IT SHOULD BE NOTED THAT THE GAMING CONTROL BOARD IS THE FIRST NEW STATE AGENCY TO BE CREATED SINCE THE DEPARTMENT OF AGING IN 1978 AND NO ONE IN PENNSYLVANIA HAD GAMING LICENSING OR REGULATORY EXPERIENCE.

WE DID THIS WITH THE RECOGNITION THAT THE GAMING INDUSTRY WOULD BE THE VEHICLE TO FUND LOCAL TAX RELIEF WHICH DID NOT REQUIRE ADDITIONAL PERSONAL OR BUSINESS TAX INCREASES OR SHIFT TAX BURDENS FROM ONE TAX TO ANOTHER.

PRIOR TO STARTING THIS HISTORIC ENDEAVOR, THE BOARD, AT OUR FIRST OFFICIAL MEETING, RECEIVED NOTICE THAT ACT 71'S CONSTITUTIONALITY WAS BEING CHALLENGED. WHILE WE ATTEMPTED TO START HIRING STAFF MANY OF THE INDIVIDUALS WE SPOKE WITH WERE EXTREMELY RETICENT ABOUT LEAVING THEIR EXISTING JOBS TO WORK WITH AN AGENCY THAT MAY OR MAY NOT REMAIN IN EXISTENCE. AS YOU CAN UNDERSTAND THE LAWSUIT EFFECTIVELY SHUT DOWN OUR EFFORTS FOR APPROXIMATELY SIX MONTHS.

WHEN THE CONSTITUTIONAL CHALLENGE WAS DISMISSED BY THE PA SUPREME COURT, WE STARTED IN EARNEST TO SECURE OFFICE SPACE AND HIRE STAFF. TO ASSIST US IN THIS ENDEAVOR THE BOARD

RETAINED TWO NATIONALLY RECOGNIZED EXECUTIVE RECRUITING FIRMS. THESE FIRMS, WHICH ARE BASED IN PENNSYLVANIA, IDENTIFIED DOZENS OF CANDIDATES FOR THE KEY POSITIONS OF EXECUTIVE DIRECTOR, CHIEF COUNSEL AND DIRECTOR OF INVESTIGATIONS AND ENFORCEMENT.

THE FIRMS DEVELOPED A LIST OF INDIVIDUALS, WHO IN OUR VIEW WERE VERY QUALIFIED APPLICANTS, AS WELL AS POTENTIAL SALARY LEVELS NEEDED TO ATTRACT THESE INDIVIDUALS, AND WE SELECTED THE BEST INDIVIDUALS TO BE INTERVIEWED.

SEATED BESIDE ME ARE TWO OF THE INDIVIDUALS WE HIRED, ANNE LACOUER NEEB AS EXECUTIVE DIRECTOR AND FRANK DONAGUE AS CHIEF COUNSEL. ANNE PREVIOUSLY SERVED AS THE EXECUTIVE DIRECTOR OF THE LOUISIANA GAMING CONTROL COMMISSION AND FRANK PREVIOUSLY SERVED AS CHIEF DEPUTY ATTORNEY GENERAL AND DIRECTOR OF THE BUREAU OF CONSUMER PROTECTION IN THE OFFICE OF THE PENNSYLVANIA ATTORNEY GENERAL.

IN ADDITION, I WOULD BE REMISS IF I DID NOT INTRODUCE TWO ADDITIONAL INDIVIDUALS. EILEEN MCNULTY, OUR CFO. EILEEN HAS A WEALTH OF EXPERIENCE AS A FORMER SECRETARY OF REVENUE FROM WHICH WE ARE FORTUNATE TO DRAW UPON AND DAVID KWAIT, OUR DIRECTOR OF THE BUREAU OF INVESTIGATIONS AND ENFORCEMENT.

DAVID HAS FORTY YEARS OF LAW ENFORCEMENT EXPERIENCE WITH OVER THIRTY YEARS EMPLOYED BY THE FBI AND MOST RECENTLY AS CHIEF OF CRIMINAL INVESTIGATIONS FOR THE PENNSYLVANIA OFFICE OF ATTORNEY GENERAL. DAVID WILL JOIN ME IN A FEW MINUTES FOR A SHORT DISCUSSION OF HIS EFFORTS ON OUR BEHALF.

IN CONJUNCTION WITH HIRING STAFF, WE ALSO LAUNCHED A MAJOR EFFORT, WHICH WAS LED BY COMMISSIONER COLINS, TO DEVELOP AND IMPLEMENT REGULATIONS AS REQUIRED BY THE ACT. TO THAT END OUR INITIAL STAFF ENGAGED A GROUP OF LEGISLATIVE STAFFERS WHO PROVED TO AN INVALUABLE RESOURCE IN THIS REGARD. AT THIS

TIME I WOULD LIKE TO RECOGNIZE THE EFFORTS OF FRAN CLEAVER, KATHY EAKIN AND CHRISTOPHER CRAIG FROM THE SENATE AND GEORGE BEDWICK, AUDREY POWELL AND STEVE TUCKEY FROM THE HOUSE OF REPRESENTATIVES. AND IT IS MY UNDERSTANDING THAT, AT LEAST ON THE SENATE SIDE, THE WORK GROUP HAS FORMED AGAIN TO REVIEW THE SUBMISSION OF OUR PERMANENT REGULATIONS. RICHARD SANDUSKY, A FORMER LONG TIME STAFFER FOR IRRRC, IS COORDINATING OUR EFFORTS IN THIS REGARD.

AT THIS TIME, WE HAVE REGULATIONS THAT ARE VOLUMINOUS IN NATURE AND SATISFY THE ACT'S INTENT THAT THE GAMING INDUSTRY BE STRICTLY REGULATED. THE REGULATIONS COVER GENERAL BOARD OPERATIONS AND PROCEDURES; LICENSING REQUIREMENTS FOR ALL CATEGORIES OF GAMING FACILITY OPERATORS; MANUFACTURERS OF SLOT MACHINES AND ASSOCIATED GAMING EQUIPMENT; VENDORS; INVESTIGATIONS AND ENFORCEMENT; HEARINGS AND APPEALS; ACCOUNTING AND INTERNAL

CONTROLS; AND SLOT MACHINE MOVEMENT AND OWNERSHIP.

WHILE PART OF OUR STAFF FOCUSED ON REGULATIONS, OTHER STAFF, LED BY SUSAN HENSEL, FOCUSED ON CREATING THE FORMS UPON WHICH THE GAMING INDUSTRY, AS WELL AS MANUFACTURERS AND SUPPLIERS, WOULD SUBMIT INFORMATION TO PROVE TO US THAT THEY ARE WORTHY OF BEING LICENSED BY THE COMMONWEALTH. I BELIEVE YOUR STAFF WAS PROVIDED WITH INTERNET WEB ADDRESSES IN WHICH TO REVIEW THESE APPLICATIONS. THE EFFORT REQUIRED ATTENTION TO DETAIL AND THE REVIEW AND THE SELECTION OF THE BEST PRACTICES OF OTHER GAMING JURISDICTIONS. THIS EFFORT CULMINATED IN THE RECEIPT OF TWENTY-FIVE SLOT OPERATOR APPLICATIONS, TWENTY-FIVE MANUFACTURER LICENSE APPLICATIONS, TWENTY-FIVE SUPPLIER LICENSE APPLICATIONS AND 434 VENDOR APPLICATIONS WITH NUMEROUS ADDITIONAL APPLICATIONS ARRIVING EVERY DAY.

IN ADDITION, AS THE FACILITIES COME ON-LINE OUR STAFF, IN CONJUNCTION WITH THE PSP, ARE PROCESSING LITERALLY THOUSANDS OF GAMING EMPLOYEE APPLICATIONS. TO DATE, 3,697 INDIVIDUALS HAVE APPLIED FOR GAMING LICENSES AT POCONO DOWNS, PHILADELPHIA PARK, CHESTER DOWNS AND PRESQUE ISLE AND 2,495 OF THESE INDIVIDUALS HAVE PASSED THE BACKGROUND CHECKS.

WE ALSO DEVELOPED AND IMPLEMENTED A TOUGH ETHICS POLICY FOR BOARD MEMBERS AS WELL AS STAFF. THE POLICY CONTAINS SEVENTEEN MAJOR PROVISIONS, INCLUDING ONE THAT REQUIRES BOARD MEMBERS TO AVOID EX PARTE COMMUNICATIONS WITH ANY INTERESTED PARTY AND ANOTHER THAT REMOVES BOARD MEMBERS AND STAFF FROM PARTISAN POLITICS AND FUND-RAISING. WE ALSO STRONGLY BELIEVE THAT OUR ETHICS POLICY IS ONE OF THE BEST OF ANY GAMING JURISDICTION.

WITHIN A SCOPE OF ONE YEAR, WE ESTABLISHED AN AGENCY CHARGED WITH THE CREATION AND

OVERSIGHT OF AN INDUSTRY THAT IS ESTIMATED TO PRODUCE \$3 BILLION IN REVENUE, PRODUCE \$1 BILLION IN TAXES FOR LOCAL PROPERTY TAX REFORM, EMPLOY THOUSANDS OF PENNSYLVANIANS AND SAVE THE COMMONWEALTH'S HORSE RACING INDUSTRY.

