

COMMONWEALTH OF PENNSYLVANIA

GAMING CONTROL BOARD

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IN RE: HSP GAMING, LP - HOLDINGS ACQUISITION COMPANY

JOINT PETITION REGARDING EMPLOYEE ALLOCATION

PUBLIC HEARING

BEFORE: GREGORY C. FAJT, Chairman
Raymond S. Angeli, James B. Ginty,
Keith R. McCall, Anthony C. Moscato,
Gary A. Sojka, Kenneth I. Trujillo; Members
Christopher Craig, Representing Robert M.
McCord, State Treasurer
Robert Coyne, Representing Daniel P.
Meuser, Secretary of Revenue
Jorge Augusto, Representing George Greig,
Secretary of Agriculture

HEARING: Wednesday, May 11, 2011
10:07 a.m.

LOCATION: Hearing Room One
North Office Building
401 North Street
Harrisburg, PA 17120

WITNESSES: Mary Cheeks, David Patent
Reporter: Cynthia Piro Simpson

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I N D E X

1		
2		
3	OPENING REMARKS	
4	By Chairman	5 - 7
5	PRESENTATION	
6	By Attorney Sklar	7 - 14
7	TESTIMONY	
8	By Ms. Cheeks	14 - 15
9	By Mr. Patent	15 - 16
10	PRESENTATION	
11	By Attorney Sklar	16 - 18
12	TESTIMONY	
13	By Mr. Patent	18 - 21
14	PRESENTATION	
15	By Attorney Armstrong	21 - 23
16	QUESTIONS BY BOARD	23 - 51
17	CLOSING REMARKS	
18	By Chairman	51
19		
20		
21		
22		
23		
24		
25		

E X H I B I T S

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

<u>Number</u>	<u>Description</u>	<u>Page</u> <u>Offered</u>	<u>Page</u> <u>Admitted</u>
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NONE OFFERED

P R O C E E D I N G S

CHAIRMAN:

Good morning, everyone. I'm Greg Fajt. I'm the Chairman of the Gaming Control Board. I'd like to ask everyone to please turn off any cell phones or other personal devices they have that may interfere with the communication systems.

Joining us today, we have Christopher Craig representing the State Treasurer Rob McCord. Bob Coyne, representing the Secretary of Revenue Dan Meuser. And Jorge Augusto representing our Secretary of Agriculture, George Greig. So thank you all for being here today.

A quorum of the Board is present. I'd like to call today's meeting to order. As the first order of business, please join me in the Pledge of Allegiance.

PLEDGE OF ALLEGIANCE RECITED

CHAIRMAN:

We have three items before the Board today by the way of public hearings, which will take place prior to our scheduled public meeting. The first public hearing pertains to HSP Gaming, LP, and Holdings Acquisition Company joint petition regarding

1 employee allocation. Immediately following our first
2 hearing, we'll move directly into HSP Gaming's
3 Petition to Modify its Gaming Floor Plan. And our
4 third and last hearing today pertains to Keystone
5 Gaming Technology Petition for authorization to
6 continue to utilize an employee's --- continue to
7 utilize and employ certain persons as technicians.

8 At the conclusion of these three
9 hearings, we'll take a recess to conduct quasi
10 judicial deliberations before returning to conduct our
11 regularly scheduled meeting.

12 I see that HSP Gaming and Holdings
13 Acquisition is at the table. Prior to your
14 presentation, could all non-lawyers who will be
15 presenting on your behalf, and also on Office of
16 Enforcement Counsel's (OEC) behalf relating to both of
17 your matters today, please stand and be sworn in.
18 Again, just non-lawyers.

19 -----

20 WITNESSES SWORN EN MASSE:

21 -----

22 CHAIRMAN:

23 Thank you. And again, just as a matter
24 of housekeeping, I just like to ask anybody before you
25 begin speaking today, if you can please state and

1 spell your name for the stenographer. And with that,
2 Holdings Acquisition Gaming.

3 ATTORNEY SKLAR:

4 Good morning, Chairman and Commissioners.
5 Michael Sklar, S-K-L-A-R, on behalf of Sugarhouse
6 Casino and Rivers Casino.

7 What we have before you this morning is
8 two shared service arrangements that we are seeking
9 your approval for. The first deals with inner
10 property shared employees, so these employees will
11 just be shared between Rivers and Sugarhouse. The
12 second arrangement is an oversight services
13 arrangement from a company called Rush Street Gaming,
14 and I'll get into the details of who they are. So
15 Rush Street will have an oversight arrangement with
16 each of Sugarhouse and Rivers.

17 So the inner property shared employee
18 arrangement, the whole purpose of doing this is so
19 that each property is able to get the benefit of a
20 highly skilled and experienced employee that --- but
21 for the fact that they share the costs, that other
22 compensation benefits that take place, they wouldn't
23 be able to each hire these employees. So for example,
24 Mary Cheeks, who is sitting here, she's the Senior
25 Vice President of Finance. Right now, the way we have

1 it structured --- and again, with your approval, is
2 Mary is the head of the Finance Department at
3 Sugarhouse Casino. So for purposes of the mandatory
4 position under the Regulations, Mary serves that
5 function.

6 But because of her background and
7 experience, we --- the company believes that she could
8 be --- could provide invaluable benefits for the
9 Rivers Casino as well. So in terms of the Regulation,
10 Bill Winkelried, who's the Director of Finance at the
11 Rivers, he is the head of that department, and the
12 buck stops with him in terms of the Finance Department
13 at the Rivers. But because of Mary's background and
14 experience, the --- there's tremendous benefit that
15 she can bring to the Rivers.

16 So for example, strategic types of
17 decision making dealing with the finance area, Mary
18 can consult with the Rivers. There's not going to be
19 --- the way to propose it is the indirect report from
20 the Director of Finance to Mary, and she would
21 essentially just be consulting and providing her
22 advice based on her experience for the benefit of the
23 Rivers. And she can explain a little more the --- in
24 terms of how she divides her time, but again, for the
25 purposes of the mandatory position under the

1 Regulations, she is physically located at the
2 Sugarhouse Casino the majority of the time. That's
3 not to say that she'll never travel to regular jobs to
4 the rivers, but the bottom line is she's primarily
5 located at the Sugarhouse Casino.

