

Cappelli's \$1B Sullivan resort plan could be a long shot *Project on hold – again*



Construction of the new Concord appears to be frozen. Times Herald-Record/MICHELE HASKELL

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Three months ago, in a flush of exuberance, Westchester developer Louis Cappelli's company said not only would a \$1 billion resort rise on the site of the former Concord hotel in Kiamesha Lake, but the steel-and-concrete frames of a new racino and hotel would be up for all to see with the first buds of April.

April is a few days away, but the project is not budding. Heavy moving equipment sits idle. An incomplete foundation for a hotel lies under a tarp.

While Sullivan County officials remain upbeat, the project has stalled. And gambling and financial experts say that, at best, Cappelli's goal of raising \$1 billion to build what would be the largest project in the Hudson Valley is a long shot. At worst, it's dead as originally proposed.

TAX BREAKS AND OTHER BENEFITS

- *By state legislation, Cappelli and his partners will receive 75 percent of the profits from video lottery terminals from a new racino and harness track, on the condition that the developers invest \$1 billion, create 2,000 full-time jobs and kick in more money for education. Before the developer gets the benefits, however, he has to meet high economic development targets.*

Potential benefit: Tens of millions annually in additional revenues.

- *The Sullivan County Industrial Development Agency approved property, sales and mortgage tax breaks for Entertainment City. As part of the deal, the hotel, racino and other amenities will be tax free for eight years, and the benefit will be phased out until he is paying full taxes in the 16th year.*

Potential benefit: An estimated \$71.5 million

- *The IDA has authorized issuing up to \$450 million in municipal bonds to finance the public areas of the resort, such as the events center and parking garages. The developer would pay off the bonds. As an enrolled brownfield clean-up program site, Cappelli is entitled to credits against income tax liability. As a relocated track, the brownfield benefit is capped at \$25 million.*

Potential benefit: \$25 million.

- *Cappelli has also asked for a piece of the county's hotel occupancy tax and federal guarantees to back \$400 million in municipal bonds, making them more marketable to investors. These requests have not yet been approved.*

"Entertainment City" was to include a 750-room hotel, racino and harness track, an events center, several restaurants and retail stores. Cappelli had unveiled plans for a redesign of the Monster and International golf courses, a five-star hotel and new clubhouse and spa. But in recent months, all this was whittled to a lesser hotel, fewer parking spots and a racino and harness track. The rest would be build later.

Local officials do still believe. Town of Thompson Supervisor Tony Cellini says Cappelli is putting "the final piece" of his financing puzzle together.

"Cappelli doesn't want to start the project, then stop it," Cellini said. "Once he gets rolling, then he will work to the finish."

Several facts, however, suggest the project has been in trouble for months, even while Cappelli was announcing that he had the cash to get moving.

This is one of the worst times in the history of the gambling industry. The gambling market is saturated as it is, with real casinos in Pennsylvania within easy driving distance of Cappelli's project. Closer to home, Donald Trump, Cappelli's friend whom he has touted as a possible partner, has filed for Chapter 11 bankruptcy protection for his Atlantic City casinos. The developer of a racino at Aqueduct couldn't get financing and pulled out.

"I think things look very bleak well into 2010, if not beyond that," said Alex Calderone, director of Michigan-based Conway MacKenzie, consultants that specialize in turning around financially troubled casinos.

"We can look at some of the preeminent projects in the world, most notably the City Center project in Las Vegas; it is still looking for funds in excess of a billion dollars to finance its completion. We are talking about MGM Mirage here. This is a prime project in the middle of the Las Vegas strip that is having a hard time obtaining financing to completion. If they can't get the money, it is not likely that other developers who don't have the credibility of the MGM name would be able to obtain financing for new casino projects."

The municipal bond market, on which Cappelli has said this project depends, is also terrible. People who watch bonds say the money he's been seeking (anywhere from \$180 million to \$400 million) won't be reachable for years.

The Sullivan County Industrial Development Agency, which still has to take two more formal steps to issue bonds, has nothing upcoming on the Concord.

"Local governments, states can't issue bonds," IDA attorney Walter Garigliano said. "There is no market."

Cappelli did not respond to messages for comment for this story.

The racino and harness track piece, the key component of this project, has also been highly volatile. This is the draw necessary to bring crowds

to the Catskills, even in the dead of winter, when Sullivan's villages become like ghost towns.

Cappelli and his partner in the racino venture, the struggling Empire Resorts, announced Tuesday a new long-term deal that would keep a racino and harness track open at Empire's Monticello Gaming & Raceway. Cappelli would build a second racino and harness track, about 2.5 miles away, at the Concord, and pay Empire Resorts a percentage of his gaming revenues.

The why of this new deal speaks to the troubles Cappelli has been having. Cappelli's old deal with Empire fell apart because he couldn't nail down \$50 million to help Empire out of a financial bind, one of the conditions of his first agreement with Empire last year.

This new agreement, which is supposed to help Empire stave off bankruptcy, only will take effect if Cappelli himself gets construction financing.

And there, again, is the rub.