HAVING ACCOMPLISHED ALL OF THIS, WE FACED THE MOST DIFFICULT PERIOD OF TIME BECAUSE THE SECOND YEAR OF OUR EXISTENCE CENTERED ON THE INVESTIGATION AND REVIEW OF THE MANUFACTURER, SUPPLIER AND OPERATOR APPLICATIONS. THESE WERE NOT YOUR RUN-OF-THE-MILL APPLICATIONS BUT APPLICATIONS FILLED WITH DETAILED AND MOSTLY CONFIDENTIAL FINANCIAL INFORMATION AND COMPLEX CORPORATE ORGANIZATIONAL STRUCTURES SUBMITTED BY MAJOR LEAGUE GAMING COMING COMPANIES, SUCH AS THE SANDS, THE MOHEGAN TRIBAL GAMING AUTHORITY, TRUMP, AZTAR AND PINNACLE.

AT THIS POINT IN TIME I WOULD ASK THAT DAVID KWAIT, DIRECTOR OF BIE, JOIN ME TO PROVIDE AN OVERVIEW OF THE PROCESS USED TO INVESTIGATE

THESE APPLICATIONS. I BELIEVE THIS IS IMPORTANT BECAUSE THE ACT PLACES SUCH AN IMPORTANT MANDATE ON PROTECTING THE PUBLIC AS WELL AS ENSURING THAT THE GAMING INDUSTRY WILL BE STRICTLY REGULATED.

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. .
THANK YOU DAVID. I APPRECIATE YOUR EFFORTS AND I AM SURE THE COMMITTEE IS COMFORTED TO KNOW THAT AN INDIVIDUAL OF YOUR CALIBER PLAYS SUCH A SIGNIFICANT ROLE AT THE BOARD.

IN ORDER TO DEMONSTRATE THE DEPTH OF INFORMATION REVIEWED AND INVESTIGATED I FORWARDED A COPY OF ALL THE APPLICATIONS REQUIRED FOR A CATEGORY 1 SUBMISSION TO YOUR STAFF.

AFTER MONTHS OF REVIEW, REQUESTS FOR ADDITIONAL INFORMATION AND THE REVIEW AND

ANALYSIS OF THIS INFORMATION PROVIDED BY TWENTY-TWO PROSPECTIVE APPLICANTS, OUR EFFORTS CULMINATED ON DECEMBER 20, 2006, WHEN WE AWARDED ELEVEN PERMANENT SLOT OPERATOR LICENSES AND OFFICIALLY LAUNCHED GAMING IN PENNSYLVANIA.

I WOULD NOTE THAT ACCORDING TO THE GAMING INDUSTRY OBSERVER, OUR PERFORMANCE CLOSELY MATCHES THAT OF MICHIGAN, NEW MEXICO AND NEW YORK WHICH SPENT MORE THAN TWO YEARS TO IMPLEMENT GAMING. MOREOVER, NONE OF THESE STATES WERE REQUIRED BY STATUTE TO ISSUE GAMING LICENSES COLLECTIVELY AND TOGETHER IN A COMPETITIVE ENVIRONMENT WHICH INCLUDED TWENTY-TWO APPLICATIONS FOR ELEVEN LICENSES AND NONE OF THESE STATES WERE REQUIRED TO USE A QUALIFIED MAJORITY TO DO SO. AND JUST AS IMPORTANTLY NONE WERE DELAYED BY A CONSTITUTIONAL CHALLENGE.

AS YOU KNOW, THE QUALIFIED MAJORITY REQUIRES EVERY LEGISLATIVE APPOINTEE TO AGREE AS WELL AS

ONE GUBERNATORIAL APPOINTEE. THIS SYSTEM
AFFECTIVELY PROVIDES VETO POWER ON VIRTUALLY
EVERY DECISION TO OUR BOARD MEMBERS.

REGARDLESS, WE WORKED WELL TOGETHER,
AWARDED THE LICENSES, OPENED THREE FACILITIES
TO DATE AND NOW ENTER WHAT SOME VIEW AS THE
MOST IMPORTANT PERIOD FOR OUR AGENCY, THE
STRICT REGULATION OF THE GAMING INDUSTRY.

THE GAMING INDUSTRY IS HIGHLY REGULATED – AS IT
SHOULD BE. A GAMING LICENSE IS A PRIVILEGE AND
NOT A RIGHT. THE GAMING INDUSTRY APPRECIATES
THAT ANY VIOLATIONS IN PENNSYLVANIA WILL
ALMOST CERTAINLY IMPACT THEIR OPERATIONS IN
OTHER GAMING JURISDICTIONS IN WHICH THEY ARE
LICENSED. SOME JURISDICTIONS CHOOSE TO HIGHLY
REGULATE GAMING WHILE OTHERS DO NOT.

PURSUANT TO THE IMPORTANCE THE ACT PLACED
UPON SAFETY AND PUBLIC CONFIDENCE IN GAMING
WE CHOSE TO MODEL OUR EFFORTS UPON THOSE OF
NEW JERSEY, WHICH TAKES A STRICT VIEW OF
REGULATING THE GAMING INDUSTRY.

IN ORDER TO ASSURE THAT THESE ARE MORE THAN JUST WORDS, THIS BOARD AS WELL AS FUTURE BOARDS, REQUIRES ADEQUATE FUNDING AND ADEQUATE STAFFING. NOTHING ILLUSTRATES THIS MORE THAN A RECENT INCIDENT AT PHILADELPHIA PARK. BECAUSE I MAY SIT IN JUDGMENT OF A POSSIBLE ADJUDICATIVE HEARING REGARDING THIS MATTER, I AM NOT PRIVY TO ALL OF THE DETAILS REGARDING THIS MATTER. HOWEVER I WANT TO STRESS THE IMPORTANCE OF HAVING INVESTIGATORS ON THE SCENE AS QUICKLY AS POSSIBLE. AUDITORS NEED TO REVIEW THE CENTRAL CONTROL COMPUTER SYSTEM DATA AND SLOT MACHINE ENGINEERS MUST DISCOVER AND FIX THE MALFUNCTION OR MALFUNCTIONS. FINALLY OUR ENFORCEMENT COUNSEL, AFTER A THOROUGH INVESTIGATION, WILL NEED TO REVIEW THE INCIDENT.

NOT TO BELABOR THE POINT BUT I WILL CLOSE WITH A QUOTE FROM MR. WILKINSON, "THEY WERE TRYING TO GET ME TO GET AWAY FROM THE MACHINE, TO TRY TO GO DOWNSTAIRS TO TALK TO THEIR LAWYER,"

WILKINSON SAID. "I TOLD THEM I WANTED THE GAMING COMMISSION THERE SO THEY COULD SEE IT, SO I HAD SOME SORT OF PROOF THIS ACTUALLY DID HAPPEN."

STRICT REGULATION, AND AGAIN THE BOARD HAS CONSISTENTLY REQUIRED THIS STANDARD, REQUIRES A CASINO PRESENCE IN ORDER TO PROVIDE THE NECESSARY VIGILANCE AND SERVICE TO INDIVIDUALS AND OUR LICENSED FACILITIES. AS YOU ARE WELL AWARE REGULATION AT THE HIGHEST STANDARDS BRINGS ABOUT THE PUBLIC CONFIDENCE THAT HAS ENABLED AN EMERGING INDUSTRY TO EARN GROSS INCOME OF \$63.7 MILLION ON WAGERS OF \$676 MILLION IN 75 DAYS. NO ONE HAS BENEFITED MORE THAN THE INITIAL LICENSEES WHO HAVE THE ADVANTAGE OF A TEMPORARY MONOPOLY THAT ENABLES THEM TO ENJOY RETURNS WELL IN EXCESS OF WHAT EITHER THEY OR WE PROJECTED.

OUR LICENSEES HAVE NETTED, AFTER GAMING TAXES AND ASSESSMENTS, \$30.3 MILLION ON THEIR OPERATIONS TO DATE. SINCE THE FIRST SLOT

LICENSEE OPENED ON NOVEMBER 14TH, THE COMMONWEALTH HAS ALSO COLLECTED \$176 MILLION IN LICENSE FEES, TAXES AND OTHER ASSESSMENTS TO PROVIDE PROPERTY TAX RELIEF FOR SENIOR CITIZENS, SUPPORT TO LOCAL GOVERNMENTS, AND INVESTMENTS IN ECONOMIC DEVELOPMENT AND THE HORSE RACING INDUSTRY.