6 The second piece of this with the Rush
7 Street arrangement, the --- I think this is something
8 that you guys are familiar with. We're not
9 re-inventing the wheel here with the Rush Street
10 arrangement. Essentially what this --- the function
11 of Rush Street is a corporate oversight company. Now,
12 because of the way Neil Bluhm's affiliated casinos are
13 owned, it's not a Las Vegas Sands kind of model, where
14 you have a publicly-traded company, and the
15 publicly-traded company owns each of the casino ---
16 local casinos.

17 Here Neil, as you know, originally he had
18 interest in the two Canadian casinos and now he has
19 interest with different partners in Sugarhouse, Rivers
20 and Riverwalk Casino in Mississippi. And the Chicago
21 casino, which is also in the Rivers Casino, is
22 scheduled to open in July of this year.

23 So the function, the whole purpose of
24 Rush Street is Neil --- and let me, before I get into
25 the purpose. Rush Street is owned by Neil Bluhm, and

1 each of his three kids have trusts. That's the
2 ownership of Rush Street. And all those entities,
3 individuals are licensed by the Board.

4 So from Neil's perspective, he --- like
5 any corporate type of structure, he needs to protect
6 and oversee his investments, both from a personal
7 side, he has significant of his own family money has
8 invested in these properties, and he needs to oversee
9 those investments. On top of that, he has fiduciary
10 responsibilities to the various partners in the
11 different casinos. So again, there needs to be --- he
12 has to have oversight over these different casino
13 properties in order to fill his fiduciary
14 responsibilities to the other parties.

15 And finally, and perhaps most
16 importantly, as everyone knows, in the gaming
17 business, your license is everything. That's the life
18 blood of this business. So the fact that Neil and his
19 family, they have interest in different jurisdictions,
20 what's happens in one jurisdiction will absolutely
21 impact what happens in another jurisdiction. So
22 again, there's an absolute need for oversight from a
23 corporate --- and even though it's not a corporation,
24 from a corporate type of level.

25 So that was the whole rationale behind

1 creating Rush Street and proposing these types of
2 arrangements. So what does Rush Street do? What's
3 the function? Essentially it's strategic and
4 oversight services to each of the companies. And what
5 does that mean? It means that the company --- Rush
6 Street is going to leverage the best practices and
7 ensure that each of the properties are following those
8 best practices, which is going to create --- and
9 create deficiencies. And it's also going to ensure
10 compliance. So that is --- from a big picture, that's
11 the whole purpose of Rush Street and its function.

12 Now, it's in its infancy, Rush Street,
13 and the road, you know, there is certainly a lot of
14 different things that Rush Street can do, which you
15 see with a Las Vegas Sands with the Harrah's, where
16 it's more formalized. So for example, purchasing.
17 Right now, there's consulting that's done at the Rush
18 Street level, and each of the purchasing directors at
19 each of the properties, their consultation, and
20 they're able to leverage the scale that they have, but
21 it's not a formal kind of arrangement where purchasing
22 is done at the corporate level. It's still done at
23 the local level, but they're beginning to try to
24 leverage the scale that they have, and it may become a
25 more normal type of arrangement where things are going

1 to happen at the Rush Street level, as opposed to each
2 of the property levels. But that's down the road.

3 You know, another example will be reward
4 card. That's a possibility that they'll centralize
5 the rewards program at each of the casinos. And you
6 know, like that total reward at Harrah's, patrons will
7 be able to, you know, generate credits or points at
8 one --- Philadelphia and use them out in Chicago.

9 Marketing will be another big area where
10 I think there's going to be significant benefits to
11 being able to have a corporate type of structure.
12 Employee training, and then also to standardize the
13 purchasing orders, for example, contracts. So for all
14 those things, again, it's to create the efficiencies
15 and short compliance and ensure that the best
16 practices are employed across the platform of
17 properties.

18 So right now, I'm going to move back to
19 the inner property shared employee arrangement. Right
20 now we're requesting Board approval for --- there's
21 seven positions that are encompassed right now.
22 Senior Vice President of Finance, Director of Planning
23 and Analysis, Director of Marketing Analysis, Senior
24 Internal Auditor, Vice President of Customer Service,
25 Vice President of Compliance and Director of

1 Procurement and Supplier Diversity. So what we're
2 proposing is that each of these --- each of the
3 individuals in each of the positions will be --- from
4 an administrative point of view, will be employed by
5 one particular property, but also provide services to
6 the other property. So from the administrative point
7 of view --- Mary Cheeks, for example, she is a
8 Sugarhouse employee, she receives one paycheck and her
9 benefits come from Sugarhouse. Rivers will reimburse
10 Sugarhouse for the time that Mary spends on Rivers'
11 matters.

12 So we work with staff to explain how the
13 reporting lines and the organizational charts will be
14 structured with them. I don't think that there's been
15 any problems, but before we formalized anything we,
16 obviously, wanted to get the Board's consent before we
17 moved forward on the shared employee side.

18 Now, one of the things that I want to
19 address with the shared employees. There is no ---
20 there's no loss of employees with this arrangement.
21 And let me explain, the --- again, we're going to use
22 Mary as an example. Mary is the Vice President ---
23 Senior Vice President of Finance at Sugarhouse.
24 Underneath her there is a Director of Compliance. If
25 Mary wasn't a shared employee, there would not be a

1 Senior Vice President of Finance. So I think, if
2 anything, what we've done with this arrangement, is
3 create additional jobs, because it has allowed
4 Sugarhouse to bring on --- additional experienced
5 personnel on, and they're able to defray the cost. So
6 I think by any analysis, this is a net addition of
7 jobs.

8 And Mary can get into a little more
9 detail in terms of the benefits if some of these
10 shared employees that we're proposing worked directly
11 under Mary. She can give a little additional flavor
12 for exactly what shared employees are doing and the
13 benefits.

14 MS. CHEEKS:

15 Good morning. Mary Cheeks, C-H-E-E-K-S.
16 With the interest property shared service, one of our
17 main goals is to determine and identify the best
18 demonstrative practice. We have done so in
19 procurement in our gaming audit process, and many,
20 many other examples. So the key is to quickly
21 identify best demonstrative practices and implement
22 them. This gives us ability to maximize our revenue
23 where it's most efficient and maximize our jobs with
24 our service goals.

25 I'd also ask David to add into that,

1 because he's very familiar with it.

