NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY

MEMORANDUM

To: Members of the Authority

From: Caren S. Franzini
Chief Executive Officer

Date: February 1, 2011

RE: **Revel Atlantic City, LLC, Revel Entertainment Group, LLC and certain to be designated related or affiliate entities**
Economic Redevelopment and Growth Grant Program

Request

The Members are asked to approve the application of Revel Atlantic City, LLC ("RAC"), Revel Entertainment Group, LLC ("REG") and certain to be designated related or affiliate entities (collectively "Revel" or "the applicants") for reimbursement of certain taxes for an Atlantic City, Atlantic County project under a "state incentive" by the EDA pursuant to the Economic Redevelopment and Growth Grant (ERG) program set forth in N.J.S.A. 52:27D-489c (Act).

The total remaining costs related to the project are estimated to be $1.6 billion. The total qualified costs under the ERG Act are **$1,306,820,000.** The recommended reimbursement is **20%** of the eligible costs, not to exceed **$261,364,000**.

Project Description

The project involves the creation of an entertainment resort on 20 acres of beachfront property in the South Inlet of Atlantic City. The applicant will construct approximately 6.3 million square feet with a hotel tower (with up to 1,898 keys on 46 guest room floors, the majority of which will have ocean views with a discreet hotel lobby and two acre outdoor terrace), 1.8 million square feet low rise structure (including a 5,500 seat performance theater, 700 seat black box theatre, 700 seat performance theatre on the gaming floor, 30,000 square foot night club and ultra lounge, eighteen restaurants encompassing a diverse range of dining, 44,000 square foot private beach, three distinct pool experiences, night club featuring live performances, 22,000 square foot spa with bathhouse, treatment rooms, fitness and salon, up to 190,000 square feet of convention and meeting space, 75,000 square feet of retail with over 40 unique addresses and a 150,000 square foot casino), a 7,800 space parking facility (encompassing 2.9 million square feet) and a stand alone central utility plant.

The entire project costs related to the resort are approximately $2.8 billion. The costs expended to date (commencing in 2008) are $1.26 billion. The costs to complete the project are being contemplated in three phases. It is anticipated that the project costs for the first phase will be $1.48 billion. Phases 2 and 3 will cost $78 million and $71 million, respectively. Phase one will consist of 1,090 rooms, 12 restaurants, 2 theatres and 160,000 square feet of convention/meeting space (to be completed in the summer of 2012). Phase 2 will add 505 rooms, bringing the total to 1,595 rooms (with completion targeted by the summer of 2013). Phase three would add an additional 303 rooms, which will bring the total to 1,898 rooms (completed by the first quarter of 2015). Each phase will obtain a certificate of occupancy. Each phase would have a separate closing and the size of the ERG grant is based upon all three phases being completed and would be reduced based upon the ultimate amount completed under each phase.

In addition to the privately owned casino and resort space, from both a public policy perspective and in order to enhance the economic feasibility of the project, the applicant will undertake the enhancement of public areas and infrastructure on contiguous properties. Staff therefore recommends and applicant has agreed that the ERG proceeds will be dedicated in part to fund the costs associated with new development projects and recreational amenities in the City's Inlet Revitalization Plan ("IRP") including the following:

Garden Pier:	$ 2 million
Boardwalk Reconstruction:	$12.3 million
Lighthouse Park:	$15 million
Ocean Park:	$20 million
Rhode Island Avenue Corridor:	$ 9 million
Relocation of the Atlantic City Arts Center and Historical Society:	$ 6 million
Historic Gardner's Basin:	$12 million
Blighted Property Demolition and Acquisition:	$25 million
Project Development Fund:	$23.7 million

The nine items above aggregate $125 million. The applicant will undertake these infrastructure improvements and will seek to monetize the ERG stream resulting in $125 million principal borrowing (from a yet unnamed entity) with interest and financing fees totalling $270 million (which approximates the amount of the ERG). For point of reference, the net present value of the anticipated ERG payment stream at 9% equates to $125 million. Applicant has agreed to create an infrastructure fund into which it will deposit a portion of the ERG proceeds or proceeds from the monetarization. It has agreed that the infrastructure fund will be fully funded over time, but has requested for a maximum of ten years, up to $70 million of the ERG stream be allowed to be pledged to the second lien lender as support for their funding so long as a monetization can net at least $100 million. ERG escrow will be released on the earlier of 1) management achieves within 10% of EBITDA budget on rolling basis commencing 12 months post opening, or 2) warrant conversion upon monetization event, or 3) majority vote of mezzanine holders. If a monetization can not be completed to net at least $100 million of proceeds, then Revel will deposit 45% of annual ERG payments into a escrow account with the balance to be immediately available for infrastructure projects. As the second lien loan is repaid, the ERG pledged to the second lien lender will be reduced and the ERG proceeds will be deposited into the infrastructure fund.