THE TAXPAYERS OF PENNSYLVANIA HAVE ALREADY RECEIVED A GENEROUS RETURN ON THEIR LOAN OF \$36.1 MILLION TO FINANCE THE START UP OF GAMING IN PENNSYLVANIA. THE PGCB BEGAN WITH A LOAN OF \$7.5 MILLION WHICH WAS SUPPLEMENTED BY INTERAGENCY LOANS OF \$13.9 MILLION FROM THE PORTION OF THE LOAN ORIGINALLY ALLOCATED TO THE DEPARTMENT OF REVENUE AND \$3.85 MILLION FROM STATE POLICE PORTION. THE REMAINDER OF THE ORIGINAL \$36.1 MILLION LOAN WILL BE EXHAUSTED THIS YEAR MEETING THE NEEDS OF THE AGENCIES CHARGED WITH REGULATION OF THIS INDUSTRY.

THE LOAN PROCEEDS WERE USED TO BRING TO COMPLETION IN TWO SHORT YEARS A PROCESS THAT REQUIRED ALL LICENSING DECISIONS TO BE MADE AT ONE TIME AND THAT MANY INDIVIDUALS EXPECTED WOULD TAKE THREE YEARS, OR LONGER, TO ACHIEVE. BY ATTRACTING SOME OF THE BEST AND BRIGHTEST PEOPLE, WE HAVE PUT TOGETHER A STAFF OF APPROXIMATELY 200 DEDICATED AND HARDWORKING PEOPLE WHO ARE WORKING DAILY TO MAINTAIN A FAIR AND STRICT REGULATORY ENVIRONMENT THAT ENABLES THE INDUSTRY TO CONTINUE MAKING THESE PHENOMENAL RETURNS.

WE HAVE COMPARED THE REGULATORY COSTS OF THE FOUR AGENCIES REGULATING GAMING IN PENNSYLVANIA, BUDGETED THIS YEAR AT \$42.6 MILLION (APPROXIMATELY \$50 MILLION FOR THE 07/08 FISCAL YEAR), WITH OTHER SIMILAR STATES AND FOUND THEM TO BE APPROPRIATE. NEW JERSEY, A STATE WITH A REPUTATION FOR STRICT REGULATION OF ITS 12 FACILITIES AND APPROXIMATELY 42,000 MACHINES IS SIMILAR IN SIZE TO THE INDUSTRY THAT IS ANTICIPATED IN PENNSYLVANIA. THEIR BUDGET OF

\$68.6 MILLION PROVIDES FOR REGULATION OF BOTH TABLE GAMES AND SLOT MACHINES IN ONE CENTRAL LOCATION – ATLANTIC CITY. SLOTS REPRESENT ALMOST 75% OF THE GROSS RECEIPTS FROM GAMING IN NEW JERSEY. WE ARE BUILDING OUR STAFF TO HANDLE A SIMILAR SIZED INDUSTRY IN PENNSYLVANIA SPREAD ACROSS OUR STATE WITHOUT, OF COURSE, THE NECESSITY OF REGULATING NON-SLOTS GAMING. BY JUNE OF 2008, WHEN 10 VENUES ARE OPERATING, WE ANTICIPATE OUR STAFF WILL GROW TO AN ESTIMATED 290. NEW JERSEY REGULATES 12 CASINOS IN ATLANTIC CITY WITH A STAFF OF 342.

OF COURSE, THERE ARE STATES WITH DIFFERENT REGULATORY REQUIREMENTS AND, THEREFORE, DIFFERENT COST BURDENS. SOME STATES LEASE THE SLOT MACHINES DIRECTLY RATHER THAN LICENSING OTHERS TO OWN THE MACHINES. SOME STATES MAKE USE OF A CENTRAL CONTROL COMPUTER TO TRACK GAMING RECEIPTS SUCH AS WE DO, WHILE OTHERS RELY ON HAND COUNTING. STATES WITH STRICT REGULATORY ENVIRONMENTS ALSO REQUIRE INTERNAL CONTROLS AT GAMING VENUES. WHILE THE

CENTRAL CONTROL COMPUTER CAN ALERT REGULATORS OF ABNORMAL SITUATIONS, REGULATORY PERSONNEL ARE REQUIRED TO INVESTIGATE EACH OCCURRENCE AND ENSURE ADHERENCE TO REGULATIONS. OUR STAFF ASSURES THE PUBLIC THAT THE INDUSTRY IS OBSERVING THE PROTOCOL AND PROCEDURES THAT PROTECT THE INTEGRITY OF GAMING IN THE COMMONWEALTH.

AS MANY OF YOU KNOW, THE GAMING ACT ENVISIONS THAT THE GAMING INDUSTRY WILL PROVIDE THE FUNDING NECESSARY FOR THE BOARD, THE DEPARTMENT OF REVENUE, THE PSP AND THE OAG TO REGULATE GAMING. A UNIQUE ASPECT OF THIS IS THE FACT THAT LICENSED MANUFACTURERS FUND THE MAINTENANCE AND OPERATION OF THE GAMING LAB AND WE ARE IN THE PROCESS OF SEEKING REIMBURSEMENT FROM THE LICENSED MANUFACTURERS IN A FAIR AND EQUITABLE MANNER.

THE ACT PROVIDES FOR THE CREATION OF WHAT ARE GENERALLY DESCRIBED AS §1401 ACCOUNTS. THESE ACCOUNTS ARE TO BE ESTABLISHED BY THE OPERATORS TWO DAYS PRIOR TO OPENING. THE 1401

ACCOUNTS ARE TO BE USED TO MEET THE FUNDING NEEDS OF FOUR AGENCIES.

UNFORTUNATELY, WHILE THE ACT REQUIRED THE AWARDING OF ALL LICENSES AT THE SAME TIME, IT COULD NOT ACCOUNT FOR THE STAGGERED START UP OF THE INDIVIDUAL FACILITIES. AT THIS TIME, THREE FACILITIES ARE OPEN FOR BUSINESS AND ARE DOING WELL. HOWEVER IS IT FAIR TO REQUIRE ONLY THESE THREE FACILITIES TO FUND THE OPERATIONS OF FOUR REGULATORY BODIES WHILE THE REMAINING FACILITIES COME ON LINE?

WHAT THIS AMOUNTS TO IS A QUESTION OF FAIRNESS. SENATOR TOMLINSON WISELY FORESAW THIS ISSUE DURING LAST YEAR'S BUDGET. HE UNDERSTOOD THE POSSIBILITY OF A LIMITED NUMBER OF FACILITIES TO BEAR THE BURDEN OF FUNDING OUR AGENCIES. INITIALLY THERE APPEARED TO BE SUPPORT FOR ANOTHER LOAN FROM THE GENERAL FUND, THE IDEA NEVER GATHERED THE NECESSARY SUPPORT. THEREFORE, THE ORIGINAL GENERAL FUND LOAN FROM JULY 2004 IS DRAWING DOWN AND EVERY

EFFORT IS BEING MADE TO IMPLEMENT THE ORIGINAL INTENT OF THE ACT WHICH REQUIRES THE INDUSTRY TO FUND US AS WELL AS PSP, THE DOR AND OAG.

IT IS MY UNDERSTANDING THAT SECRETARY FAJT WILL DISCUSS THIS IN GREATER DETAIL AS THE DEPARTMENT, THROUGH THE ACT, IS PROVIDED THE POWER TO DECIDE THE MANNER IN WHICH THE FUNDS IN THE 1401 ACCOUNTS ARE DRAWN DOWN.

BEFORE CLOSING, I WANT TO TAKE A MOMENT TO THANK SECRETARY FAJT FOR HIS EFFORTS IN THIS REGARD. IT WAS WITHIN HIS DISCRETION TO DRAW DOWN THESE ACCOUNTS, BUT HE RECOGNIZED THE ISSUE OF FAIRNESS AND HAS TAKEN EVERY STEP TO CONSIDER THE VIEWS OF THE GAMING INDUSTRY AS WELL AS THE VIEWS OF THE GENERAL ASSEMBLY.

SECRETARY FAJT UNDERSTANDS THAT WE ARE ALL PARTNERS AND SHARE IN THE RESPONSIBILITY OF ASSURING THIS IS A RESPONSIBLE AND PROFITABLE INDUSTRY.

FINALLY, I BELIEVE IT IS CRUCIAL THAT WE UNDERSTAND POINT AND TIME. WE ARE AT A POINT WHERE THE BOARD IS ENTERING THE NEXT PHASE ENVISIONED BY THE ACT; THE REGULATION OF A NEW INDUSTRY. AND ACCORDING TO ONE GAMING EXPERT WE ARE NOW TASKED WITH OPENING ELEVEN FACILITIES, POSSIBLY FOURTEEN, IN THE NEXT TWO YEARS. NO OTHER GAMING JURISDICTION HAS BEEN REQUIRED TO UNDERTAKE AN EFFORT OF THIS MAGNITUDE.

WE ARE ALSO AT A TIME IN WHICH, TO A CERTAIN EXTENT, WE ARE LEARNING AS WE GO. EVERY OTHER PENNSYLVANIA STATE AGENCY CAN DRAW UPON PAST EXPERIENCE AND PAST BUDGETS. WE DO NOT HAVE THAT LUXURY AND WHILE WE ARE COMPARABLE TO OTHER GAMING JURISDICTIONS, THE COMPARISON WILL NEVER BE ONE APPLE TO ANOTHER.

