VIDEO LOTTERY OPERATION LICENSE IN BALTIMORE CITY (#2012-0101)

RESPONSES TO WRITTEN QUESTIONS
September 9, 2011

This List of Questions and Responses #8 (Q&A#8) is being issued to clarify certain information contained in the above named RFP. The statements and interpretations of License requirements, which are stated in the following questions are not binding on the State, unless the State expressly amends the RFP. Nothing in the State's responses to these questions is to be construed as agreement to or acceptance by the State of any statement or interpretation on the part of the entity asking the question as to what the License does or does not require. Some questions have been edited for brevity and clarity, and duplicate questions may have been combined or eliminated.

The following are questions submitted pursuant to the RFP and the Location Commission's responses to those questions:

68. **QUESTION:** Sec 3.1.7.2 references the need for a performance guarantee if applicant is a subsidiary.

a) Is this applicable for a newly formed LLC?

b) What format will the commission expect the Guarantee to take?

ANSWER: a) Yes, if the newly formed LLC is the subsidiary of another entity. In all cases where the Applicant is a subsidiary of another entity, it must provide a parent guarantee (see Section 3.1.7.2 of the RFP). If the newly formed LLC is not a subsidiary of another entity, depending upon the Applicant's structure and financial capacity, a performance guarantee may be required as determined by the Location Commission.

b) As stated in the RFP, "If applicable, the Applicant's Proposal must contain an explicit statement that the parent organization will guarantee the performance of the subsidiary for the construction period and at least the first 18 months of operation".

69. **QUESTION:** The current RFP process would compel an Applicant to post a significant amount of capital for a period of up to a year prior to a final determination. The capital would be 100% equity and generally comes with a high costs which prompted us to further review the implementing bill from 2007 and the RFP and resulted in the following questions:

a) Does the Location Commission have a statutory obligation to require deposit of the full license fee ($22.5 million) with initial response to the RFP (Sep 2011)?

b) Would the State consider a lowered but significant license fee deposit (~ $2-3 million) with the remainder due within days of RFP selection and prior to award of a VLT License?

ANSWER: a) Yes.

b) No

70. QUESTION: The First Amendment to the MOU makes available to a successful bidder $6,000,000 of the local impact fees the City receives under § 9-1A-31. Can the $6,000,000 that the applicant receives from the City be used to satisfy the requirement for "at least $25,000,000 in direct investment by the applicant . . ." within the meaning of § 9-1A-36(j)(3)? Or would the $6,000,000 be considered to be investment by the State and/or City?

ANSWER: The Applicant will be required to invest the $6 million during the construction phase of the Facility and may be reimbursed for eligible expenses as approved by the City at a later date. The $6 million invested by the Applicant will be allowed to be credited toward the capital investment requirement.

CLARIFICATIONS TO PREVIOUS ANSWERS TO QUESTIONS #37 & 38

Previous Answers

37. QUESTION: Section 4.3.2: Please clarify the requirements regarding Baltimore City Parking Revenue Bonds, specifically the timing of issuance of the bonds for financing of the parking garage.

a) Would the licensee be able to obtain the financing through the City prior to construction of garage? Or would the licensee be required to obtain financing for the garage and then utilize the bond revenue and transfer the garage to the City?

b) Is there a cap on the amount of taxable parking revenue bonds that the City could issue for Project? What are the terms of the bonds?

<u>ANSWER:</u> a) The Licensee must obtain financing for the parking garage. The Parking Revenue Bonds are used as take out financing once the garage is complete. Ownership of the garage will transfer to the City and the Licensee is responsible for paying down the bonds.

b) Yes. There is up to $50 million available and this amount represents all costs associated with the bonds, not just construction. The terms of the bonds are determined when they go to market.

38. **<u>QUESTION:</u>** Section 4.3.2: Who receives revenues from parking garage? Who maintains it? What other requirements associated with the garage are there?

<u>ANSWER:</u> The Licensee will operate and maintain the parking garage and any parking revenues would be received by the Licensee. Other requirements would be negotiated with the City after License award.

<u>Clarification</u>

The City has authorized up to $50 million of new parking revenue bonds. The Mayor has made a policy decision to reserve that amount to use for a parking garage serving the VLT Facility. The bonds can only be used as take out financing to repay the construction loan for the garage.

The $50 million must pay all costs associated with the bonds including issuance fees and reserves. Such fees and reserves can be as much as 10% of the amount of a large issue. Only the amount remaining after payment of issuance fees and reserves can be used to pay for the costs of construction. The bonds may not be used for the purchase of the property on which the garage is constructed.

Interest on parking revenue bonds is taxable. The most recent parking revenue bonds issued by the City had an interest rate of approximately 7% per annum. Whether the bonds can be issued, and at what interest rate, depends in part on bond market conditions at the time of the proposed issuance.

Once the bonds are issued, the City would use the bond sale proceeds available after payment of issuance costs and reserves, to purchase the completed garage from the licensee and pay off the construction loan. The City would lease the garage back to the licensee and the licensee would pay rent to the City in an amount that covers the principal and interest payments on the bonds. Once the licensee has made all the lease payments to the City, so that the City has repaid the bonds with those

payments, the City will re-convey the garage to the licensee for no charge. The City will not issue the bonds unless it is satisfied that the licensee or its successors will make the lease payments. The applicant should include in its proposal a plan to assure the City that such payments will be made.

During the term of the garage lease, the licensee must operate and maintain the garage. Revenues from the garage must be used to pay rent, and to pay for the operation and maintenance of the garage.