2 MR. PATENT:

3 Good morning. David Patent, P-A-T-E-N-T,
4 Mr. Chairman and members of the Board. To get the
5 points that Michael and Mary were discussing, from a
6 job standpoint, these are not jobs that would exist if
7 we're not able to share resources, partly because just
8 from the standpoint of how much work does each
9 property generate, it's probably not worthy of a
10 full-time position, but since we have multiple
11 properties it makes sense to employ these talented
12 people.

13 When we think about the work that they're
14 doing and the value they're providing, let's keep in
15 mind, this starts out as a cost, because obviously
16 there's a salary and benefits to be provided, they
17 provide insights to drive enhanced service, and we
18 know the enhanced service leads to more customers
19 coming into the casino and more revenues and also
20 provide very valuable insights on our property
21 marketing and other revenue driving aspects of slot
22 machine performance, table gaming performance, et
23 cetera, which again allows us to drive more revenue to
24 the casino, which provides more taxes benefits to the
25 State of --- to the Commonwealth of Pennsylvania.

1 So it's a win/win from our standpoint in
2 that we get to provide better practices and we think
3 that Pennsylvania benefits as well, both from a job
4 standpoint and also tax revenues.

5 ATTORNEY SKLAR:

6 Basically, before I move on to Rush
7 Street, there was a little confusion when we were
8 going back and forth with the staff, and I just want
9 to make sure the Board understands. The position of a
10 Senior Internal Auditor, who we're proposing to be a
11 shared employee, that is not the Department head.
12 That's required under the Regulations. The Senior
13 Internal Auditor shared employee would have a direct
14 report to an internal audit manager, who is the
15 department head that services the mandatory position
16 under the Regulations.

17 The Rush Street Gaming, again, is to
18 provide oversight services to the Neil Bluhm
19 affiliated casinos. So that's Rivers Casino,
20 Pittsburgh Rivers --- soon to be Rivers Casino.
21 Chicago, Sugarhouse Casino and Riverwalk Casino in
22 Mississippi. There are --- the officers of Rush
23 Street are Neil Blugh, who's the chairman; Greg Carlin
24 is the Chief Executive Officer. David Patent is the
25 Chief Operating Officer. Suzanne Trout is the Chief

1 Marketing Officer. Joe Scibetta is the Director of
2 Service and Operations, and Michael Bowman is the Vice
3 President of Strategic Planning and Operations.

4 Now, the way we have it structured is we
5 also wanted each of the employees, not Neil --- well,
6 Greg is the CEO of each of the --- Rivers and
7 Sugarhouse. But each of the other employees, we were
8 --- for a few reasons, which I'll get into, we wanted
9 them to be employees of each property as well. So for
10 example, David Patent is not only the CEO of Rush
11 Street, he's also the COO of Sugarhouse and Rivers.
12 And the reason why we did that was one, from an
13 internal point of view, we think that given the role
14 and the responsibilities that Rush Street employees
15 are going to have, they should be licensed at the
16 highest level. So all of those individuals have ---
17 are either licensed already or have submitted their
18 applications and have temporary credentials.

19 Secondly, at the property level, property
20 level employee, we didn't want there to be any kind of
21 confusion as to, well, can I take direction from David
22 Patent, or do I have to --- at Sugarhouse, do I have
23 to only take it from Wendy? So to eliminate any
24 possible confusion, okay, let's implement --- put them
25 into the Sugarhouse organization, and that way we'll

1 have clear reporting lines that everyone will
2 understand exactly whose responsibility is what and
3 who reports to who, and who takes direction. So
4 that's the best way to address and foreclose any
5 potential problems in that area.

6 And David, why don't you explain in a
7 little more detail exactly the oversight services that
8 Rush Street is providing to the various properties?

9 MR. PATENT:

10 Sure. From the start we talked about
11 this with the shared employees between the two
12 properties. The Rush Street employees were overheads
13 as far as the properties are concerned, in that our
14 salaries and benefits are reimbursed, there's no
15 markup, there's no profit that goes to anybody, it's
16 purely a pass-through cost based on how much time we
17 allocate to different properties. So there's no
18 reason for me to exist, there's no reason for Suzanne
19 to exist or any of the Rush Street employees to exist,
20 unless we can be adding more value than we cost to the
21 company.

22 So, that's really the starting point. We
23 need to be providing insights, we need to be providing
24 value to Neil and to Greg to the assets in order for
25 us to be justified. And we believe that that's

1 definitely the case, and that's why we want to proceed
2 with this arrangement. So, the people who work at
3 Rush Street are all folks who are experienced in
4 various gaming markets, have anywhere from 8 to 25
5 years of experience in our areas of expertise. And we
6 work very closely with the properties collaboratively
7 to come up with better marketing strategies, better
8 operational strategies, better service strategies to
9 help the properties have better results. And I think,
10 you know, if you look --- especially if you look at
11 Pittsburgh, when we started getting involved with the
12 Pittsburgh property back in the fall of 2009, we saw
13 some pretty strong results that came out of the
14 insights of some of the answers we came up with while
15 looking at the property. We also helped with finding
16 the right talent. We want to be sure we have the best
17 people in all the key positions at each property.
18 That's been a very important part of your function.

19 We work well with the property sharing
20 managers. We work well with the, you know, shared
21 employees, such as Marian and the other folks that
22 we're proposing to between Sugarhouse and Rivers. And
23 we think it's been a very good arrangement as far as
24 Neil's concerned, because to Michael's point, you
25 know, compliance and keeping that license are

1 critical. And one of things we're able to do is
2 understand if there's an issue at one property, how do
3 we make sure it doesn't happen at another property.
4 We can get ahead of things. If you don't have someone
5 with that visibility of the properties, you run up a
6 significant risk that there is a compliance issue or
7 something that's done sideways to the property that's
8 not going to get vetted, it's not going to get aired
9 out. And you can run similar risks at your other
10 properties. So, again, we think it's been very
11 beneficial. It's a very transparent relationship,
12 very straightforward on how the costs are allocated,
13 not a lot of mystery to it. And you know, the only
14 real difference between how we're doing it with Neil
15 is we have --- instead of a corporate structure, such
16 as they have at Harrah's or Las Vegas Sands and other
17 companies, each of Neil's properties are individually
18 own, because of the different partnership agreements.
19 But from a functional standpoint, it's no different
20 than other arrangements that exist in the industry.

21 MR. MCCALL:

22 How is your time over at Rush Street in
23 place? How do you determine, you know, I am going to
24 be at Sugarhouse next week or Chicago the week after?
25 How is that ---?