The applicant is currently finalizing the terms of an estimated $1.15 billion in credit facilities consisting of a $850 million first position loan and $305 million second (or "mezzanine") loan mainly from a a syndicate of major international lending organizations. It is noted that the amounts in each portion of the two facilities is still subject to slight modification based on final allocations, however the aggregate figure will remain as presented. On January 31st, JPMorgan Chase, the lead arranger of the debt, indicated that verbal orders from investors were filled for all the requested first and mezzanine loan amounts (at the indicative pricing levels) and they expect written commitments within the next week upon which formal pricing in the market would occur. JPMorgan is confident in their ability to complete this financing at or near the indicative pricing. It is noted that the ERG is performance based on the proposed debt being completed followed by the project construction being completed and until these occur, there is no obligation to disburse any ERG proceeds to the applicants.

The project is expected to create an aggregate of approximately 5,400 construction jobs plus another 5,500 permanent full time jobs upon full build out of all phases (note that full time jobs will be 4,758 at the end of phase 1, and 5,109 at the end of phase 2).

Project Ownership

Revel Entertainment Group, LLC has a parent organization named Revel Holdings, LLC which is currently owned approximately 5% by management team of Revel and approximately 95% by an affiliate of Morgan Stanley: however, once the new financing has been closed, Revel Holdings ownership of Revel Entertainment will be terminated (Morgan Stanley or one of its affiliates will receive a $30 million payment) and transfered to an new entity (Revel Acquisition, LLC) formed by and 100% owned by management (it is anticipated that upon the exercise of warrants by owners of the mezzanine debt Kevin DeSanctis who is Chairman and Chief Executive Officer of Revel will hold management's 10% stake with holders of the mezzanine debt receiving the remaining 90% ownership stake. Management will have the opportunity to increase their stake to 15% by completing the project and the generation of earnings (specific figure is under negotiations). Revel Atlantic City, LLC is the owner of the project site and a wholly owned subsidiary of Revel Entertainment Group. Revel Atlantic City, LLC and/or a new interposed entity will be the borrower under the proposed credit facilities (which will have a corporate guarantor).

Revel's executive management team has over 75 years of collective industry and development experience, specifically in the development of premium resorts. Kevin DeSanctis is a leading gaming executive with over 25 years experience in both the development and operations of casino properties. Mr. DeSanctis has served as president of Penn National Gaming, COO of Sun International (Kerzner International) and his development projects include The Mirage, Las Vegas, Mohegan Sun, Connecticut, and The Atlantis, Bahamas. Alan Greenstein (Senior Vice President and CFO) and Bob Franklin, Senior Vice President, Sales, have over a combined 52 years of experience in hospitality, gaming and casino resort sales. Their previous experience includes the Mohegan Sun, the Borgata, Caesars, Marriott Hotel Corporation, and the Philadelphia Convention and Vistors' Bureau.

Revel has assembled a collective development team with significant experience in architecture, design and branding in the gaming and hotel industries. Tishman Construction, the Construction Manager of Revel, previously developed CityCenter, Las Vegas and the Borgata, Atlantic City. The Tishman team is managed by Bob Andersen, who has over 27 years of experience in development experience. Along with management, the development and construction teams have worked in the development of 18 distinct casino resorts worldwide, including CityCenter, Las Vegas, The Borgata, Atlantic City, MGM Grand, Las Vegas and Beau Rivage, Mississippi.