IN THE NEXT TWO AND A HALF YEARS WE WILL WORK IN PARTNERSHIP WITH THE GAMING INDUSTRY TO OPEN ELEVEN, POTENTIALLY FOURTEEN, FACILITIES. THIS NEW INDUSTRY WILL RIVAL IN SCOPE, AND

HOPEFULLY REVENUE, ATLANTIC CITY. THE BOARD ALSO BELIEVES STRONGLY THAT PENNSYLVANIA NEEDS TO BE A TIER ONE STATE IN REGARD TO REGULATION THAT DEMANDS THE HIGHEST LEVEL OF SCRUTINY. HOWEVER, GAMING IN PENNSYLVANIA IS UNIQUE. THE GEOGRAPHICAL AREA ALONE IMPACTS EVERYTHING AS DOES THE EFFECTIVE TAX RATE OF 55%. AS WE DEVELOP ADDITIONAL EXPERIENCE AND EXPERTISE IT IS MY BELIEF THAT THE REGULATORY COST WILL LESSEN. WE WILL IMPLEMENT MEASURES THAT PROVIDE GREATER COST EFFECTIVENESS WHILE MAINTAINING STRICT REGULATORY ENVIRONMENT.

BUT AT THIS PERIOD IN TIME I BELIEVE THE COMMONWEALTH IS BEST SERVED BY STAYING AHEAD OF THE WAVE RATHER THAN CONSTANTLY ATTEMPTING TO GET OUT FROM UNDER THE WAVE. THE GAMING ACT PROVIDES MANY BENEFITS, BUT THE OVERRIDING CONCERN, WHETHER YOU VOTED YES OR NO, IS THAT THE PUBLIC BE PROTECTED AND ASSURED THAT GAMING WILL BE IMPLEMENTED IN AN ENVIRONMENT THAT UPHOLDS THE HIGHEST STANDARDS. I SIT BEFORE YOU AND SAY THAT TO AN

INDIVIDUAL, OUR AGENCY IS COMMITTED TO PROVIDING THE STRICT REGULATORY ENFORCEMENT THAT WILL NOT ONLY PROVIDE LOCAL TAX REFORM AND SAVE THE HORSE INDUSTRY BUT WILL ALSO ASSURES THE GREATEST DEGREE OF PUBLIC CONFIDENCE.

IF ANYONE HAS QUESTIONS I WILL DO MY BEST TO PROVIDE YOU WITH AN ANSWER.



February 9th, 2011

VIA E-EMAIL



HARRAH'S
CHESTER CASINO
& RACETRACK

R. Douglas Sherman
PGCB Office of Chief Counsel
P.O Box 69060
Harrisburg, PA 17110

777
Harrah's
Boulevard

Chester,
Pennsylvania
19013

TEL
800
480
8020

Re: Loan Amounts To PGCB and Related Agencies

Dear Mr. Sherman:

As requested at the December 7th, 2010, PGCB – Industry Meeting, we have assembled our input regarding the repayment of loan amounts advanced to PGCB from the General Fund. Our input on the four issues stated on page three of the Dec 7th, 2010 meeting handout is listed below:

- 1.) the frequency of the payments **Harrah's Input: Annual Basis. Such timing will line up with our suggested GTR measuring period.**
- 2.) whether the payments in proportion to GTR are based upon GTR from opening of each facility to the June 31, 2011 date or upon the last year, last quarter, or on a periodic basis moving forward **Harrah's Input: Base payments upon trailing 12-months' GTR recalculated at the time of each payment. Capturing a full annual cycle will help to ensure a more accurate view of normalized GTR without unduly emphasizing any particular peaks and valleys that might occur during the year and impact shorter measuring periods.**

We believe that the legislature recognized that all licensees (currently operating and future entrants) have benefited or will benefit from the regulatory work conducted by the State since gaming was approved in 2004 and the use of the loaned funds. Accordingly, we also believe that the legislature could not have intended to inequitably burden those properties, such as ours, that were early entrants into the market by looking at inception-to-date GTR as the appropriate measure of payment.

Further, on the same premise, future properties will benefit from the extensive regulations and processes developed for the introduction of table games in July 2010. All facilities, future and existing should share in these costs based on market share of all facilities. We suggest that a "recapture" mechanism should



be instituted to ensure that new facilities coming to the market should be required to pay a proportionate share of the loans, and that appropriate portions of such payments should be spread among those licensees who have already paid in. Such provisions would be akin to the recapture provisions of water and sewer extensions required of new developers that return portions of "tie-in" fees to the developer as additional users are added to a system.

- 3.) whether the payments begin on the first day the eleventh licensed facility opens or at a later date after the eleventh facility has established a period of GTR **Harrah's Input: Begin payments at least one (1) year after the eleventh facility has established a 1-year period of GTR.**

New facilities tend to experience levels of GTR in the first few weeks of operation that are not representative of the ongoing, longer term level of business. Fairness might suggest that calculation of a normalized GTR for a new facility should not take into consideration the first month after the opening of a new facility. A similar measuring period might be used for additional new market entrants as suggested in paragraph 2, above.

- 4.) the length of time over which the payments will be repaid **Harrah's Input: Repay loans over a ten (10) year period. Such timing will be compliant with the legislative mandate and will not impact the callable feature of the loans, but will minimize the additional burden on licensees in an already heavily-taxed environment.**

Please let me know if you have any questions. Thank you

Sincerely,

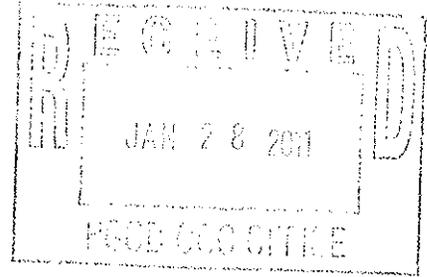


Travis G. Lamb
VP Finance, Harrah's Chester

Cc: Kevin O'Toole
Ron Baumann
N. Lynne Hughes
William J. Downey



HOLLYWOOD Casino
at PENN NATIONAL RACE COURSE



January 27, 2011

Via Overnight Delivery

R. Douglas Sherman, Esquire
Chief Counsel
Pennsylvania Gaming Control Board
303 Walnut Street
5th Floor, Verizon Tower
Harrisburg, PA 17101-1825

Re: Repayment of Loans Pursuant to Section 1799-E(g) of the Fiscal Code

Dear Mr. Sherman:

Thank you for the opportunity to offer the following comments regarding establishing a repayment schedule for the loans from the Property Tax Relief Reserve Fund as mandated by Section 1799-E(g) of the Fiscal Code, 72 P.S. § 1799-E(g). We understand the expenses incurred in regulating the gaming industry, including those temporarily paid for with loans from the Property Tax Relief Reserve Fund, must be repaid by the industry. Mindful of this obligation, we recommend the following measures to mitigate the impact on the gaming facilities during a period where each facility will be repaying the loans at the same time as they are paying their share of the ongoing expenses incurred in regulating the gaming industry.

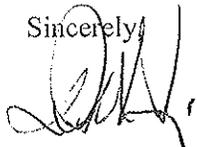
- 1) The payments should be spread out over the maximum period permitted – ten years – to reduce the amount that each facility must pay at one time while also contributing into their Section 1401 Accounts.
- 2) Each facility's obligation to repay the loans should be in proportion to the facility's average monthly gross terminal revenue calculated on a rolling basis before each assessment. By averaging each facility's monthly performance over the history of their operations, this calculation takes into account the full history of revenue generation at each facility. At the same time, it applies an apples-to-apples comparison even though each facility has been open for different periods of time. Lastly, updating the average before each assessment also takes into account the ongoing performance of each facility.¹
- 3) The repayment and assessment schedule should incorporate the participation of each additional licensee to open after the 11th facility. Extending the repayments over ten years allows for those licensees to participate after their opening.
- 4) The payments should be annual starting on the first anniversary of the opening of the 11th facility. We understand that a facility's gross terminal revenue spikes for a short period after opening. Starting the repayments on the first anniversary allows the facility a year to generate a stabilized average

¹ For illustrative purposes, each facility's average monthly gross terminal revenue calculated as of January 1, 2011 is listed in Appendix A.

monthly gross terminal revenue. A single annual payment will reduce the administrative burden for the facilities.

5) Each facility's obligation to repay these loans should be reduced by the facility's \$800,000 payment that was required at the time the facility opened. This \$800,000 payment was in addition to the assessed 1.5% of gross terminal revenue withdrawn from the facility's Section 1401 Account and should be treated as a credit against the future repayment of these loans.

Sincerely,

A handwritten signature in black ink, appearing to read 'Frank Quigley', written over the word 'Sincerely,'.