1 MR. PATENT:

2 Well, it's often driven by hearings and
3 meetings. So, for example, I'm here today just to
4 talk about this. But without being too glib, it's
5 really need based, based on, you know, where the
6 activities are. So, when in the early days of the
7 Rivers opening, obviously we're spending a lot more
8 time in Pittsburgh. As the Sugarhouse gets --- you
9 know, got ready to open, we devoted more time to
10 helping Wendy and her team. Now, the Chicago is
11 getting close to opening, a lot more time and
12 attention is being spent on Chicago. So, it's really
13 based on, you know, consultations with Greg and
14 occasionally with Neil, although not so much Neil.
15 But it's --- it's really driven by business.

16 ATTORNEY SKLAR:

17 That's all we have. Available to answer
18 any questions you may have.

19 CHAIRMAN:

20 Thank you very much. We'll now hear from
21 Enforcement Counsel.

22 ATTORNEY ARMSTRONG:

23 James Armstrong, OEC. Chairman and
24 Commissioners. As we said in our Answer to the
25 Petition, this is a matter for ---. We would be ---.

1 CHAIRMAN:

2 Come up close to the microphone and speak
3 up ---

4 ATTORNEY ARMSTRONG:

5 We're requesting that ---.

6 CHAIRMAN:

7 --- and everybody in the table. This
8 room is tough to hear. So, if you could please speak
9 up a little bit and speak into the microphone.

10 ATTORNEY ARMSTRONG:

11 We would defer to the Board's discretion
12 on this on whether or not to approve this petition for
13 major business relationships through the properties
14 including Rush Street. We're also recommending that
15 any approval would be an exception basis because we're
16 not --- they're not in this petition. You're actually
17 approving their property, the reallocation schedule
18 really for agreements between the individual casinos
19 at Rush Street. Simply approving of the concepts that
20 they're utilizing at Rush Street as its other site
21 comprising of Ebony and Louise (phonetic) that are
22 with Sugarhouse and Rivers have dual responsibilities
23 to both properties and compensate one another, you
24 know, for what those services are. But they do not
25 actually approve only the agreements that they have

1 reached between one another. It's simply that you're
2 approving --- they're giving their approval to afford
3 this arrangement that they believe is going to be
4 beneficial in a business sense. If you do grant
5 approval to this petition, we would ask --- we've
6 listed six conditions that we believe should be part -
7 -- to both casinos and Rush Street complied with them
8 as part of permission to grant them permission to have
9 implemented this shared employees allocation schedule.

10 CHAIRMAN:

11 Does the Board have any questions?

12 MR. GINTY:

13 Yes. This is for OEC. What are we
14 trying to protect? Why do you care how they structure
15 their management?

16 ATTORNEY ARMSTRONG:

17 There's not a real strong publication.
18 Every business is in business for profit. It's to cut
19 costs and things of that nature. One could argue that
20 maybe there aren't a loss of jobs here because part of
21 the motivation for them --- for the Rush Street would
22 be sharing employees is to cut costs and there also
23 arguments it's more efficient. We've heard testimony
24 here this morning that it's actually going to increase
25 employment.

1 MR. GINTY:

2 Well, there's got to be something more
3 than just, you know, maybe losing a couple of
4 employees. I mean, that's just ---.

5 ATTORNEY MILLER:

6 If I may? Dale Miller, M-I-L-L-E-R. I'm
7 the Deputy Enforcement Chief Counsel for the Eastern
8 Region. I think one of the things hat we were
9 concerned with initially was whether or not either one
10 of these casinos would be shortchanged by having an
11 employee shared by another casino. Whether there
12 might be some conflict of interest between the casinos
13 where one employee is representing one side of the
14 state and also representing another side of the state.

15 The other thing we were concerned with
16 initially was whether or not there would be somebody,
17 especially in the operational area, onsite at each
18 casino when important decisions had to be made.
19 They're sharing employees and the employee that's
20 being shared is in Pittsburgh and an important
21 decision has to be made in Philadelphia, will there be
22 somebody onsite who can make that decision. Say all
23 the lights go out and you have to make a decision, do
24 we turn on the generator, that sort of thing. Our
25 regulations and their internal control require that

1 certain employees be onsite and able to make those
2 decisions. Throughout this process, and they filed
3 this petition back in December, we've had meetings
4 with HSP and we've voiced those concerns. And we've
5 been assured and I think we're satisfied at this point
6 that they've answered that call. That there will be
7 people onsite who can make those kind of decisions for
8 each casino. Even though the employees are shared, in
9 each, there's oversight.

10 I think the public interest here is to
11 make sure that neither casino gets shortchanged by
12 this. And we don't think at this point that that
13 would happen. Any internal controls that have to be
14 modified or changed, will be done so. And we want to
15 make sure that that happens. I believe our conditions
16 require that they provide us with updated
17 organizational charts and job descriptions and certain
18 other things. We have our Internal Controls Manager
19 here, Peggy Gustafson, who has been working with us
20 and with the casinos to make sure that all our
21 questions are answered. We think at this point that
22 they have been, such as the conditions that we
23 recommend the Board impose on this.

24 MR. GINTY:

25 That doesn't actually answer. Michael,

1 want a take a shot at that same question?

2 ATTORNEY SKLAR:

3 Sure. I think that the --- what it comes
4 down to, yes, it's absolutely in the public interest
5 because it comes back to ensuring compliance. And I
6 think that this arrangement or both of these
7 arrangements will ensure that the --- there is
8 highly-skilled personnel in place and that the best
9 practices are implemented across the board, across
10 each property. And I think that will benefit the
11 state. You know, obviously it will benefit the
12 company, but I think it absolutely will transfer over
13 and be beneficial to the state.

14 MR. GINTY:

15 Well, I guess --- and I think that is
16 what we have to be concerned with is the level of
17 supervision. You know, I spend a lot of time in
18 industry and having been trying to do best practices
19 some day. I spent a lifetime on best practices. I'm
20 not sure that that was in the best interest of ---.
21 But in any event, we are available, we'll look into
22 the supervision question. Right now we're satisfied.
23 We will look, you know, it will be part of the
24 compliance --- what do we call those things?