Project Uses

Uses (thousands)	*ERG Eligible Amount*	*Total Amount*
Land, Building & Construction	$ 765,500	$ 765,500
F F & E	$ 126,800	$ 126,800
Power Plant	$ 142,800	$ 142,800
Marketing, taxes & W/C	$ 0	$ 129,000
Soft Costs	$ 19,520	$ 19,600
Financing Costs (1)	$ 260,600	$ 316,800
Gaming Soft & Hard	$ 0	$ 87,100
Prior cost contribution (2)	$ 0	$1,257,700
TOTAL USES	**$ 1,306,820**	**$2,845,300**

(1) Includes $98.5 million of payment in kind interest relating to proposed loans. These loans have payments of interest monthly, instead 12% is added to the principal and due at maturity.

(2)This figure represents costs incurred prior to ERG application (funded by Morgan Stanley) and therefore ineligible and excluded from the ERG eligible cost figures above. Note this includes $42 million funded by MS that was advanced to ACR (an entity unrelated to Revel) to commence building the power plant that will be used solely by the resort. Once a temporary c/o is obtained the applicant will receive these funds as ACR is responsible for the financing for this component.

ERG eligible amount above also excludes costs related to gaming, working capital, marketing and real estate taxes. Infrastructure costs are also excluded from both the total and ERG eligible project costs listed above.

Project Sources

Revel will be utilizing several sources to complete the project:

Sources (thousands)	*Amount*
Loan senior	$ 850.0 million
Mezzanine loan (1)	$ 405.5 million
ACR loan for Power Utility Facility	$ 184.8 million
Equity (prior cost contribution)	$1,257.7 million
TBD - Phase 2 & 3 costs (2)	$ 149.3 million
TOTAL SOURCES	**$2,845.3 million**

(1) includes $98.5 million in payment in kind interest over 21 months which is added to the principal amount of the loan.

(2) Phase 2 and 3 costs have been identified and are ERG eligible, however the source of their private funding is still to be determined. It is anticipated that this structure will be finalized once phase 1 is completed with market receptivity to be assessed at that time (potentially funded via cash flow of the project).

Revel is finalizing the terms and conditions of the loans listed above and they are subject to market conditions at time of closing.

The project sources and uses above reflect the project with the ERG subsidy included. The project gap is calculated based on the Equity Internal Rate of Return and Cash-on-Cash Yield identified in the gap analysis which is discussed below.

Gap Analysis

EDA staff has reviewed the application to determine that there is a shortfall in the project development economics pertaining to the return on the investment for the developer and their ability to attract the required investment to complete the project. Staff analyzed the pro forma and projections of the project (utilizing the revenue and cash flow figures associated with the downside case as opposed to the mangament case per the lenders offering prospectus) and compared the pre-tax returns (based on the $118 million impared asset value and excluding the impact of our share in cash flow as described in more detail hereafter) with and without the ERG over 20 years.

Without ERG	**With ERG**
Equity IRR 18.95% (Market Range = 27-30%) Cash on Cash Yield 8.94 % (Market Range = 12-15%)	Equity IRR 31.86% (Market Range = 27-30%) Cash on Cash Yield 9.82% (Market Range = 12-15%)

As indicated in the chart above, the project would not otherwise be completed without the benefit of the ERG. **With the benefit of the ERG, the Equity IRR is 31.86% and the Cash on Cash Yield is 9.82%, resulting in an IRR modestly above the market range provided by the EDA's contracted consultant Jones Lang Lasalle. The consultant has indicated that given the risk associated with a gaming resort investment in Atlantic City during these economic times, the returns required are approaching 30%.** These returns are associated with typical capital structures consisting of 30% equity and 70% debt and since the Revel project has significantly higher leverage, it follows that an investor's required return would be even greater. It should be noted that the property was acquired for approximately $107 million over several transactions which occurred from 2006 to 2008. The project has incurred an aggregate of $1.258 billion in costs as of January 31, 2011 and pursuant to the ERG rules, these costs are not allowable towards the calculation of the incentive award because they were incurred prior to receiving the EDA application. For the purposes of the 20% required project equity, the Authority reviewed the resort project's entire costs (from inception through completion) which aggregates $2.8 billion resulting in a minimum equity project contribution of $560 million and this has been met via the $1.2 billion of funds contributed by applicant members to date. It should be noted that although the $1.2 billion was initially funded with debt from Morgan Stanley, the Morgan Stanley debt will be forgiven at time of the proposed debt closing.

