

PRE-PROPOSAL CONFERENCE SUMMARY
VIDEO LOTTERY OPERATION LICENSE
IN ALLEGANY COUNTY
RFP #2012-0102

July 20, 2011

At approximately 10:10 a.m., Mr. Robert Howells, Director of Procurement for the Maryland State Lottery Agency, welcomed everyone to the Pre-Proposal Conference for Video Lottery Operation License in Allegany County (RFP #2012-0102), being conducted on behalf of the Video Lottery Facility Location Commission. He introduced those present: Bonnie Kirkland, Robert Fontaine and Holly Knepper from the Office of the Attorney General; Ryan Bishop and Rachel Hise from the Department of Legislative Services; Robert Brennan, Executive Director, MEDCO; and Marie Torosino, Lottery staff and recorder.

Mr. Howells asked that if anyone did not sign-in to please do so before leaving and reminded the attendees to sign-in or clip their business card on the sign-in sheet. If there were any minority business enterprises (MBE) present, they were requested to indicate this on the sign-in sheet and he explained that prime vendors and potential MBE subcontractors should take advantage of this opportunity to network. The attached Sign-In Sheet lists the attendees at the Conference.

Mr. Howells said that a Summary of the Pre-Proposal Conference, complete and final answers to the written questions previously submitted, questions asked at the Pre-Proposal Conference, the Sign-In Sheet, and any Amendments to the RFP, if necessary, would be sent by e-mail to the attendees and to any other entities who were sent the RFP or who are known to have obtained a copy of the RFP. This information will also be published on e-Maryland Marketplace as well as the Lottery's website.

Mr. Howells said there are two separate Commissions involved in the award of the VLT license. The Video Lottery Facility Location Commission ("Location Commission") was created by the VLT law specifically for the purpose of receiving applications and awarding licenses for the VLT facilities. The Location Commission reviews the application and the proposals for technical merit for the facility and the financial proposal. Once the five licenses are awarded the Location Commission's function is completed. The Maryland State Lottery Commission ("Lottery Commission") is responsible for the background investigations and issuing the licenses to facility operators, manufacturers and employees. The Lottery Commission is also responsible for the ongoing regulation and compliance of the facilities once they are up and running, and has the task of owning and/or leasing the VLT machines and the central monitor and control system.

He noted that there were two previous RFPs issued regarding the Allegany County Location. However, they should be disregarded and applicants should be relying solely on

RFP #2012-0102, the current VLT law (Title 9, Subtitle 1A, State Government Article, Annotated Code of Maryland) and the current Lottery regulations contained in COMAR – the Code of Maryland Regulations - Title 14, Subtitle 01.

The RFP has been re-written to better conform to actual process – a license award vs. a traditional contract procurement – and to incorporate the revisions passed in Senate Bill 512:

- Increases to 50% the percentage of proceeds to the Licensee for the first 10 years
- Reduces maximum # of VLTs from 1,500 to 1,000
- Waives Initial License Fee for up to 500 VLTs (up to \$3 million)
- Prohibits Award unless the Applicant agrees to purchase the Rocky Gap Lodge & Resort
- Requires purchase price for Lodge to be counted toward applicants direct investment requirement of \$25 m per 500 VLTs
- Repeals requirement that VLTs be in a separate structure from the Lodge, and requires meeting space to be constructed if current space is displaced by VLTs
- Hours changed – open until 4:00 a.m. on weekends

Mr. Howells then went through each Section of the RFP.

SECTION 1. INTRODUCTION/OBJECTIVE

Mr. Howells reviewed Section 1 including the written questions that had been previously submitted and noted that the previously submitted questions will also be responded to in writing. No additional questions were asked.

SECTION 2. REQUEST FOR PROPOSALS TERMS AND CONDITIONS

Mr. Howells reviewed Section 2 including the written questions that had been previously submitted and noted that the previously submitted questions will also be responded to in writing. No additional questions were asked.

SECTION 3. INFORMATION REQUIRED IN APPLICANT'S PROPOSAL

Mr. Howells reviewed Section 3 including the written questions that had been previously submitted and noted that the previously submitted questions will also be responded to in writing. The following questions were also asked:

QUESTION: Is there any template or standard Peace Agreement available?

ANSWER: There is an actual redacted example of one that has been used now posted on the Lottery's website. I think the other part of your question was about does the

Commission at this point have a list of labor unions, etc. We do not have that at the moment. As we become aware of it going forward in the process, we will be happy to make you aware of the unions that expressed interest.

QUESTION: On the waste water and water facility, is there a plan or cost evaluation for the upgrade. The RFP also states that the licensee shall be responsible for the prorata share of the capital construction costs. Is there any further information with respect to the project costs in terms of payment capital costs and the impact of the Rocky Gap Resort? Will that be provided as well and will there be State bonds issued for total capital costs and then will the potential licensee be responsible for its share of the debt?

ANSWER: Part A, the answer is yes. There is additional information. We have some of that and will be publishing that in the Questions and Answers. Part B, we are in the process of determining the answer and will respond in writing.