25 ATTORNEY SKLAR:

1 Internal controls.

2 MR. GINTY:

3 Internal controls.

4 ATTORNEY MILLER:

5 Yeah. Mr. Ginty, I can tell you more
6 specifically we've had meetings with Sugarhouse and
7 Rivers. And some of those meetings were pretty vocal,
8 I'll be honest with you. We had some concerns that we
9 felt pretty strongly about. And the internal controls
10 issues were one and I think we've resolved them at
11 this point. But just to make sure that they stay
12 resolved, we're asking as part of the conditions that
13 quarterly reports are filed, and that we be kept up to
14 date with what's going on. And we're not putting a
15 time limit on those quarterly reports. But I think at
16 some point, we think that they're no longer necessary,
17 we'll ask that the Board rescind on them. However, we
18 want to make sure that we stay on top of this, because
19 it is a matter of first impression in this
20 Commonwealth. And we intend to monitor it as closely
21 as we can.

22 MR. GINTY:

23 And I assume there is a Shared Services
24 Agreement, a formal Shared Services Agreement?

25 ATTORNEY SKLAR:

1 Yes.

2 MR. GINTY:

3 Okay. And has that been provided to the
4 staff?

5 ATTORNEY SKLAR:

6 Yes, it has.

7 ATTORNEY MILLER:

8 It has, yes.

9 MR. GINTY:

10 Nothing further.

11 ATTORNEY SKLAR:

12 I have one thing. The first impression,
13 I really think that it's not. I think that this is
14 the same type of arrangement that you see all over the
15 country with, you know, Harrah's or Las Vegas Sands.
16 Yes, it is different because of the ownership
17 structure of the Neil Bluhm affiliated casinos. But
18 in concept, it's really identical to what these other,
19 you know, publically traded casino companies do. You
20 know, it's the same purpose that we're trying to
21 implement here.

22 ATTORNEY ARMSTRONG:

23 Chairman, if I may? First impressions
24 --- it's a first impression here in Pennsylvania. The
25 difference is Sugarhouse has only two casinos. So,

1 common ownership is what we meant by first impression.

2 CHAIRMAN:

3 Thank you. Commissioner McCall?

4 MR. MCCALL:

5 I think most of my questions have been
6 answered. But just on your last point when you say
7 that there is a Shared Service Agreement in place, but
8 you're still maintaining an employer/employee
9 relationship with all of the listed property employees
10 as well as Rush Street employees; correct? There is
11 an employer/employee relationship with all of the
12 listed individuals?

13 ATTORNEY SKLAR:

14 Correct.

15 MR. MCCALL:

16 Are you currently providing these
17 services elsewhere or licensed to Mississippi? I know
18 the Illinois casino is not up and running. But you
19 have established Rush in October of 2009. Are you
20 providing these services to other facilities or are
21 you licensed in other jurisdictions to provide these
22 services? Because you listed here in your filing that
23 you're also providing services for not only Sugarhouse
24 but also Riverwalk in Mississippi as well as the
25 Rivers Chicago. So, are you currently licensed to

1 provide those services in those jurisdictions?

2 MR. PATENT:

3 Let me answer it this way, Commissioner
4 McCall. I have been found suitable in Mississippi and
5 I am licensed. We have other employees who are ---
6 either have been found suitable or are in the process
7 of being found suitable. Rush Street is up for
8 discussion similar to this forum here in Mississippi.
9 And we're in the same process in Illinois as well.

10 MR. MCCALL:

11 So, you're not providing those services
12 at this point, but you're in the same process as
13 you're in right now?

14 MR. PATENT:

15 We're in the same process. We're still
16 actively engaged with our properties in Mississippi
17 Illinois similar to how we are here.

18 MR. MCCALL:

19 Thank you.

20 CHAIRMAN:

21 Commissioner Sjoka?

22 MR. SOJKA:

23 Yes. Just a few questions and please
24 pardon my naiveté here, because this is not my field.
25 I'm trying to better understand the actual physicality

1 of Rush Street. I understand how it exists on paper
2 and how people have --- it's kind of brokers people's
3 time. Is there a physical entity to Rush Street? Is
4 there a dedicated suite of offices, for example?

5 MR. PATENT:

6 Not really right now. Actually I
7 personally don't have an office. We are establishing
8 office space in Chicago right close to where our
9 casino is going to be. We've basically been, you
10 know, on the road traveling with, you know, cell
11 phones or borrowing off somebody else and visiting
12 office space in downtown Chicago. But there is, you
13 know, physical building that Rush Street rents to get
14 office space. Although, that is something we're in
15 the middle of, you know, doing so that we have, you
16 know, a place to ---.

17 MR. SOJKA:

18 I'm trying to look forward in this
19 because as I understand it, it clearly does seem to
20 have a parallel with the sort of management structures
21 of multi-site casino operating corporations. And I
22 understand why it has to be different because of the
23 ownership situations at each of the casinos in which
24 Mr. Bluhm is involved. But I'm trying to understand
25 that a little better. In the future, if there are

1 more casinos that this group puts online, is it likely
2 that persons that, for example, have a role like Ms.
3 Cheeks has, that they will move solely and completely
4 into Rush Street and not be shared, but will provide
5 the same services but it will be out of the corporate
6 central facility?

7 MR. PATENT:

8 That's a great question. I think --- and
9 just a little --- I used to be both a property
10 employee within the Harrah's organization and a
11 corporate employee within the Harrah's organization.
12 So, it's a little bit more familiar to me how this
13 works, so I do want to act quick and explain things
14 for folks that haven't had the experience. With
15 regard to Rush Street, as we --- and we would love to
16 be able to say that we're going to add assets, you
17 know, to the portfolio over time. If we were to open
18 a casino in another jurisdiction tomorrow, my said
19 responsibilities would grow and include those casinos.
20 They're very similar to, you know, when I first
21 started and we just had the Riverwalk out in Vicksburg
22 and the Rivers in Pittsburgh. Sugarhouse hadn't
23 opened up yet and we hadn't even broken ground yet on
24 the Illinois casino.

25 With regard to the dual properties in

1 Pennsylvania, I think the answer is no except to the
2 extent that we decided that, hey, we would love to
3 have Mary become a corporate resource for Rush Street.
4 And that's a chance for Mary to have career growth.
5 We would attempt to do that. We would create a, you
6 know, corporate finance position for Mary. And then
7 we would need to backfill the position that she
8 currently occupies, because there is significant value
9 that Mary fills in that role.