The potential cash from the prospective ERG will assist in enabling the applicant to obtain an estimated $125 million in debt necessary to cover the costs associated with the infrastructure improvements surrounding the entertainment resort. These improvements are beyond what was required of Revel per its redevelopment agreement and are being implemented to not only complement the resort but to improve the surrounding neighborhood community infrastructure and provide enhanced public amenities and beach access.

Net Positive Benefit Analysis

The Authority has conducted the required Net Benefit Analysis and has found that the present value of the Net Positive Benefits to the State at a 6% discount rate over a 20 year period is $540 million (including the $90 million of one-time tax benefits). As this project is deemed a destination entertainment and retail facility, up to 100% of the taxes collected by the state can be deemed net new based on a recently adopted policy. Revel's first full year revenues are estimated at $800 million (with gaming comprising 70% with the remainder food, beverage, hotel and entertainment) and Spectrum Gaming Group has stated that $75 million in non-gaming revenues generated by Revel are considered net new to New Jersey. As a result, the net benefit calculation has been calculated including $3 million (equating to 4% of the new revenues) in new sales taxes to the state. This net benefits figure is obtained by taking solely the CBT and gross income tax at 66%, the indirect ongoing taxes and the one time tax benefits. The present value of this figure is reduced by the present value of all local and state grants, including the ERG award to the project, resulting in the present value of the Net Positive Benefits to the State of $368 million. It is noted that total taxes estimated generated by the project (including all taxes to the State of New Jersey) is $3.2 billion over the 20 year period of the ERG. It is noted that the Revel facility is under a Brownfield Reimbursement Agreement (which stipulates an amount not to exceed $4,253,390) and the associated taxes generated by the project would first go to retire this obligation in full prior to any ERG funds being available to the applicants.

Other Statutory Criteria

In order to be eligible for the program, the project must exhibit the following:

The economic feasibility and the need of the redevelopment incentive agreement to the viability of the project. The likelihood that the project shall upon completion is capable of generating new tax revenue in an amount in excess of the amount necessary to reimburse the developer for the project costs as provided in the redevelopment agreement.

A review of the project feasiblilty study performed by Spectrum Gaming Group (as of February 1, 2010) indicates the various financial and operating projections and plans are reasonable. While the marketing plan has yet to be submitted, the most critical aspect (once financing is secured) is that this entertainment resort is unique relative to the existing properties in Atlantic City. Revel's unparalleled mix of retail, dining, and entertainment alternatives and amenities intend to position the site as the premier destination in Atlantic City with strong appeal to the existing, traditional visitor plus a much broader demographic (i.e. the cash customer that does not consider this destination an option at this time). The financial analysis indicates a rate of return that is considered within the acceptable market range given the risks associated with this project as noted previously in this memo. Based on the expected generation of $650 million of incremental state and local direct taxes (sales, occupancy fee, CBT less the CRDA share) over the 20 year period and a 75% rebate of eligible taxes, there are adequate funds to support the reimbursement of taxes to the applicant as outlined in the analysis. Per the project financial returns described earlier and to obtain the funding necessary to complete the infrastructure improvements surrounding the project, there is a demonstrated need for the redevelopment incentive grant agreement.

The degree to which the redevelopment project within a municipality which exhibits economic and social distress, will advance State, regional, local development and planning strategies, promote job creation and economic development and have a relationship to other major projects undertaken within the municipality.

The project is located in Atlantic City, one of nine cities targeted by the NJEDA for its urban investment initiative. Atlantic City's median household income was $27,414 in 2008 (which is approximately half the $55,349 median household income for Atlantic County) and 24% of the residents live below the poverty level. The unemployment rate in Atlantic City was 11.1% in September 2010 and Atlantic County's leisure and hospitality sectors have experienced the largest employment decline from 2003 to 2008.