Frank Quigley
General Manager

Appendix A

	Total GTR Thru 1/1/2010	Months of Operation	Avg Monthly GTR Thru 1/1/2011	% Avg Monthly GTR Thru 1/1/2011
Mohegan Sun	\$828,313,007.21	50	\$16,566,260.14	8.94%
Parx Casino	\$1,397,877,076.71	49	\$28,528,103.61	15.39%
Harrah's Chester Downs	\$1,226,852,521.73	48	\$25,559,427.54	13.79%
Presque Isle	\$643,746,943.02	47	\$13,696,743.47	7.39%
The Meadows	\$896,263,198.42	43	\$20,843,330.20	11.24%
Mount Airy	\$510,581,320.26	39	\$13,091,828.72	7.06%
Hollywood Casino	\$662,243,431.53	35	\$18,921,240.90	10.21%
Sands Bethlehem	\$401,003,727.08	20	\$20,050,186.35	10.82%
The Rivers	\$320,711,546.85	17	\$18,865,385.11	10.18%
SugarHouse	\$37,076,303.75	4	\$9,269,075.94	5.00%
11 th facility	\$0.00	0	\$0.00	0.00%
Total	\$6,924,669,076.56		\$185,391,581.98	100.00%

Each facility's percentage of average monthly gross terminal revenue would be less than listed because this calculation assumes no gross terminal revenue by the 11th facility. After a year of operations at the 11th facility, the percentage of average monthly gross terminal revenue at the other facilities will decrease. It will continue to decrease as additional facilities began their operations.



January 31, 2011

Mr. R. Douglas Sherman, Esq.
Chief Counsel
Pennsylvania Gaming Control Board
303 Walnut Street, Strawberry Square
Verizon Tower, 5th Floor
Harrisburg, PA 17101-1825

Re: Sands Bethworks Gaming LLC's Comments on PGCB Property Tax Relief Reserve Fund Loan Repayment Calculation

Dear Doug:

During the December 7, 2010 Pennsylvania Gaming Control Board ("PGCB" or "Board") Industry Meeting the Board reached out to each of the Licensees to request that we provide the Board with our insight into how the loans from the Property Tax Relief Reserve Fund should be repaid.

Sands Bethworks Gaming LLC (the "Sands") proposes the methods of repayment outlined below for the different loans.

2004 Gaming Act Funding: \$36,100,000

This loan was necessitated by the creation of the PGCB, and thus all licensees should bear some percentage of the expenses associated with the establishment of the Board. The Sands proposes that once all of the licenses have been issued and all of the Licensees are operating, repayment of the loan should be made on an annual basis over a ten year time period. Thus, the total annual amount of the loan repayment from all Licensees would be \$3.61 Million.

The total annual repayment amount that each Licensee would be responsible for paying should be based upon the *cumulative* gross terminal revenues ("GTR") of each Licensee since their individual opening dates as a percentage of total *cumulative* GTR of all Licensees beginning with the opening date of the first casino through the annual

date of repayment. This calculation would be adjusted each due date to account for the *cumulative* GTR of all of the Licensees for each of the 10 annual payments.

Subsequent Funding from Property Tax Relief Reserve Fund

FY 2007-08	22,415,093
FY 2008-09	18,904,810
FY 2009-10	<u>22,531,500</u>
Total due	63,851,403

Each of the above listed loans were taken out to fund the ongoing operations of the PGCB, and more specifically to oversee the operations of the casinos that were open during each of those three fiscal years. The structural costs associated with the creation and establishment of the PGCB were already absorbed in the 2004 loan totaling \$36.1 Million. The Licensees that were operating during each of those years reaped the direct benefit, and incurred the financial burden of the regulatory oversight. Thus, only the casino Licensees that were operating during each of the individual fiscal years between 2007 and 2010 should be assessed a portion of the repayment.

The Sands proposes that once the 11th casino Licensee has commenced operations, the total of the Property Tax Relief Reserve Fund loans should be repaid over a 10 year time period. The annual repayments therefore would total \$6.38 Million.

The total annual repayment amount that each Licensee would be responsible for paying should be based upon the GTR of each Licensee that was open and operating during the period of time (fiscal year basis) that each of the individual loans were incurred as a percentage of total industry GTR during the same period. See the charts below outlining GTR and the proposed repayment schedule.

Proposed Subsequent Funding \$63.8M Loan Repayment
Gross Terminal Revenue

		Fiscal '07-08	%	Fiscal '08-09	%	Fiscal '09-10	%	Fiscal '07-10	%
Mohegan Sun	1	170,648	12.15%	216,042	12.32%	222,587	10.28%	609,277	11.44%
Parx	2	325,168	23.15%	356,256	20.31%	381,652	17.63%	1,063,076	19.97%
Harrahs	3	332,786	23.69%	319,601	18.22%	306,765	14.17%	959,152	18.02%
Presque Isle	4	161,674	11.51%	167,850	9.57%	164,699	7.61%	494,223	9.28%
Meadows	5	231,204	16.46%	264,489	15.08%	261,072	12.06%	756,765	14.22%
Mount Airy	6	110,592	7.87%	180,211	10.27%	145,439	6.72%	436,242	8.19%
Hollywood	7	72,682	5.17%	219,230	12.50%	246,992	11.41%	538,904	10.12%
Sands	8	-	0.00%	30,324	1.73%	240,176	11.09%	270,500	5.08%
Rivers	9	-	0.00%	-	0.00%	195,458	9.03%	195,458	3.67%
Sugarhouse	10	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Foxwoods License	11								-
Resort #1	12								-
Resort #2	13								-
Resort #3	14								-
PA Industry		1,404,753	100.00%	1,754,003	100.00%	2,164,840	100.00%	5,323,596	100.00%

This chart sets forth for each year the GTR of each Licensee that was open during that year, as determined from the published numbers on the Board's website, and the percentage that each Licensee's GTR bears to the total GTR by year. Each Licensee's share of the annual loan payment for each of the three years would then be its stated percentage times the loan amount for that year.

Proposed Subsequent Funding \$63.8M Loan Repayment
Based on Gross Terminal Revenue

										(alternative 1)									
										Fiscal '07-08	%	Fiscal '08-09	%	Fiscal '09-10	%	Total	%	Fiscal '07-10	%
Loans Incurred										22,415,093		18,904,810		22,531,500		63,851,403		63,851,403	
Mohegan Sun	1	2,722,961	12.15%	2,328,519	12.32%	2,316,668	10.28%	7,368,148	11.54%	7,307,685	11.44%								
Parx	2	5,188,578	23.15%	3,839,758	20.31%	3,972,205	17.63%	13,000,541	20.36%	12,750,567	19.97%								
Harrahs	3	5,310,134	23.69%	3,444,693	18.22%	3,192,787	14.17%	11,947,614	18.71%	11,504,105	18.02%								
Presque Isle	4	2,579,761	11.51%	1,809,103	9.57%	1,714,177	7.61%	6,103,041	9.56%	5,927,725	9.28%								
Meadows	5	3,689,227	16.46%	2,850,690	15.08%	2,717,220	12.06%	9,257,136	14.50%	9,076,667	14.22%								
Mount Airy	6	1,764,673	7.87%	1,942,331	10.27%	1,513,720	6.72%	5,220,724	8.18%	5,232,303	8.19%								
Hollywood	7	1,159,759	5.17%	2,362,881	12.50%	2,570,681	11.41%	6,093,321	9.54%	6,463,640	10.12%								
Sands	8	-	0.00%	326,835	1.73%	2,499,731	11.09%	2,826,566	4.43%	3,244,382	5.08%								
Rivers	9	-	0.00%	-	0.00%	2,034,311	9.03%	2,034,311	3.19%	2,344,328	3.67%								
Sugarhouse	10	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%								
Foxwood License	11	-	-	-	-	-	-	-	-	-	-								
Resort #1	12	-	-	-	-	-	-	-	-	-	-								
Resort #2	13	-	-	-	-	-	-	-	-	-	-								
Resort #3	14	-	-	-	-	-	-	-	-	-	-								
PA Industry		22,415,093	100.00%	18,904,810	100.00%	22,531,500	100.00%	63,851,403	100.00%	63,851,403	100.00%								

In the first eight columns, this chart sets forth for each Licensee the total payment that would be required by Licensee for each of the three budget years and in total for all three years over the ten year re-payment period. In other words, the amount listed represents the product of each Licensee's percentage share of gross revenue, which is determined from the first chart, times the total payment required over the ten year payment period for each of the three years plus a total for all three years. As such, it is a presentation of the payment requirements in dollars of each Licensee's annual payments as distinguished from the presentation in the first chart that is a presentation of the GTR of each Licensee per year to arrive at the stated percentage responsibility of each Licensee as listed in each chart.

However, if the Board does not find such a calculation to be feasible, an alternative method of repayment could be calculated based upon the *cumulative* GTR of each Licensee operating during the total period the loans were incurred (the 3-year fiscal time period from July 2007 through June 2010) as a percentage of total

cumulative industry GTR during the same period. See the chart above, columns labeled "Alternative 1", outlining the anticipated repayment schedule.

Under the heading "alternative 1" and in the last two columns on the right, this chart presents the total dollar obligation of each Licensee over the ten years by multiplying the percentage shares of each Licensee's GTR that are expressed as percentage shares of GTR for the sum of GTR for the three fiscal periods multiplied by the total of the three loans to arrive at the amount of the obligation for each Licensee for the ten year combined re-payment periods.