10 MR. SOJKA:

11 And those corporate digs then would be in
12 Chicago? That is the home base for Rush Street?

13 MR. PATENT:

14 Yes, that is correct.

15 MR. SOJKA:

16 Okay. So, if that entity grows, we're
17 not going to see job growth specifically in
18 Pennsylvania because of Rush Street? But you're
19 saying there won't be serious job loss because of it?

20 MR. PATENT:

21 You certainly wouldn't experience job
22 loss. And from the Rush Street perspective, unlikely
23 that you'd see job growth, except to the extent that
24 there are regional positions that we may create over
25 time. But that's --- you know, that's hard to

1 speculate.

2 MR. SOJKA:

3 In the immediate phase, where you are
4 right now, with the assumption maybe Rush Street will
5 grow with more licensed casinos out online that's it's
6 involved with, isn't the dilution of talent and
7 experience going to be a problem for the two
8 Pennsylvania casinos if, for example, there's a
9 difficulty in getting this child up and running and
10 you really need to bring your intellectual and
11 experiential horsepower on that project, are the
12 Pennsylvania casinos going to suffer for lack of that
13 oversight because you have a problem somewhere else?

14 MR. PATENT:

15 I would say that if we believed that was
16 going to become a long-term structural problem, we
17 would address that to make sure that the Pennsylvania
18 properties did not suffer. But in the short term
19 during the week that we open in Chicago, I'm going to
20 be physically in Chicago and it's hard to imagine I'm
21 going to be spending a lot of time in Pennsylvania
22 during that first week, unless there's an emergency.
23 And hopefully, there's not an emergency. So, in all
24 honesty, we have to make decisions about how to
25 allocate our time. I mean, we only have a certain

1 number of hours that exist in a day and only a certain
2 number of places we can be at one point. But we take
3 our responsibilities to provide quality services to
4 all the casinos very seriously. And if we start
5 getting jammed up and can't offer that --- first of
6 all, we do have multiple employees at Rush Street.
7 So, to the extent that I can't have time, Greg often
8 fills in and makes that trip out. Or if Greg's busy,
9 then I'll fill in and make the trip out, whether it's
10 to a meeting or a hearing or something like that. But
11 if it became a structural issue where I'm out for the
12 next 90 days where we're going to have a problem here,
13 we would figure out a way to allocate resources to
14 make sure. Because you know, each casino is virtually
15 equally important.

16 MR. SOJKA:

17 In which case then, it would not be done
18 like any other over-reaching corporate structure?

19 MR. PATENT:

20 I would agree with that.

21 MR. SOJKA:

22 That people have to get other resources?
23 That's emphasizing. I would just like to make one
24 observation and ask one quick question in closing.
25 And that is, we've now seen two entities coming from

1 this group named for thoroughfares in Chicago. We've
2 seen Walnut Street and we've seen Rush Street. Can I
3 make a request that you never come to us with a Wacker
4 Drive? That is it for me.

5 MR. TRUJILLO:

6 I feel like I'm missing something. Is
7 this on? I feel like I'm missing something and I'm
8 not sure what it is. If the seven employees, I guess
9 one of which is to be hired, plus the other four, if
10 we deny the request, will those seven plus four
11 employees then be fired tomorrow?

12 ATTORNEY SKLAR:

13 I think --- David can chime in. But I
14 think that there would be --- the company would have
15 to look closely at --- to see how to reorganize the
16 employee structure. I don't think that everyone would
17 stay.

18 MR. TRUJILLO:

19 And these employees, as I understand the
20 testimony, have already been providing, in effect,
21 shared services? As I heard the testimony, time being
22 spent between the Rivers and Sugarhouse. So, what
23 you're requesting permission for is already occurring;
24 has it not?

25 ATTORNEY SKLAR:

1 The answer is --- in discussions with
2 staff in terms of the shared employees, we --- I think
3 Dale said he started these discussions back in late
4 --- 2009?

5 ATTORNEY MILLER:

6 '10

7 ATTORNEY SKLAR:

8 '10, 2010. And we requested the ability
9 to begin having these employees --- you know, assuming
10 that they had filed applications and were properly
11 credentialed, to begin providing services. But the
12 --- everyone recognized that, listen, this has to go
13 before the Board. This is not a --- this is a very
14 interim type of thing that you guys can do. But
15 you're going to have to bring it before the Board and
16 the Board is going to have officially make the call.

17 MR. TRUJILLO:

18 I take that as a yes then?

19 ATTORNEY SKLAR:

20 Yes.

21 MR. TRUJILLO:

22 And I don't disagree with the observation
23 that, you know, for whatever purposes the business
24 owners runs, whatever they do, I think that the one
25 safety here though is that you also have --- you're

1 not a large publically traded company with your four
2 or five subsidiary companies these are separate
3 Licensees and each of them have independent
4 responsibilities and so where we end up and I don't
5 forecast into the future, but it sounds to me like one
6 of the next steps will be some sort of consolidation
7 and one of the great arguments today over that
8 consolidation will be, gee, we're already sharing a
9 whole bunch of employees that have been very high
10 levels anyway. And so I'm a little --- I'm not saying
11 skeptical about the wisdom of doing it from a business
12 purposes --- for the business purposes, but it strikes
13 me as kind of odd. And so I --- so I guess I still
14 feel that there's something else going on here that
15 I'm now aware of. So, is there anything else going on
16 here that I'm not aware of? Because if it looks,
17 walks and talks like a duck, usually it's a duck but
18 it's not always a duck. So, is that something you can
19 fill me in on? You know, what's the strategic purpose
20 and is it because you want to have Rush Street become
21 the gaming company ultimately? Is it the desire to
22 centralize in Chicago? I mean, what's the overarching
23 corporate goal of what's going on here?

24 MR. PATENT:

25 I'll speak to that, Commissioner

1 Trujillo. And let me just --- before I give you a
2 substantive answer, just step back for a second with
3 the caveat, Commissioner Sojka to your question. Just
4 keep in mind that we're really --- we're the oversight
5 organization. We do not get involved in the
6 day-to-day operations of the casino. And keep in
7 mind, too, that there's not a single position within
8 Rush Street that replaces any property job. All those
9 property jobs and all those key positions in the daily
10 decisions, those positions would exist whether we
11 exist or not. And we're not there to take the place
12 of that. And so to your ---.