The IRP promotes seven of the eight goals (adequate housing at reasonable cost excluded) of the State Planning Act as well as the three approaches that must be achieved by the creation of significant expansions and enhancements to open space and recreation within and connected to the redevelopment area. The IRP is intended to combine economic development and tourism with neighborhood enhancement. The Revel Redevelopment Plan (adopted by Atlantic City on February 7, 2007) will maximize the opportunities and tools provided by New Jersey redevelopment law for the revitalization of Atlantic City. The South Inlet Transportation Improvement Project ("SITIP") is a public-private partnership amoung Revel, New Jersey Department of Transportation and the Casino Reinvestment Development Authority which will create a north-south connector to the South Inlet Region from Absecon Boulevard, the Connector Tunnel and the Atlantic City Expressway. The Revel project, the SITIP, the IRP and the beach reconstruction project comply with and advance multiple goals and objectives of the New Jersey Energy Master Plan (namely via the 7 megawatt cogeneration central utility plant), the New Jersey State Development and Redevelopment Plan (as the strategy is intended to promote further economic development in this Special Urban Area and Coastal Center), the Atlantic County Master Plan and the Atlantic City Master Plan. The project is expected to create at least 5,500 permanent jobs as well as 2,850 construction jobs. The site is also in Planning Area 1 under the State Master Plan, which is a target area for the ERG program.

Recommendation

Authority staff has reviewed the co-appliant's application and finds that it is consistent with eligibility requirements of the Act. Treasury, in reviewing the application, has notified the Authority of the adequacy of the project's estimated tax revenues and specified the percentage reimbursement of total project costs. Therefore, it is recommended that the Members approve the application and authorize the CEO of the Authority to execute an Incentive Grant Agreement with the applicant and the State Treasurer, subject to final review and approval of the Office of the Attorney General. All disbursements under the ERG program are subject to annual appropriation by the New Jersey State Legislature.

Closing of the Incentive Grant Agreement and the reimbursement of any taxes is contingent upon the co-applicant's meeting the following conditions regarding the Project:

1. Financing commitments for all funding sources for the Project consistent with the information provided by the Applicant in its application to the Authority for the ERG; and
2. Evidence of site control and site plan approval for all properties within the Project;
3. Due to the size of the grant and essential assistance that the ERG will provide to the project, and per the amendment to the ERG guidelines regarding ERG payments to be considered by the Board on February 1, 2011, there will be an agreement to share a portion (estimated at 20% of management's 10% initial ownership) of the distributions to the applicants with the State of New Jersey based upon specific milestones to be negotiated satisfactory to the EDA. The percentage share in this instance was formulated on the standards that the EDA is developing with respect to owner operators of hotel/casino resort facilities.

Reimbursement shall commence upon:

1. Completion of construction and issuance of a certificate of occupancy for Phase 1 of the project;
2. Submission of a detailed list of all eligible costs, which costs shall be satisfactory to the NJEDA; and
3. New tax revenues have been paid to the NJ Treasury.
4. Reimbursement of ERG eligible tax revenues will only be applied to costs associated with the infrastructure projects outlined in this memo subject to satisfactory review of NJEDA.

The NJ Treasury annually tracks taxes received from job sites and subsequently remits reimbursement equal to a percentage of funds collected during the year.

It is recommended that the members authorize the CEO of the EDA to execute any assignment agreements necessary to effectuate this transaction.

Total Eligible Project Costs: $1,306,820,000

Eligible Taxes for Reimbursement: Sales and other eligible taxes note to exceed $261,364,000 over 20 years.

Recommended Grant: 20% of actual costs, not to exceed **$261,364,000 to be paid over a maximum period of 20 years.**

Prepared by: Michael A. Conte

NJEDA Economic Impact Model

NJEDA Economic Impact Model

County Number	1	
Address		
County	Atlantic	
Ongoing Jobs(Direct)	5500	
One Time Jobs(Direct)	5433	

State & Local Direct Ongoing

	Services	Select Industry Sector
Sales Tax	$3.00	[illegible]
Corporate Income Tax (CBT)	$23.10	[illegible]
Gross Income Tax	$2.67	[illegible]
Misc. State Tax Revenue	$0.00	
Property Tax (Default to Total Const Value*3%)	$0.00	
Direct Ongoing Annual Taxes	$28.77	a

State Indirect Ongoing

Annual Corp Spending	$412.87	Direct Output Composite
Final Demand Output Multiplier	1.47x	Direct Output Composite Multiplier
Indirect Annual Spending	$192.60	Direct Output Composite*(Direct Mult.-1)
At 3.5 % Tax Rate	$6.74	b
Annual Payroll	$100.05	Direct Earnings Composite
Indirect Effect Earnings Multiplier	1.40x	Direct Earnings Composite Multiplier
Indirect Earnings	$39.68	Direct Earnings Composite*(Indirect Mult.-1)
At 4% Tax Rate	$1.59	c
Indirect Ongoing Annual Taxes	$6.74	b

