

NEIL BLUHM
TESTIMONY
BEFORE THE GAMING OVERSIGHT COMMITTEE
COMMUNITY, ECONOMIC & RECREATION COMMITTEE
JULY 24, 2008

Good morning. Thank you for taking the time to hear from us today. My name is Neil Bluhm. I am here at the request of the Committee to answer questions regarding how I became involved in the Pittsburgh project and any other aspects of the project that the Committee seeks information on.

As Dan Keating just stated, I am a principal of a Chicago based investment fund known as Walton Street Capital.

Walton Street was formed in 1995 and has acquired \$13Billion in real estate assets since inception. Walton Street, through various investment funds, invests on behalf of institutional investors and others in real estate opportunities throughout the country. Walton Street Real Estate Fund VI, L.P. through its affiliates, will be the lead investor in the Pittsburgh casino. I do not control the fund, but I am one of five shareholders of the corporate general partner.

In addition to my position in Walton Street, I am personally involved with other business ventures, some having to do with gaming. For example, a group I am associated with was selected by the Province of Ontario to construct and operate government owned casinos in the Niagara Falls area. Fallsview Casino in Niagara, Ontario opened in the spring of 2004. It is a C1 Billion casino hotel project on 23 acres overlooking the Falls. We are currently developing a casino property in Vicksburg, Mississippi scheduled to open in the fall. Finally, as Dan noted, we are, with other partners, involved in the SugarHouse Casino project on the Delaware River in Philadelphia.

Dan just described my introduction to this project. Walton had previously looked at the Pittsburgh project to consider investing in the debt financing package being put together by Don Barden. He decided to go with the Apollo Group, which deal ultimately fell apart.

When we met in Chicago with Dan Keating and Don Barden in late June to discuss a possible transaction, the credit markets remained in very poor shape. Walton Street, however, was in a unique position to quickly act. First and foremost, Walton Street had access to cash equity through its investment funds, which is critical in today's shaky credit market.

Secondly, Walton has a reputation in the market place that allows it access to the credit markets.

Thirdly, through my association with the casinos I mentioned, we had expertise in gaming development and operations.

Finally, myself, my associate Greg Carlin and several family trusts of my grown children, had previously been through the very extensive licensing process in Pennsylvania and are currently licensed as Principals.

Therefore, we had the combination needed to move quickly on this project: equity capital, access to debt markets, licensed persons and experience in the business.

In performing due diligence, we found the project in very difficult, distressed circumstances. The bridge lenders had approximately \$200 million in the project, had declared the project in default and would not lend any more money. The subcontractors were about to cease working. The guaranteed contract and pricing that Keating had negotiated were about to be lost. It was about to be an abandoned project.

Nevertheless, we decided that we liked the project. We like Pennsylvania. We think it is a great market for casino entertainment complexes such as planned in Pittsburgh. We have had interest in the Commonwealth of Pennsylvania since it first passed the Gaming Act.

So we began the work necessary to see if we could put together a financing package that would revive the project. We need to raise almost \$650 million in debt financing to enable the completion and opening of the casino. However, in order to raise that kind of debt, a very large infusion of cash equity was necessary. The Walton group initially indicated an equity investment of \$120 million.

On June 29th we signed an Indication of Intent with Mr. Barden.

I might add at this time that the credit markets are extremely difficult and Don Barden was hit with a perfect storm. While Don Barden assembled a great site, and has a terrific development plan, the general credit market deteriorated very severely after this project was started. Additionally, the appetite for gaming projects is severely depressed – given the latest performance of Las Vegas and Atlantic City casinos primarily because of the high cost of gasoline, and the general economy. You only need to look at the stock prices of gaming companies to see that they are at or close to their 52 week lows. While the gaming markets are depressed, we believe Pittsburgh is an excellent opportunity – it will primarily appeal to the local market where Pittsburgh customers are now forced to drive long distances to other markets because there is no casino in Pittsburgh.

Since our involvement, there has been continuous, literally around the clock work, to secure the financing and to negotiate and memorialize a very significant transaction with the investors, Mr. Barden, the lenders and the pension funds.

Credit Suisse is the arranger of a 1st lien of approximately \$435 million; Key Bank is making a second mortgage loan of \$150 million. Don Barden and I traveled to Detroit to meet with the board of the lead pension fund that has agreed to provide a guarantee on the second mortgage – a critical element.

Walton Street, and our investor group, has now raised its equity investment to \$170 million of new cash into the Pittsburgh project, up from \$120 million in our original letter of intent. I want to make it clear that I do not control Walton Street, I am one of five shareholders in the corporate general partner. I presented this opportunity to the Walton Street investment committee of which I am a member, which ultimately approved the investment.

In this month, we have put together equity, debt financing and private pension fund guarantees that are all necessary to get this project back on its feet.

What we need now are two things: (1) Pennsylvania Gaming Control Board approval of the proposed transaction and (2) closing of the financing on acceptable terms. All of this must happen quickly, in the next few days since, as Dan discussed, the project may no longer be feasible past July 30th.

This hearing comes at an opportune time. I appreciate the opportunity to address this Committee and through it the people of the Commonwealth. We believe this Pittsburgh casino is a wonderful opportunity for Pittsburgh, for the Commonwealth, and for Walton Street.

I want to close on that note because I know there is great interest by this Committee and the public as to the commitments that Don Barden made to the Pittsburgh community and whether we intend to fulfill them. We intend to build the project that the Gaming Board approved in December 2006 and honor those commitments with only minor adjustments as set out in our Petition to the Board.

I have personally spoken with Pittsburgh Mayor Ravenstahl and Allegheny County Executive Onorato regarding our commitment to the project, and have assured them that we are committed to constructing the amphitheater, and other exterior amenities.

That is the conclusion of my statement. I thank you for giving me the opportunity to address the Committee. I will remain to answer questions with Dan.

Thank you.