13 MR. TRUJILLO:

14 Yeah, but Rush Street is not novelty
15 (phonetic).

16 MR. PATENT:

17 That is correct. We're the oversight on
18 it. So, the overarching strategic goal or Rush
19 Street is to help the collective properties and the
20 individual properties, because there really is no
21 conflict between the operation of each property. Each
22 property, they're in different jurisdictions. They
23 don't compete for customers. Is to maximize the
24 collective return of those properties. So, driving
25 revenue. And you know, the word efficiencies has sort

1 of become almost a four-letter word these days because
2 it's often seen as a code for job reductions, which in
3 our case, it is not the case. This is not a --- as we
4 said, these positions are neutral to add it from the
5 standpoint of overall jobs. But it is really to take
6 the collective wisdom and experience of people who
7 have significant operational and strategic experience
8 across a number of jurisdictions over a number of
9 years and helping the properties manage through and
10 provide our insights and wisdom, hopefully, to improve
11 the properties' operations and ultimately the
12 financial results of those properties. And nothing
13 more than that. I mean, Neil's got to figure out if
14 Neil needs a reason to spend the money he's spending
15 to have this around him, obviously we believe that we
16 provide that reason. And so does Neil and so did the
17 local partners and others who are involved in the
18 casino operations. But it's really nothing other than
19 that.

20 MR. TRUJILLO:

21 One last question I think, unless ---. I
22 read, I think, in our clippings that there was some
23 dispute between some of the local partners in
24 Philadelphia and Sugarhouse and --- or I guess Mr.
25 Bluhm, I'm not exactly sure how I want to phrase this.

1 Is there any difference in opinion on the wisdom of
2 this proposal between you and Mr. Bluhm and his local
3 partners?

4 MR. PATENT:

5 There is not. The dispute between the
6 local partners and high paying gaming has to do with
7 whether there are super majority that would be
8 required for approval of an expansion of the casino.

9 MR. TRUJILLO:

10 So it's limited to that issue?

11 MR. PATENT:

12 They're very unrelated to this issue.

13 MR. TRUJILLO:

14 I have no further questions.

15 CHAIRMAN:

16 Commissioner Moscato?

17 MR. PATENT:

18 Thank you, Mr. Chairman. My questions
19 tend to run down where my colleagues, Mr. McCall and
20 Commissioner Sojka, were going. And I understand the
21 over-reaching concept of Rush Street. Do you
22 anticipate using any of the property employees at any
23 of your casinos outside of Pennsylvania? I'm not sure
24 who wants to answer that one.

25 MR. PATENT:

1 I'll answer it. So I just want to make
2 sure I understand the question. Would we take a
3 property employee from Sugarhouse and use them for the
4 other property? Is that ---?

5 MR. MOSCATO:

6 Yes.

7 MR. PATENT:

8 In the long term, no. In the short term,
9 in order to help with the opening, we have reached out
10 to the general managers, and Wendy's familiar with
11 this to say, hey, can we get some, you know, some slot
12 techs to, you know, help with the opening, help with
13 training people who have experience, because they know
14 the system. And then they'll come back to their
15 property jobs. There are situations where there's
16 some employees who would like to relocate to Chicago
17 who are currently working at one of our other casinos.
18 If they want that opportunity, and they prove that
19 they're worthy of that opportunity, they will have the
20 opportunity potentially to move to another casino.
21 And that position would be backfilled at that their
22 home casino.

23 MR. MOSCATO:

24 Are you more specifically referencing
25 these seven property employees listed in your filing

1 here?

2 MR. PATENT:

3 You're referring to the shared employees?

4 MR. MOSCATO:

5 Yes.

6 MR. PATENT:

7 No, we don't anticipate --- we have
8 meetings, we have to get-togethers every quarter where
9 each property comes and shares their results and talk
10 about what they're going to be doing in the future
11 and those shared property employees, some number of
12 those are usually present at those meetings. And we
13 get together to share insights about the business.
14 But in terms of actually spending meaningful time
15 working for another property, that is not part of the
16 plan. We don't foresee that happening.

17 MR. MOSCATO:

18 Okay. Thank you. And my last question,
19 and I think perhaps you may have answered this and I
20 may have missed it. If I did, I apologize. OEC's
21 concern that a shared employee may be at one casino
22 when a decision needs to be made at another casino,
23 what safeguards do you have in place that would ease
24 their concerns?

25 MR. PATENT:

1 The safeguards we have in place and I
2 think we discussed these with OEC and have satisfied
3 them, is that if you look at --- if you look at the
4 seven employees in the areas that they oversee and are
5 responsible for, they're not the key decision maker
6 about should we turn on the generator, should we evict
7 this customer. Those employees are full-time
8 employees there. None of those roles are shared. We
9 have shift managers, supervisors, chief engineers,
10 general managers who make those decisions every day.
11 Those are not the kind of positions that are shared.
12 These are more planning analysis function that looks
13 at results of the table game business and can provide
14 insights as to how are we doing in this --- you know,
15 with this segment of customers. Mary provides
16 strategic oversight on the finance front, but there is
17 a key finance person who is the person, as Michael
18 said, for whom the buck stops. So, the answer is I
19 think that's how we satisfied those concerns.

20 ATTORNEY SKLAR:

21 And just let me add one thing. To the
22 extent that Mary --- she's the head of the finance
23 department in Sugarhouse. To the extent that she's
24 out in Pittsburgh at the Rivers in her capacity
25 providing strategic planning whenever out there, I

1 think that she's certainly available by phone, by
2 video conference. It's an hour flight back. You
3 know, if there was anything, you know, that was in the
4 emergent --- emergency type situation, she would
5 absolutely be able to drop anything that she was doing
6 at the Rivers and address what was going on at
7 Sugarhouse.

8 MR. MOSCATO:

9 Thank you very much. Cyrus, do you want
10 to weigh in?

11 ATTORNEY PITRE:

12 Right. The mandatory positions that we
13 require, we want to make sure those positions remain
14 filled. And the day-to-day discretionary decisions
15 that have to be made at the casino, we want to make
16 sure those positions remain filled. That was the
17 whole purpose of us getting involved with this. We're
18 satisfied. That's why we put the conditions in place.
19 That's why we wanted to make sure the internal
20 controls were reflected with that, and that's the
21 controls that we --- those are the concerns we had.
22 And to add, you talked about generators. The
23 generators come on automatically, nobody has to do
24 that. At least they should come on automatically.