QUESTION: As far the other major utilities, such as natural gas, electricity, description of the service record and the degree of construction service, is that available?

ANSWER: We received questions regarding the utilities, employees at Rocky Gap, and the current staffing level. We received a question about the gaming market, and if the Lottery can provide some sales figures for the area and demographics. The answer to all of those questions is yes. We are in the process of putting that together. There was a question about the current management company. Yes, we have other details we are in the process of assembling.

SECTION 5. EVALUATION AND SELECTION PROCEDURE

Mr. Howells reviewed Section 5 including the written questions that had been previously submitted and noted that the previously submitted questions will also be responded to in writing. No additional questions were asked.

SECTION 6. REQUIREMENTS OF OPERATION LICENSE AND OPERATION LICENSEE

Mr. Howells reviewed Section 6 and no additional questions were asked.

SECTION 4. FACILITY SPECIFICATIONS

Mr. Howells reviewed Section 4 including the written questions that had been previously submitted and noted that the previously submitted questions will also be responded to in writing. The following questions were also asked:

Mr. Howells said there was a question, the map of the 18 acre parcel that says this is where you can have your facility does not include the lodge. We are telling you that you can put your facility in the lodge, but it is not located in the 18 acres. This map was made before the Legislative change to the law. Add the lodge to the map. Ms. Hise said the 18 acres are carved out essentially adjacent to the lodge. If you choose to build a separate building and put the VLT facility in a separate building, it has to be located within that 18 acre parcel. You could also choose to put the VLTs in the lodge itself, in which case you would not be building a separate building and it wouldn't obviously need to go in that 18 acre parcel.

QUESTION: Would you anticipate that parking would go there also? Any new parking that needs to be added would go in the 18 acres?

ANSWER: Yes, within the 18 acres. Or if you put the VLTs in the lodge and if you displace existing meeting space, there is the requirement to replace that meeting space. That is where it would go, in that 18 acre parcel.

QUESTION: Just to clarify, suppose someone does come in with less than \$275,000 for the annual ground rent, they will not be automatically dumped, but is it highly recommended that you reconsider your position?

ANSWER: Yes. Because if you do not reconsider it now it will be an Exception to the RFP, there will come a point where you will have to reconsider it prior to award, in order for an award to be made.

QUESTION: The 18 acres, is that strictly for location of any new facilities?

ANSWER: Ms. Hise said the 18 acres would be, as currently under lease, it has been carved out as the only area where there could be additional development.

QUESTION: So the actual lease description is much bigger than that?

ANSWER: Yes, 260 acres is the total lease that MEDCO presently has for the entire lodge, which includes the golf course. The 18 acres is just a small piece of the overall 260 acres.

QUESTION: The 260 acres is the entire facility and within that footprint there is 18 acres where you could do the development?

ANSWER: Correct.

QUESTION: Isn't the entire State Park a couple thousand acres?

ANSWER: It is 3,500 acres.

QUESTION: Entity that holds the license or the association?

ANSWER: Yes. Whether there is an existing entity or a new entity, whatever that entity is, that would be buying the lodge and either owning or operating the VLT facility, it doesn't necessarily have to be the same entity that is buying the lodge and holding the VLT license.

QUESTION: Basically, it is the position of the Location Commission that it is grounds for rejection if there is any contact with any interested parties, as far as approval. As an interested party, does that include MEDCO, bondholders?

ANSWER: Yes. We realize at this point that this project has been in the wind for sometime and there have been many people that have had an interest over the course of literally years, and that there may have been discussions with various parties in the past. What we are saying is now going forward with this new RFP the rules from this day forward are that all the contacts and all the discussions need to come through the official RFP process and Mr. Howells.

QUESTION: To clarify this again, we will submit to you requests in question form or request for meetings, let's say with a bondholder?

ANSWER: If you have questions, send me your questions. If you want a meeting with a particular entity, send me that request and we will get some timeframes when we can accommodate that. We will set that up with you. If you want to visit the sites, send me the request. We want to make sure that everybody's getting consistent information, and that there is no appearance of any favoritism or discriminatory activity.

QUESTION: The bondholders obviously have a significant say in the deal that they strike when they have to be approved by the Board of Public Works. But, if three people go to the bondholders and offer a different scenario of purchasing the bonds or as you say giving them an equity stake, who is going to have the decision on which deal the bondholders take? Is that going to be that you are going to decide in the RFP or is whatever deal somebody offers is going to be made public and offered to each applicant?

ANSWER: Ms. Hise said you may meet with the bondholders prior to submitting your proposal. You might discuss with them, but you are not going to be negotiating with them at that point. What you are going to do is fill out your proposal and fill out Exhibit B and make your best offer. Then once all the proposals are received, during the discussion and negotiation process referenced in Section 5.4, the Location Commission will bring the parties together to discuss what you have offered and see if we can get to an agreement.

QUESTION: So you are going to bring all the parties together, all of our proposals that were submitted, everybody is going to sit down or are you only going to bring only the one at the top?

ANSWER: It will be at the Commission's discretion whether they bring all proposers in or only selectively, for various reasons. It would not likely be all at once either. It will be with the individuals, with their various proposals.