Please feel free to call me if you have any questions regarding the Sands proposal.

Regards,



Holly L. Eicher, Esq.
Vice President – General Counsel

C: Robert J. DeSalvio
Frederick H. Kraus, Esq.

LEVINE STALLER attorneys at law

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January 28, 2011

Via E-mail

R. Douglas Sherman
Chief Counsel
Pennsylvania Gaming Control Board
303 Walnut Street
Harrisburg, PA 17101

Re: Repayment of PGCB Loans

Dear Mr. Sherman:

Please accept the following comments/suggestions on behalf of Rivers Casino and SugarHouse Casino regarding the repayment of the outstanding PGCB loans. As you are well aware, the ten casinos that are currently operating have commenced operations at different times over the past four years:

Facility	Opening Date
Mohegan Sun	November 2006
Parx Casino	December 2006
Harrah's Chester	January 2007
Presque Isle	February 2007
Meadows	June 2007
Mount Airy	October 2007
Penn National	February 2008
Sands Bethlehem	May 2009
Rivers	August 2009
SugarHouse	September 2010

Due to the staggered opening dates, the vast majority of the Gaming Board's time and resources were expended on those facilities that were operational. As such, we respectfully suggest that the loan repayment schedule should reflect this situation.

The following table depicts each slot machine licensee's proportional share of overall gross terminal revenue for fiscal years 2007--08, 2008--09, and 2009--10.

	<u>FY 07 - 08</u>		<u>FY 08 - 09</u>		<u>FY 09 - 10</u>	
	<u>GTR</u>	<u>% of GTR</u>	<u>GTR</u>	<u>% of GTR</u>	<u>GTR</u>	<u>% of GTR</u>
Mohegan	\$170,647,899	12.1%	\$216,041,735	12.3%	\$222,586,870.22	10.3%
Parx	\$325,168,059	23.1%	\$356,255,719	20.3%	\$381,651,762.43	17.6%
Chester	\$332,785,935	23.7%	\$319,601,304	18.2%	\$306,764,863.25	14.2%
Presque	\$161,673,530	11.5%	\$167,849,999	9.6%	\$164,699,164.47	7.6%
Meadows	\$231,203,755	16.5%	\$264,489,169	15.1%	\$261,072,067.86	12.1%
Mt Airy	\$110,592,025	7.9%	\$180,210,947	10.3%	\$145,439,085.56	6.7%
Penn	\$72,682,056	5.2%	\$219,229,940	12.5%	\$246,992,498.11	11.4%
Sands	\$0	0.0%	\$30,323,977	1.7%	\$240,175,621.18	11.1%
Rivers	\$0	0.0%	\$0	0.0%	\$195,457,832.17	9.0%
SugarHouse	\$0	0.0%	\$0	0.0%	\$0	0.0%
	\$1,404,753,259	100.0%	\$1,754,002,790	100.0%	\$2,164,839,765	100.0%

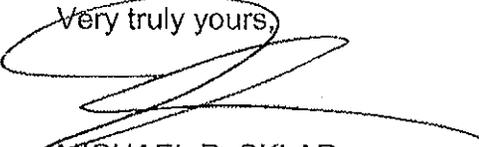
Based on the foregoing, the loans made to the Gaming Board for each of the following fiscal years should be allocated as follows and repaid over a ten year period commencing on the date that the 11th slot machine licensee has commenced operations:

	<u>FY 07-08</u>	<u>FY 08-09</u>	<u>FY 09-10</u>	<u>Total</u>	<u>Payments Each Year for 10 yrs</u>
Mohegan	2,722,961	2,328,519	2,316,668	7,368,148	736,815
Parx	5,188,578	3,839,758	3,972,205	13,000,541	1,300,054
Chester	5,310,134	3,444,693	3,192,787	11,947,614	1,194,761
Presque	2,579,761	1,809,103	1,714,177	6,103,041	610,304
Meadows	3,689,227	2,850,690	2,717,220	9,257,136	925,714
Mt Airy	1,764,673	1,942,331	1,513,720	5,220,724	522,072
Penn	1,159,759	2,362,881	2,570,681	6,093,321	609,332
Sands	-	326,835	2,499,731	2,826,566	282,657
Rivers	-	-	2,034,311	2,034,311	203,431
SugarHouse	-	-	-	-	-
Loan	-	-	-	-	-
Amounts	22,415,093	18,904,810	22,531,500	63,851,403	

We believe that each of the annual payments should be paid on a quarterly basis. Further, we suggest that Gaming Board loans in future fiscal years, if any, should be apportioned in a similar fashion.

Thank you for your consideration. We are available to discuss this issue in further detail at your convenience.

Very truly yours,



MICHAEL D. SKLAR

MDS/mi

cc: Kevin O'Toole
Steve Cook
Greg Carlin
Dave Patent
Wendy Hamilton
Mary Cheeks

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January 28, 2011

Via E-mail

R. Douglas Sherman, Esquire
Chief Counsel
Pennsylvania Gaming Control Board
303 Walnut Street
5th Floor, Verizon Tower
Harrisburg, PA 17101-1825

Re: Repayment of Loans Pursuant to Section 1799-E(g) of the Fiscal Code

Dear Mr. Sherman:

As you know, this firm represents Valley Forge Convention Center Partners, LP (“Valley Forge”), an applicant approved for a Category 3 slot machine license. I write to you in response to your request made at the December 7, 2010 industry meeting that the slot machine licensees provide input regarding establishing a repayment schedule for the loans from the Property Tax Relief Reserve Fund as mandated by Section 1799-E(g) of the Fiscal Code, 72 P.S. § 1799-E(g). We appreciate you affording us an opportunity to offer the following comments on setting the repayment schedule and assessment to each slot machine licensee.

1. Background on Funding for Regulating the Gaming Industry

As you noted at the industry meeting, costs incurred in the regulation of the gaming industry described in 4 Pa. C.S. § 1402 are borne by the gaming industry and the Gaming Act establishes a “Section 1401 Account” for each licensee out of which those costs are paid. For the initial start-up costs prior to the opening of any of the licensed gaming facilities, the General Assembly financed all the regulatory activities described in 4 Pa. C.S. § 1402 through the end of fiscal year 2006-07 with a \$36.1 million loan from the General Fund. 4 Pa. C.S. § 1901. At the conclusion of fiscal year 2006-07, however, the first five of Pennsylvania’s licensed gaming facilities only just began their operations.¹ Two additional facilities opened during fiscal year 2007-08.²

¹ Mohegan Sun (November 2006), Parx Casino (December 2006), Harrah’s Chester Downs (January 2007), Presque Isle Downs (February 2007), and the Meadows (June 2007).

² Mount Airy (October 2007) and Hollywood Casino (February 2008). Sands Bethlehem did not open until May 2009 and Rivers Casino only opened in August 2009.

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Consequently, the General Assembly borrowed \$22,415,093 from the Property Tax Relief Reserve Fund to finance the Board's operations for fiscal year 2007-08 rather than impose the immediate financial burden on the fledgling industry. The General Assembly borrowed an additional \$18,904,810 and \$22,531,500 for the Board's operations in fiscal years 2008-09 and 2009-10.³ These loans reduced each facility's obligations to submit funds into their Section 1401 Accounts for significant periods while they opened and established themselves.

2. Repayment of the Loans for Funding for Regulating the Gaming Industry

The initial \$36.1 million loan funded the regulatory agencies' initial expenditures thereby benefiting all future licensees. 4 Pa. C.S. § 1901. Section 1901.1 of the Gaming Act directs that repayment of this loan will commence when "all licensed gaming entities have commenced the operation of slot machines" and the assessment will be shared by all 14 licensees in proportion to each licensee's gross terminal revenue. 4 Pa. C.S. § 1901.1

However, the three subsequent loans from the Property Tax Relief Reserve Fund no longer represent the initial start-up costs of the regulatory agencies. Section 1799-E(g) of the Fiscal Code directs the Board to establish a schedule by June 30, 2011 for the repayment of these loans with payments beginning when the eleventh licensed gaming facility begins operating. 72 P.S. §1799-E(g). While the Board is left with substantial discretion, the Fiscal Code requires that the repayment schedule:

(i) Sets forth the dates upon which the repayments shall be due. Payments may be required on a quarterly, semiannual or annual basis.

(ii) Assesses to each slot machine licensee costs for repayment of loans from the Property Tax Relief Reserve Fund made under sections 1720-G, 1720-I and 1720-K in an amount that is proportional to each slot machine licensee's gross terminal revenue.

(iii) Results in full repayment of amounts loaned pursuant to sections 1720- G, 1720- I and 1720-K not earlier than five years nor later than ten years following commencement of the loan repayments by the slot machine licensee.