25 CHAIRMAN:

1 Commissioner Sojka?

2 MR. SOJKA:

3 Yeah, one more just to help me understand
4 again. I think all of us clearly understand
5 over-reaching corporate structure to grow in
6 different way. If the Dunder Mifflin Paper Company
7 wants to open a new branch in Des Plaines, Illinois,
8 we know what that means, they open it and it could be
9 a franchise, any number of things. There are
10 similarities to, I think where you're over-reaching
11 corporate structure is going or service providing
12 entity is going, Rush Street. But I want to know is
13 it conceivable with these different type of ownership
14 situations, that maybe down the road in Indiana, this
15 group that puts together casinos puts together a
16 casino and says, now one of the benefits we have, of
17 course, is we have this over-reaching best practices
18 advisory group called Rush Street, then the owners of
19 that, the people will say, no, thank you. Can they do
20 that? Can they say we're playing one level but we're
21 not going to play at another? We want to have our own
22 separate way operating? Would you tolerate such a
23 thing?

24 MR. PATENT:

25 That's a another great question. Hard to

1 speculate. But there is a bit of an analog with
2 regard to the Falls Casino in Canada, which is a
3 casino that Neil owns. They have a management company
4 that manages and oversees that casino and Rush Street
5 has no involvement. That's really a negotiation
6 between the partners.

7 MR. SOJKA:

8 Thank you.

9 CHAIRMAN:

10 I have a couple of questions. First, to
11 OEC --- we had talked --- initially there was some
12 questions from Board members about job losses and I
13 know Mr. Sklar and Mr. Patent both weighed in on that.
14 I want to ask you specifically, the structure that
15 they are employee, shared employee structure in the
16 Shared Services Agreement, you know what our other
17 casinos look like in Pennsylvania. Is the staffing
18 model of this shared arrangement adequate compared to
19 other staffing models of the Pennsylvania casinos?

20 ATTORNEY PITRE:

21 Based upon our review, it is adequate.
22 What I think will happen if we wouldn't approve this
23 concept today, then they're not getting rid of Mary.
24 They're going to get rid of the person below Mary,
25 because Mary's got experience. They're not going to

1 get rid of Dave. They're going to get rid of someone
2 else, because these are the people with experience.
3 They have filled those positions below these
4 individuals, so that these individuals have oversight
5 over the individuals at each of the properties.

6 CHAIRMAN:

7 A question probably for you, Dave. The
8 Rust Street employees, these shared employees, do you
9 guys keep timesheets? Is that how you allocate your
10 time? I noticed no component that is the direct cost.
11 How do you allocate your direct costs between Rivers
12 and Sugarhouse and Des Plaines and the one in
13 Mississippi?

14 MR. PATENT:

15 That's exactly how I do it. There's a
16 time sheet where we put in a percentage of the time
17 that we spend and a short description of what we spent
18 our time that week doing and then that goes to finance
19 and they allocate the expenses.

20 CHAIRMAN:

21 And really my last question is more of a
22 comment, and this goes to you, Mr. Sklar and to David
23 a little bit. One of the things that we pay attention
24 to at the Gaming Board is the amount of money that
25 casinos spend with other businesses in Pennsylvania.

1 And again, I'm not telling you how to run your
2 business. You know, I think we generally have a
3 handle on approaches as a general rule with this
4 Board. But that is something that we watch closely
5 and Mr. Sklar brought up the issue of purchasing and
6 we all understand, you know, bulk purchasing and how
7 that, you know, it creates efficiencies and draws more
8 money to the bottom line when you have two or three
9 entities to purchase in one block as opposed to doing
10 it separately. So, again, just a comment more than,
11 you know, anything else, that to the extent that you
12 can continue to purchase products the way you are now
13 with Rivers individually and Sugarhouse individually
14 with local businesses in Pittsburgh and Philadelphia,
15 you know, that's something that would be beneficial to
16 us.

17 MR. PATENT:

18 We think it makes actually great business
19 sense to continue to use local vendors. We actually
20 use that as part of our marketing segment. Especially
21 Sugarhouse, we use so and so for our sandwich meat, so
22 and so for the various other products. But that's
23 something that would not change.

24 CHAIRMAN:

25 And that's both to you and to us as an

1 oversight agency. Any other questions? Yes, Mr.
2 Craig?

3 MR. CRAIG:

4 Just following up on the question about
5 timesheets, is that an appropriate mechanism or has
6 there been any determination as to the ability to
7 instruct her to do with Philadelphia wage taxes of
8 employees that may be shared and allocate what that
9 high billing would be based on time spent in
10 Philadelphia?

11 MR. PATENT:

12 That's more of a --- I would have to
13 defer to the tax expert on it. What I can tell you is
14 that in 2010, I did pay wage tax in Philadelphia and I
15 filed a Pennsylvania tax return based on the amount of
16 time that I --- and paid taxes to the State of
17 Pennsylvania based on the amount of time that I worked
18 in Pennsylvania.

19 MR. CRAIG:

20 This is for the shared employees who
21 describe --- the Rivers employee were to be shared and
22 had to spend time at Sugarhouse or something like that.
23 There'd be some sort of mechanism in your structure
24 that would make sure that whatever was due to the city
25 for wage tax would be properly accounted for?

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MR. PATENT:

Everybody's time is accurately accounted for. So, they're able to see what percentage of their time they spent working on each asset.

ATTORNEY SKLAR:

Yeah, Mr. Craig. The time that is allocated, anything that is to Sugarhouse would be --- the finance people and whoever handles the tax side of things, they ensure that the wages --- city wage tax.

MR. PATENT:

For the non-Philadelphia ---?

ATTORNEY SKLAR:

Correct.

CHAIRMAN:

All right. That concludes this matter.
And let's move directly into HSP's Petition.

* * * * *

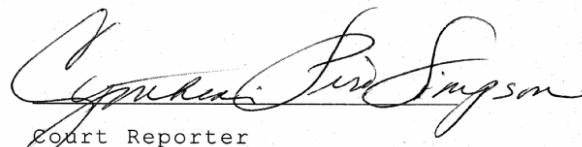
HEARING CONCLUDED AT 11:09 A.M.

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CERTIFICATE

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I hereby certify that the foregoing proceedings, hearing held before Chairman Fajt, was reported by me on 05/11/2011 and that I Cynthia Piro Simpson read this transcript and that I attest that this transcript is a true and accurate record of the proceeding.



Court Reporter