QUESTION: For the purchase of the improvements, the existing facility operator is credited towards the \$25 million?

ANSWER: Yes

QUESTION: The \$275,000 is the ground lease payment for 15 years, does it count towards the \$25 million?

ANSWER: We will respond to this question in writing.

QUESTION: The offer for the purchase of the lodge includes the cash and equity. Does that equity count towards that overall expense?

ANSWER: Yes, we will come up with some way to calculate the net present value of what you are proposing.

QUESTION: As evaluation as part of the license?

ANSWER: We need to come up with an actual figure that would be counted towards the \$25 million.

QUESTION: Some profitably though, cash flow that is being generated through the project?

ANSWER: We will respond to that question in writing.

QUESTION: I guess it would be depending on what you offered because theoretically all the bondholders' debts go away, so they would have to be a new partner or new venture?

ANSWER: Correct. The bottom line is to include all of that in your proposal so the Commission can then evaluate. We need as much background structure information that you have. There is no right or wrong answer. We realize we are going to get a variety of different structures and so forth proposed. In regards to the value in circumstances where we are going to need to calculate a value for what you are proposing, please give us what your calculation is and whatever back-up or evidence that would support your calculations.

QUESTION: Equity that is offered to the bondholder, are they pre-approved as licensee/partners, entity part of the licensees? Or do they fall under that separate kind of investors that don't have to be licensed?

ANSWER: We will respond to that question in writing.

QUESTION: In that response, could you also address the structure that was created when the bondholders were completely passive, like when they became limited partners in the structure?

ANSWER: There are some licensing provisions for institutional investors that are passive, Mr. Fontaine said depending on how small a share it is. There is a difference between someone who owns a share of the operation license being licensed versus having the background. Ownership is generally going to require background investigations to make sure that the entity is qualified by the Lottery Commission to own.

QUESTION: These people are there already, it is not like we are inviting a new partner?

ANSWER: Ms. Hise said they are not related to a VLT operation. Mr. Fontaine said the Lottery Commission is obligated to qualify anybody who is an owner, down to a pretty small share.

QUESTION: Bondholders and how that is going to work. I think you said negotiations would take place after the Location Commission had approved the bid. Could you clarify what exactly is going to go in the bid and what is the bondholder and how that process will work?

ANSWER: Ms. Hise said in your proposal you are going to make your offer, essentially, to the bondholders to purchase the lodge and resort which could be a cash offer or a combination of cash and equity. Once the proposals are received by the Location Commission, then the Location Commission will, through the discussion and negotiation process, bring the parties together to essentially present your offer to the bondholders and other interested parties, DNR, and MEDCO and see if we can reach an agreement.

Ms. Kirkland said there could be a meeting that you would request through Mr. Howells with MEDCO, DNR, or the bondholders for information exchange, ask questions, but that would not be the formal negotiation process that would take place with the Commission once all proposals are submitted.

QUESTION: You are permitted though if you are an applicant, and you go through the Location Commission to have an interactive discussion with the bondholders?

ANSWER: Correct. Ms. Hise said you can feel them out at the meeting. Mr. Bishop said that is all pre-award. That is part of the discussion and negotiations with any of the parties that the Commission deems that they wish to meet with and that is pre-award.

QUESTION: Will that take place sometime between October 1 and the end of the year?

ANSWER: Correct.

QUESTION: What is the timing on the taxes, negotiated payment in lieu of taxes with Allegany County government?

ANSWER: We will respond to that question in writing.

QUESTION: Being a Natural Resources State park, they have a certain restriction on signage height, what it is made of, how big it is, what color, etc. My question is concerning to a commercial based type signage for advertising for casinos. We normally don't use DNR type based signage to advertise. Is DNR sympathetic with that argument and would they allow some sort of commercial based signage?

ANSWER: Ms. Hise said we have had some discussion with DNR on that point and they are willing to discuss and cooperate. Keeping in mind that DNR owns the State Park which might not necessarily be where you would want some of your signage to attract people into the facility. Mr. Howells said DNR is very aware of the requirements and the types of signage that you would like to have. We have had similar situations in Perryville along Interstate 95. The Lottery Commission and Location Commission have tried to indicate what we need to make these places visible and make money. It is a State Park and we have to be consistent with the park setting, but we are aware of it and will work with you on that.

Mr. Howells then provided the attendees with a final opportunity to ask any questions regarding the entire RFP or process. There were no additional questions.

In conclusion, Mr. Howells stated that a Summary of the Pre-Proposal Conference, Questions & Answers, the Sign-in Sheet and Amendment to the RFP, if any, will be sent to all parties as soon as possible. He also reminded the attendees that the Location Commission will accept additional questions after the Conference up until such time as it becomes impractical to research and distribute the answers to all parties.

If anyone would like to set up a site visit to Rocky Gap or a meeting with MEDCO, DNR or the bondholders, please send him an e-mail as soon as possible or come up and give me your contact information before leaving today's meeting..

Mr. Howells thanked everyone for attending today. The Pre-Proposal Conference concluded at 11:43 a.m.

Summary prepared by:

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