Id. Presently, ten casinos are operating in the Commonwealth. Valley Forge, approved for licensure by the Board on May 8, 2009, expects to be the eleventh facility to begin operations. Operations are projected to begin approximately nine months after the Board's Order is final and unappealable. Consequently, the commencement of slot operations at Valley Forge would trigger the repayment of the three loans from the Property Tax Relief Fund.

³ In total, these three loans from the Property Tax Relief Reserve Fund amount to \$63,851,403.

3. **Comments on Setting the Repayment and Assessment Schedule for Each Licensee**

As the Board considers the repayment schedule and the period of gross terminal revenue with respect to which each licensee's proportional share is determined, there are undoubtedly several variables that the Board controls. The following section presents several policies that Valley Forge believes should be reflected in the Board's final decision. The final section proposes a specific repayment and assessment schedule that accomplishes these policies.

- a. **The expenses for regulating the gaming industry should be borne by those who were actively participating in the industry.**

The subsequent loans from the Property Tax Relief Reserve Fund provided facilities temporary relief by reducing their contributions to their Section 1401 Accounts during each loan period so that the facilities had a period of time to establish themselves. Now that the facilities are established, the amount that a facility submits for repayment of each loan should be commensurate with the extent to which the facility would have paid without the deferment. The extent to which the facility would have paid without the deferment would be measured by the facility's gross terminal revenue during each respective loan period. The fact that the General Assembly designated gross terminal revenue as the benchmark for each licensee's assessment evidences the General Assembly's intent that a licensed operator should only be required to share in the regulatory costs to the extent that it benefited from the regulatory structure which allowed that licensee to operate in the Commonwealth.

Moreover, assessment on the basis of each facility's gross terminal revenue during the relevant loan periods is consistent with the manner in which the licensees paid for the regulatory activities set forth in Section 1402 of the Gaming Act other than the Board's operations. Those payments were based on the gross terminal revenue generated at each of the licensed facilities in the Commonwealth during the loan periods.

Facilities that opened after one or all of the loan periods, such as Valley Forge, should not be required to contribute to the repayment of the loans from the Property Tax Relief Reserve Fund prior to their operations. Repayment of the loans must be based on gross terminal revenue and Valley Forge did not generate any gaming revenues during the loan periods for these three loans.

Of course, the Board's expenses incurred by virtue of Valley Forge's application for licensure, such as the background investigation and licensing of Valley Forge and its principals, have been directly assessed to and paid by Valley Forge in the form of application and licensing fees. In addition, Valley Forge will remain responsible for the initial and weekly deposits into its Section 1401 Account to pay its share of the ongoing costs incurred in the regulation of the gaming industry described in 4 Pa. C.S. § 1402.⁴

⁴ See Section 4.a for a detailed schedule illustrating this proposed repayment scenario.

- b. Each licensee should be afforded at least one year to establish a stable level of gross terminal revenue before participating in this repayment schedule.**

While each gaming facility's financial responsibility for Board operations should be commensurate with their level of activity – i.e. their gross terminal revenue – during the relevant loan period, Valley Forge understands that the earliest facilities to open will request that their burden under Sections 1401 and 1402 of the Gaming Act should be shifted to those who opened subsequently. Nonetheless, these facilities enjoyed the benefit of deferring payments into their Section 1401 Accounts during a period of initial operations, some for more than four years. In the event the burden is shifted at all to facilities that opened after the relevant loan period, each facility should be assured a similar period during which their payments are abated.

This abatement period allows the licensee a period of time during which they can establish themselves in the marketplace with one reduced regulatory expense and allows for their gross terminal revenue to stabilize after the initial surge that all new gaming facilities experience in their first months of operation. This does not preclude the PGCB from initiating the loan recovery payments from the other ten casinos during the period of deferment and it does not excuse the new gaming facilities from remaining responsible for initial and weekly deposits into their Section 1401 Account to pay their share of the ongoing costs incurred in the regulation of the gaming industry described in 4 Pa. C.S. § 1402.

- c. The repayment schedule should acknowledge that additional licensees will begin operations during the period of repayment.**

Each facility's obligation to pay its share of the costs incurred in the regulation of the gaming industry should not be shifted from those that were open during the respective loan periods to the facilities that opened subsequently. However, in the event that the obligations are shifted in part, the Board's repayment and assessment schedule should acknowledge the additional licensees that will open after the 11th facility and require their participation as well.

4. Proposed Assessment and Repayment Scenario

- a. Repayment assessed on the basis of each facility's gross terminal revenue during the relevant loan period**

For the reasons described above, assessing each facility a portion of each loan amount in proportion to the facility's gross terminal revenue during the relevant loan period best meets the purposes of the three loans from the Property Tax Relief Reserve Fund.

For the Board's convenience, I attach as Appendix I a schedule setting forth each facility's gross terminal revenue during each loan period, their percentage of total gross terminal revenue during each loan period, and their portion of the loan amount as a proportion to their gross terminal revenue during the loan period. The schedule also totals the amount assessed to each facility and, for the sake

of comparison, the schedule also sets forth the percentage assessed to each facility under this approach. The assessment set forth under this approach may then be paid in quarterly, semiannual or annual installments by each facility scheduled out over five to ten years in accordance with Section 1799-E(g)(2)(i) and (iii) of the Fiscal Code.

b. Repayment assessed on the basis of first ten years of gross terminal revenue industry-wide

In the alternative, the Board may consider a compromise approach that still incorporates all gross terminal revenue generated at each facility since their opening but also incorporates the participation of each facility that opens subsequently. For example, the basic schedule copied below distributes the repayment equally over ten annual installments beginning with the opening of the 11th facility. Each annual installment is assessed in proportion to each facility's gross terminal revenue for one fiscal year starting with the first fiscal year with gross terminal revenue (fiscal year 2006-07). By starting with the first fiscal year, the repayment of the loan is staggered evenly from each facility's opening; each facility will begin participating in the repayment four to five years after their opening.

Basic Schedule		
Date of Assessment	Amount of Installment	Basis Period for Each Licensee's Proportional Share
Opening of 11th Facility	\$6,385,140.30	Each Licensee's Percentage of Total Gross Terminal Revenue in Fiscal Year 2006-07
1st Anniversary thereof	\$6,385,140.30	Each Licensee's Percentage of Total Gross Terminal Revenue in Fiscal Year 2007-08
2nd Anniversary thereof	\$6,385,140.30	Each Licensee's Percentage of Total Gross Terminal Revenue in Fiscal Year 2008-09
3rd Anniversary thereof	\$6,385,140.30	Each Licensee's Percentage of Total Gross Terminal Revenue in Fiscal Year 2009-10
4th Anniversary thereof	\$6,385,140.30	Each Licensee's Percentage of Total Gross Terminal Revenue in Fiscal Year 2010-11
5th Anniversary thereof	\$6,385,140.30	Each Licensee's Percentage of Total Gross Terminal Revenue in Fiscal Year 2011-12
6th Anniversary thereof	\$6,385,140.30	Each Licensee's Percentage of Total Gross Terminal Revenue in Fiscal Year 2012-13
7th Anniversary thereof	\$6,385,140.30	Each Licensee's Percentage of Total Gross Terminal Revenue in Fiscal Year 2013-14
8th Anniversary thereof	\$6,385,140.30	Each Licensee's Percentage of Total Gross Terminal Revenue in Fiscal Year 2014-15
9th Anniversary thereof	\$6,385,140.30	Each Licensee's Percentage of Total Gross Terminal Revenue in Fiscal Year 2015-16 ⁵

⁵ For the Board's convenience, I also attach as Appendix 2 an illustration of this schedule using the Board's actual gross terminal revenue data, including the projected total amount (continued...)

R. Douglas Sherman, Esquire
January 28, 2011
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Assessments for each facility under this approach may then be paid in quarterly, semiannual or annual installments by each facility scheduled in accordance with Section 1799-E(g)(2)(i) and (iii) of the Fiscal Code.

This schedule balances equally between gross terminal revenue already earned and prospective gross terminal revenue. The first five annual installments will be based on fiscal years 2006-07 through 2010-11, which will all be completed by the time the 11th facility opens. The final five annual installments will be based on prospective installments. The schedule also ensures that (i) the payments for each facility are abated for a period since the basis period for each proportional share is before the date of the assessment and (ii) the facilities opening after the 11th facility will participate when each opens.

We appreciate this opportunity to provide comment and thank you in advance for your consideration.

Sincerely,



Adrian R. King, Jr.

(...continued)

assessed to each facility and, for the sake of comparison, the projected percentage of the full loan amount that would be assessed to each facility under this approach.