Total State Ongoing Net Benefits

Annual Net Benefit	$37.10	a+b+c
Cumulative Net Benefit (20yrs w/ 3% yearly inflation)	$996.80	
Present Value @6%	$540.18	d

One Time

Construction Value	$1,630.0	Construction Budget Per Applicant
Direct One Time Taxes on Spending	$57.1	[illegible]
Direct Construction Multiplier	1.55x	
Indirect One Time Spending	$901.39	
Spending Tax Rate	3.5%	
Ind One Time Taxes on Spending	$31.5	
Assumed Portion of Const. on Labor	50%	[illegible]
Dir One Time Earnings	$815.0	
Earnings Tax Rate	5%	[illegible]
Dir One Time Taxes on Earning	$40.8	
Direct Effect Earnings Multiplier	1.43x	
Indirect One Time Earnings (50% of Construction)	$346.8	
Earnings Tax Rate	5%	[illegible]
Ind One Time Taxes on Earnings	$17.3	
Total One Time Tax Benefits	$89.6	e

Total State Benefits

Total One Time Tax Benefits	$89.6	e
Total State Ongoing Benefits (PV @ 6%)	$540.2	d
Total Benefits	$629.8	d+e
Implied Maximum Loan at 110% Coverage Ratio Before Adjustments	$572.6	

Adjustment Test 1

Maximum HUB Award Test		
Total Qualifying Costs (NJEDA Cost Analysis sheet)	$1,357.2	
Max Loan Amount	$572.6	
Minimum of (Max loan@110%&Total Qualifying Cost)	$572,563,028	

Previous Local & State Incentives

Less:	$261.40	
Grant (PV @6%)	$0.00	f
Grant (PV @ 6%)	$0.00	g
Grant (PV @ 6%)	$0.00	h
PV of Net Benefits to NJ	$368.4	d+e-f-g-h

NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY

MEMORANDUM

TO: Members of the Board

FROM: Caren Franzini
Chief Executive Officer

DATE: February 1, 2011

RE: Economic Redevelopment and Growth (ERG) Program –
Implementation of Repayments for Significant Projects

Summary:

This memo outlines a recommendation for a "success" reimbursement payment in the Economic Redevelopment and Growth (ERG) Program in instances when applicants request State benefits in excess of $50 million to advance major real estate development projects.

Background:

The ERG Program is designed to provide financial assistance in order to spur economic activity by addressing financing gaps while providing for reasonable project rates of return. Under the program, tax revenues are used to reimburse project applicants only after the taxes have been received by the State. While the program has fiduciary controls (net benefit test, maximum 20% award, minimum 20% equity, etc.), the potential reimbursements are tied to project size and revenue generation, with no overall cap on per project assistance.

Currently, staff is reviewing several applications for large projects that are requesting ERG Program assistance in excess of $50 million. Due to the size of the reimbursement and essential assistance that will be provided to these transformative projects, staff proposes that for projects with assistance in excess of $50 million, the program allow for a repayment of the assistance based on a share of a project's financial success, up to the amount of the tax reimbursements made under the ERG Program agreement.

The EDA would receive a repayment, to be transmitted to the Department of Treasury, through required distributions based on specific financial milestones that would be approved by the Board for each significant project. The applicant shall be obligated to report their audited financials to the Authority of its performance against established milestones as certified by an independent auditor. The amount and timing of the ERG Program repayment would be determined based on the financial structure of the project, risk of the project, developer returns, the magnitude of State support, as well as by the returns of various types of projects, i.e. retail, commercial, hotel, etc. The Authority will develop standard metrics for reimbursement based on the ownership, financial structure and project type. In addition, the EDA would be reimbursed for any administrative costs incurred as a result of monitoring financial performance.

Recommendation:

The Members of the Board are asked to approve the establishment of a "success" reimbursement payment in the Economic Redevelopment and Growth (ERG) Program for incorporation into the EDA's Guidelines for implementing State incentives under the ERG Program.

Prepared by: Tim Lizura