Appendix 1

	FY 2007/08 GTR		FY 2008/09 GTR		FY 2009/10 GTR		% of Total Loan Amount	
	% of Total FY 2007/08 GTR	Portion of FY 2007/08 Loan	% of Total FY 2008/09 GTR	Portion of FY 2008/09 Loan	% of Total FY 2009/10 GTR	Portion of FY 2009/10 Loan	% of Total Loan Amount	Portion of Total Loan
<i>Relevant Loan Amount:</i>	\$22,415,093		\$18,904,810		\$22,531,500		\$63,851,403	
<u>Mohegan Sun</u>	\$170,647,898.99 12.15%	\$2,722,961.13	\$216,041,734.89 12.32%	\$2,328,518.50	\$222,586,870.22 10.28%	\$2,316,668.49	\$7,368,148.12 11.54%	
<u>Parx Casino</u>	\$325,168,058.60 23.15%	\$5,188,578.30	\$356,255,718.80 20.31%	\$3,839,758.24	\$381,651,762.43 17.63%	\$3,972,204.70	\$13,000,541.24 20.36%	
<u>Harrah's Chester Downs</u>	\$332,785,935.18 23.69%	\$5,310,133.75	\$319,601,304.40 18.22%	\$3,444,693.46	\$306,764,863.25 14.17%	\$3,192,787.12	\$11,947,614.32 18.71%	
<u>Presque Isle Downs</u>	\$161,673,530.44 11.51%	\$2,579,760.68	\$167,849,999.39 9.57%	\$1,809,103.36	\$164,699,164.47 7.61%	\$1,714,177.32	\$6,103,041.36 9.56%	
<u>The Meadows</u>	\$231,203,754.80 16.46%	\$3,689,227.01	\$264,489,169.20 15.08%	\$2,850,689.59	\$261,072,067.86 12.06%	\$2,717,219.72	\$9,257,136.32 14.50%	
<u>Mount Airy</u>	\$110,592,025.26 7.87%	\$1,764,673.27	\$180,210,946.78 10.27%	\$1,942,330.84	\$145,439,085.56 6.72%	\$1,513,719.77	\$5,220,723.88 8.18%	
<u>Hollywood Casino</u>	\$72,682,055.77 5.17%	\$1,159,758.86	\$219,229,940.27 12.50%	\$2,362,881.28	\$246,992,498.11 11.41%	\$2,570,680.55	\$6,093,320.69 9.54%	
<u>Sands Bethlehem</u>	Not Open		\$30,323,976.63 1.73%	\$326,834.72	\$240,175,621.18 11.09%	\$2,499,730.97	\$2,826,565.69 4.43%	
<u>The Rivers</u>	Not Open		Not Open		\$195,457,832.17 9.03%	\$2,034,311.37	\$2,034,311.37 3.19%	
<u>SugarHouse</u>	Not Open		Not Open		Not Open		0.00%	\$0.00
<u>Valley Forge</u>	Not Open		Not Open		Not Open		0.00%	\$0.00

Appendix 2

Detailed Schedule

	% of Total GTR in Fiscal Year 2007		% of Total GTR in Fiscal Year 2008		% of Total GTR in Fiscal Year 2009		% of Total GTR in Fiscal Year 2009	
	Allocated Portion of 1st Installment	Allocated Portion of 2nd Installment	Allocated Portion of 3rd Installment	Allocated Portion of 4th Installment	Allocated Portion of 5th Installment	Allocated Portion of 6th Installment	Allocated Portion of 7th Installment	
Mohegan Sun	\$1,503,750.30	\$775,659.90	\$786,462.14	\$1,503,750.30	\$775,659.90	\$786,462.14	\$1,503,750.30	
Parx Casino	\$2,026,677.46	\$1,478,013.07	\$1,296,886.62	\$2,026,677.46	\$1,478,013.07	\$1,296,886.62	\$2,026,677.46	
Harrah's Chester Downs	\$1,788,337.52	\$1,512,639.23	\$1,163,452.64	\$1,788,337.52	\$1,512,639.23	\$1,163,452.64	\$1,788,337.52	
Presque Isle Downs	\$878,068.68	\$734,867.97	\$611,028.56	\$878,068.68	\$734,867.97	\$611,028.56	\$878,068.68	
The Meadows	\$188,306.35	\$1,050,909.41	\$962,826.55	\$188,306.35	\$1,050,909.41	\$962,826.55	\$188,306.35	
Mount Airy	\$0.00	\$502,683.01	\$656,026.42	\$0.00	\$502,683.01	\$656,026.42	\$0.00	
Hollywood Casino	\$0.00	\$330,367.71	\$798,068.24	\$0.00	\$330,367.71	\$798,068.24	\$0.00	
Sands Bethlehem	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
The Rivers	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
SugarHouse	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
Valley Forge	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
Total	\$6,385,140.30							

	% of Total GTR in Fiscal Year 2010		(Estimated with GTR Data Through 1/1/2011)		% of Loan Repayment Through 5 Installments		% of Loan Repayment Through 5 Installments	
	Allocated Portion of 4th Installment	Allocated Portion of 5th Installment	% of Total GTR in Fiscal Year 2011	Allocated Portion of 5th Installment	Repayment Through 5 Installments	Repayment Through 5 Installments	Total Loan Repayment Through 5 Installments	
Mohegan Sun	\$656,514.36	\$623,644.58	9.77%	\$623,644.58	\$4,346,031.29	\$4,346,031.29	\$4,346,031.29	
Parx Casino	\$1,125,672.25	\$1,061,033.80	16.62%	\$1,061,033.80	\$6,988,283.19	\$6,988,283.19	\$6,988,283.19	
Harrah's Chester Downs	\$904,795.23	\$781,829.83	12.24%	\$781,829.83	\$6,151,054.44	\$6,151,054.44	\$6,151,054.44	
Presque Isle Downs	\$485,776.03	\$484,591.59	7.59%	\$484,591.59	\$3,194,332.83	\$3,194,332.83	\$3,194,332.83	
The Meadows	\$770,025.48	\$702,241.49	11.00%	\$702,241.49	\$3,674,309.27	\$3,674,309.27	\$3,674,309.27	
Mount Airy	\$428,968.92	\$414,015.93	6.48%	\$414,015.93	\$2,001,694.28	\$2,001,694.28	\$2,001,694.28	
Hollywood Casino	\$728,498.15	\$686,908.68	10.76%	\$686,908.68	\$2,543,842.78	\$2,543,842.78	\$2,543,842.78	
Sands Bethlehem	\$708,391.94	\$726,813.61	11.38%	\$726,813.61	\$1,545,594.68	\$1,545,594.68	\$1,545,594.68	
The Rivers	\$576,497.95	\$697,572.60	10.92%	\$697,572.60	\$1,274,070.55	\$1,274,070.55	\$1,274,070.55	
SugarHouse	\$0.00	\$206,488.20	3.23%	\$206,488.20	\$206,488.20	\$206,488.20	\$206,488.20	
Valley Forge	\$0.00	\$0.00	0.00%	\$0.00	\$0.00	\$0.00	\$0.00	
Total	\$6,385,140.30	\$6,385,140.30	100.00%	\$6,385,140.30	\$31,925,701.50	\$31,925,701.50	\$31,925,701.50	

Subsequent Assessments for the 6th through 10th Installments will be Based on Future Revenue at Each Facility During Each Basis Period

Appendix 2

Assessments for the 6th through 10th Installments will be Based on Future Revenue at Each Facility During Each Basis Period

	Projected Avg Monthly GTR*	% Projected Monthly GTR	Projected Portion of Each Installment After 5th Installment	Projected Total Portion of 6th Through 10th Installments	Projected Total Portion of Full Loan Amount	Projected % of Full Loan Amount
Mohegan Sun	\$16,566,260.14	8.67%	\$553,875.01	\$2,769,375.06	\$7,115,406.35	11.14%
Parx Casino	\$28,528,103.61	14.94%	\$953,806.33	\$4,769,031.64	\$11,757,314.83	18.41%
Harrah's Chester Downs	\$25,559,427.54	13.38%	\$854,551.85	\$4,272,759.25	\$10,423,813.69	16.33%
Presque Isle Downs	\$13,696,743.47	7.17%	\$457,935.82	\$2,289,679.11	\$5,484,011.94	8.59%
The Meadows	\$20,843,330.20	10.91%	\$696,874.23	\$3,484,371.15	\$7,158,680.42	11.21%
Mount Airy	\$13,091,828.72	6.86%	\$437,711.15	\$2,188,555.76	\$4,190,250.03	6.56%
Hollywood Casino	\$18,921,240.90	9.91%	\$632,611.25	\$3,163,056.25	\$5,706,899.03	8.94%
Sands Bethlehem	\$20,050,186.35	10.50%	\$670,356.32	\$3,351,781.61	\$4,897,376.29	7.67%
The Rivers	\$18,865,385.11	9.88%	\$630,743.77	\$3,153,718.86	\$4,427,789.41	6.93%
SugarHouse	\$9,269,075.94	4.85%	\$309,901.54	\$1,549,507.71	\$1,755,995.90	2.75%
Valley Forge	\$5,586,333.33	2.93%	\$186,773.02	\$933,865.10	\$933,865.10	1.46%
Total	\$190,977,915.31	100.00%	\$6,385,140.30	\$31,925,701.50	\$63,851,403.00	100.00%

* For each existing facility, Projected Average Monthly GTR is based on the average of all months of operation for the respective facility.

For Valley Forge, it is based on the projected stabilized GTR revenue reported in the original application (\$67,036,000).